


# 2017 Annual Financial Report

Water Works Board of the City of Auburn

Fiscal Year Ending September 30, 2017

# *The Water Works Board of the City of Auburn*

Annual Financial Report

For the Fiscal Year Ended September 30, 2017




## 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. Peeks, Finance Information Officer**

THE WATER WORKS BOARD OF THE CITY OF AUBURN

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WATER WORKS BOARD

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AT YOUR SERVICE

AUBURN

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, 2017, 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, 2017, 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.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 through 15) and pension information (pages 42 through 44) 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 9, 2018

# Management's
# Discussion and Analysis

**The Water Works Board of the City of Auburn**
**Management's Discussion and Analysis**
***Fiscal Year Ended September 30, 2017***

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, 2017. 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 is a separate public corporation, incorporated under the laws of the State of Alabama on December 13, 1947. However, since the Board members are appointed by the City Council of the City of Auburn and the Board's financial structure meets certain other criteria, the Board is classified as a component unit of the City of Auburn; and the Board's financial information is included in the City's Comprehensive Annual Financial Report. Financially, the Board operates as an enterprise, using the full accrual basis of accounting (business-type accounting).

Management encourages the reader of this letter to consider the information presented here in conjunction with the financial statements and related narrative notes presented in this report. Additional information is available from the City of Auburn's FY2017 Comprehensive Annual Financial Report and the Board's 2016 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 $50.5 million (net position). Of this amount, the Board showed unrestricted assets of $5.4 million, restricted assets of $5.7 million, and $39.4 million in net investment in capital assets.
- The Board's restricted assets decreased by $7.2 million (50.8%) and current liabilities decreased by $933,468 (20.2%) from September 30, 2016 to September 30, 2017.
- The Board experienced a 3.1% increase in net position from $48.9 million at September 30, 2016 to $50.5 million at September 30, 2017.
- Water sales increased by $174,255 (1.7%) from sales in fiscal 2016.

## Condensed Financial Information

The following condensed financial information provides an overview of the Board's financial status for the fiscal years ended September 30, 2017 and 2016.

### *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 2017 and 2016 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**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Assets** | | |
| Current assets | 8,532,947 | 9,096,033 |
| Noncurrent assets | | |
| Restricted assets | 6,938,396 | 14,104,525 |
| Advance to primary government | - | 105,417 |
| Capital assets (net) | 74,132,948 | 66,541,759 |
| Total noncurrent assets | 81,071,344 | 80,751,701 |
| Total assets | 89,604,291 | 89,847,734 |
| Deferred outflows of resources | 966,558 | 1,138,787 |
| Total assets and deferred outflows of resources | 90,570,849 | 90,986,521 |

### *Assets and Deferred Outflows of Resources*

Total assets, as shown in Table 1, decreased in fiscal 2017 by $243,443 (0.03%); changes involved the following:

- Current assets decreased by $563,086 (6.2%). Components of this decrease include the following:

  - Cash decreased by $299,090 (4.4%). At the end of 2017, $216,000 was transferred to restricted cash for access fees collected in September. Included in this transfer was $160,888 in access fees paid by a developer for a large student housing development.
  - Trade accounts receivable decreased by $171,413 (10.3%) due to decrease in accounts receivable for utility services billed. Auburn experienced more rainfall at the end of fiscal 2017, resulting in a decrease in accounts receivable for water sales.
  - Receivables from the City of Auburn decreased $64,389 (31.9%). At the end of fiscal 2016, the balance included the City's portion of a shared fiber optic communication line from Dean Road Recreation Center to the James E. Estes Water Treatment Plant.

- Noncurrent assets increased by $319,643 (0.4%). Components of this increase include the following:

  - Restricted assets decreased by $7.2 million (50.8%), primarily attributable to the decrease in investments of $8.3 million (72.5%). The balance of the bond proceeds from the 2015 bond issue held and invested by the Bank of New York were depleted in November 2017.

- Advance to primary government decreased $105,417 (100%) in fiscal 2017. The balance at the end of fiscal 2016 reflected property sold to the City; the City paid in full in early fiscal 2017.
- Capital assets, net of depreciation, increased by $7.6 million (11.4%) from the prior year, as shown in Table 2. The main component of this change is an increase in construction in progress of $8.0 million (88.8%), primarily attributed to continued construction of a dam outlet structure and spillway at the Board's main water source, Lake Ogletree. More details about this project can be found in the *Lake Ogletree Dam Outlet Structure and Spillway* section of this MD&A.

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

| **Capital Assets** | **2017** $ | **2016** $ |
|---|---|---|
| Land and land clearing | 1,338,503 | 1,382,108 |
| Construction in progress | 17,054,850 | 9,035,046 |
| Utility system, plant and buildings | 83,469,606 | 82,325,335 |
| Mobile equipment | 1,535,236 | 1,238,323 |
| Office equipment | 686,415 | 595,036 |
| Tools | 412,425 | 398,109 |
| Capital assets before depreciation | 104,497,035 | 94,973,957 |
| Accumulated depreciation | (30,364,087) | (28,432,198) |
| Net capital assets | 74,132,948 | 66,541,759 |

Assets with a cost of $1.7 million were capitalized during fiscal 2017. These included the following:

- A number of new and replacement water lines such as the addition of 2,522 feet of 4, 6, and 8 inch main at Donahue Ridge, the addition of 3,200 feet of 4, 6, and 8 inch main at Oaks at Cotswolds, the addition of 4,225 feet of 4, 6, and 8 inch main at Yarbrough Farms, and the addition of 3,600 feet of 8 inch main on West Richland,
- The construction of a pole barn at the Bailey Alexander Water Resource Management Complex, and
- Replacement of eight vehicles and heavy equipment in accordance with the Board's vehicle and equipment replacement plan.

Construction in progress costs at September 30, 2017, were $17.1 million. The most significant component of construction in progress at fiscal year-end was construction of the Lake Ogletree Dam Outlet Structure and Spillway. This project, expected to cost in excess of $18.0 million, is necessary to replace an aging spillway at the Board's main water supply, Lake Ogletree. The total in construction in progress for this project at September 30 was $16.9 million.

### *Liabilities and Deferred Inflows of Resources*

The Board's total liabilities at the 2017 year-end were $39.8 million, $1.9 million (4.6%) less than in 2016. Current liabilities decreased by $933,468 (20.2%) from fiscal 2016. This decrease is due to year-end accounts payable invoices totaling $2.3 million that are related to the Lake Ogletree Dam and Spillway project at the end of fiscal 2016. In addition, long-term liabilities decreased by $985,864 (2.7%), due to principal repayments on long-term debt.

At 2017 fiscal year-end, the Board had $35.5 million in bond debt outstanding, of which $865,000 will mature during fiscal year 2018. This long-term debt outstanding consists of two revenue bonds issued in 2010 and 2015. At September 30, 2017, the outstanding principal balance of bonds issued in 2010 and 2015 was $16.8 million and $16.6 million, respectively. The latest maturity date for the Board's bonds is 2040.

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**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Liabilities** | | |
| Current liabilities payable from current assets | 2,306,078 | 3,367,803 |
| Current liabilities payable from restricted assets | 1,388,070 | 1,259,813 |
| Long-term liabilities | 35,491,828 | 36,477,692 |
| Customer deposits | 640,767 | 636,812 |
| Total liabilities | 39,826,743 | 41,742,120 |
| Deferred inflows of resources | 229,074 | 254,406 |
| Total liabilities and deferred inflows of resources | 40,055,817 | 41,996,526 |
| **Net position** | | |
| Net investment in capital assets | 39,448,196 | 31,082,599 |
| Restricted for | | |
| Debt service (expendable) | 2,592,553 | 2,586,439 |
| Capital projects (expendable) | 3,090,950 | 11,516,282 |
| Unrestricted | 5,383,333 | 3,804,675 |
| Total net position | 50,515,032 | 48,989,995 |

### *Net Position*

The Board's net position at September 30, 2017 totaled $50.5 million, an increase of $1.5 million (3.1%). The components of net position changed as follows:

- Net investment in capital assets increased by $8.4 million (26.9%) as the outstanding balance of bonds issued for the acquisition and construction of capital assets decreased.
- Restricted net position for capital projects decreased by $8.4 million (73.2%), as the result of the spenddown of bond proceeds of $8.3 million for the Lake Ogletree Spillway project.
- Unrestricted net position increased by $1.6 million (41.5%) mainly due to operating income of $1.0 million.

## Results of Operations

The Board experienced an operating net income of $1.0 million in fiscal 2017, a decrease of $763,908 (43.1%) from the prior year's income. This decrease in operating net income was attributable to the slight increase in operating revenues of $197,420 (1.8%) coupled with an increase in operating expenses of $961,328 (10.7%) compared to fiscal year 2016. Details of this change are included in the *Operating Revenues* and *Operating Expenses* sections of this MD&A. Table 4 illustrates the Board's operating revenues and expenses and change in net position.

**Table 4** **Condensed Operating Statement**
**Fiscal Year Ending September 30**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Operating revenues** | | |
| Water sales to consumers | 8,866,116 | 8,705,370 |
| Water sales to Auburn University | 1,285,538 | 1,272,029 |
| Other operating revenues | 796,636 | 773,471 |
| Total operating revenues | 10,948,290 | 10,750,870 |
| **Operating expenses** | | |
| Depreciation | 2,074,958 | 2,051,396 |
| Other operating expenses | 7,863,850 | 6,926,084 |
| Total operating expenses | 9,938,808 | 8,977,480 |
| Operating income | 1,009,482 | 1,773,390 |
| **Nonoperating revenues (expenses)** | (1,375,945) | (1,584,137) |
| **Capital contributions** | 1,891,500 | 1,081,575 |
| **Increase in net position** | 1,525,037 | 1,270,828 |

### *Operating Revenues*

Total operating revenues for fiscal 2017, which include water sales, tap and meter set fees, and collection fees, increased $197,420 (1.8%). This change is mainly attributable to a small increase in water sales and significant increase in collection fees offset by decreases in penalties, service charges and stand by electric power credit. The largest component of operating revenue is water sales, representing 92.7% of the Board's total operating revenue. In fiscal 2017, water revenue from consumers, other than Auburn University, increased slightly by 1.8%; water revenue from Auburn University increased 1.1%. There were two major reasons for the small increase in water sales revenue: rate increases and weather conditions. The Board implemented a 5.0% rate increase effective the beginning of fiscal 2017. In addition, drought rates were implemented for two billing cycles during fiscal 2017. The Board sold 2.3 billion gallons of water during fiscal 2017, a decrease of 74.8 million gallons (3.1%) from 2016. Water usage in fiscal 2017 was lower because the City experienced wetter than average conditions. In contrast, weather conditions in fiscal 2016 were much drier due to a historic drought during the first half of the fiscal year. In May 2016, drought monitors indicated that Auburn was moving into abnormally dry weather conditions. By September 2016, Auburn was officially experiencing drought conditions. As typical during dry weather patterns, customers use more water, thus increasing water sales revenue for fiscal 2016. Conditions continued to deteriorate across the Southeast during October and November, causing the Alabama Department of Economic and Community Affairs to issue a drought declaration for the State. As of the date of this report, the City is no longer in drought status. More information on this drought declaration is included in the *Drought* section of this report.

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

**Graph 1**

**2017 Operating Revenues**

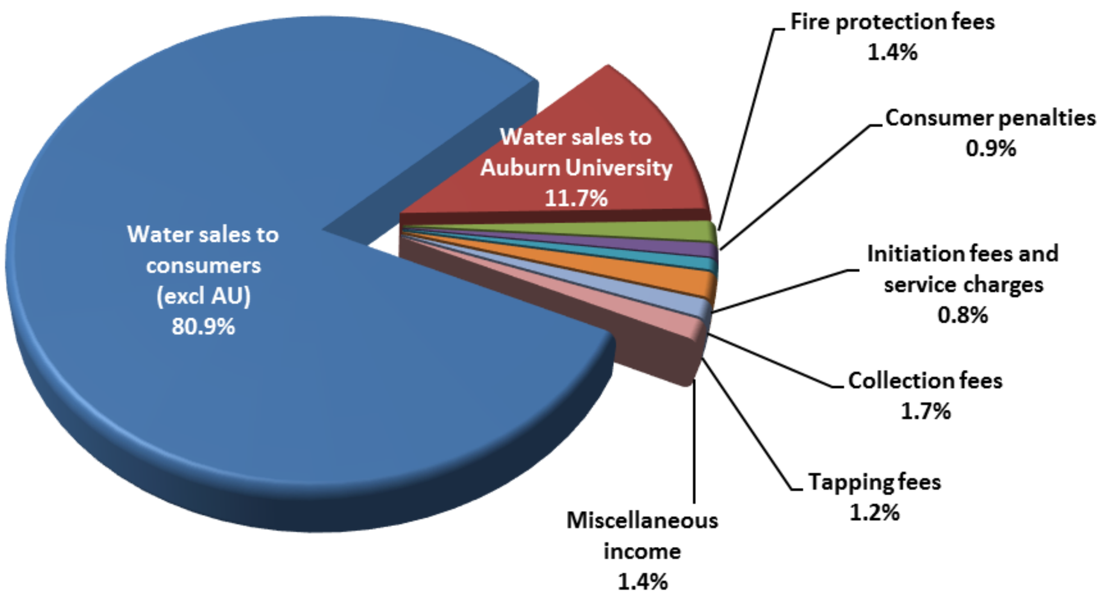


**Table 5** **Operating Revenue Sources**

**Fiscal Year Ended September 30**

| | 2017 $ | 2016 $ |
|---|---|---|
| Water sales to consumers, excluding AU | 8,866,116 | 8,705,370 |
| Water sales to Auburn University | 1,285,538 | 1,272,029 |
| Fire protection fees | 151,423 | 151,437 |
| Consumer penalties | 101,171 | 106,934 |
| Initiation fees and service charges | 83,069 | 88,199 |
| Collection fees | 182,820 | 142,250 |
| Tapping fees | 129,170 | 119,994 |
| Miscellaneous income | 148,983 | 164,657 |
| Total operating revenues | 10,948,290 | 10,750,870 |

- Rainfall statistics at Lake Ogletree indicated that rainfall increased by 11.5% from 2016 to 2017. Normal annual rainfall at the lake is approximately 51 inches. Measured rainfall for fiscal 2017 at the lake was 58.2 inches; whereas, measured rainfall for fiscal 2016 was 52.2 inches.
- The Board implemented rate increases for monthly water usage charges for fiscal years 2017 and 2018. The minimum monthly bill of 3,000 gallons for residential water customers increased from $13.23 to $13.89 (5.0%), effective October 1, 2016 and from $13.89 to $14.58 (5.0%), effective October 1, 2017.
- Revenues from regular meters increased by 1.9% while revenues from irrigation meters increased by 0.06%. The small increase was the result of wetter weather conditions in fiscal 2017.

Other operating revenue sources also influenced the trend in total operating revenues. In fiscal year 2017, collection fees increased by $40,570 (28.5%). Collection fees are charged to cover the cost of returned checks and automated clearinghouse items.

### *Operating Expenses*

During fiscal 2017, the Board's operating expenses increased $961,328 (10.7%) 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**

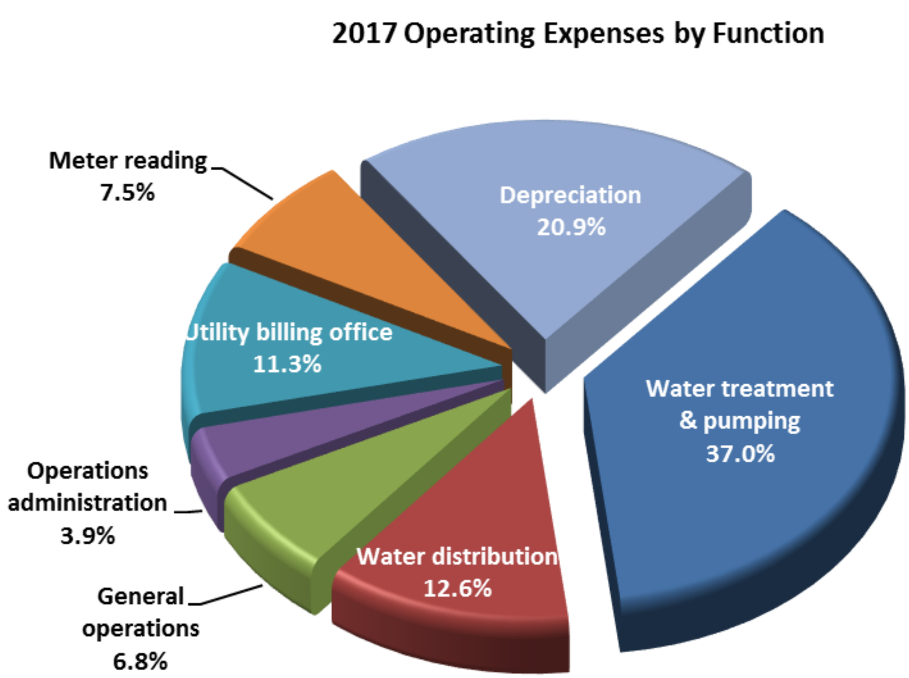

**Table 6** **Operating Expenses by Function**

**Fiscal Year Ended September 30**

| | 2017 $ | 2016 $ |
|---|---|---|
| Water treatment & pumping | 3,680,811 | 3,111,907 |
| Water distribution | 1,248,912 | 1,043,283 |
| General operations | 680,954 | 672,477 |
| Operations administration | 386,967 | 359,586 |
| Utility billing office | 1,124,113 | 1,032,727 |
| Meter reading | 742,093 | 706,104 |
| Depreciation | 2,074,958 | 2,051,396 |
| Total operating expenses | 9,938,808 | 8,977,480 |

- In the water treatment and pumping division, total expenses increased $568,904 (18.3%). The increase was predominantly due to additional wholesale water purchases from Opelika Utilities (OU). Water purchases from OU were $1.9 million in fiscal 2017, an increase of $674,783 (53.8%), due to the necessity to drop the lake level for the construction of the dam and spillway and increased demand caused by the drought in the first of quarter of fiscal 2017.
- In the water distribution division, total expenses increased $205,629 (19.7%). The primary increase of $80,893 (12.9%) occurred in regular full time salaries; a change was made related to the allocation of expenses between the Board and the City for a shared line locator position. Contractual services increased by $44,436 (66.2%), due to scheduled maintenance performed on elevated tanks.
- In the utility billing division, total expenses increased $91,386 (8.8%). The increase was mainly due to an increase of $44,613 (32.2%) 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 2017 and 2016.

**Table 7** **Non-operating Revenues and Expenses**

**Fiscal Year Ended September 30**

| | 2017 $ | 2016 $ |
|---|---|---|
| Interest income | 68,984 | 58,064 |
| Gain (loss) on disposal of assets | 9,921 | 24,599 |
| Bond trustee fees and amortization | (171,065) | (397,416) |
| Interest expense | (1,283,785) | (1,269,384) |
| **Non-operating revenues (expenses)** | (1,375,945) | (1,584,137) |
| Capital contributions from developers | 738,900 | 359,775 |
| Access fees | 1,152,600 | 721,800 |
| **Capital contributions** | 1,891,500 | 1,081,575 |
| **Total non-operating revenues (expenses) capital contributions** | 515,555 | (502,562) |

In fiscal 2017, interest income increased by $10,920 (18.8%) from the prior year. Transfers were made from cash accounts to investments as necessary to earn more interest on the Board's assets.

The Board recorded a gain on disposal of assets in fiscal 2017, $14,678 (59.7%) less than the gain recorded in the prior year. This change was primarily due to the payment for the easement granted to Alabama Power at the Bailey Alexander Complex.

Bond trustee fees and amortization expense decreased by $226,351 (57.0%) in fiscal 2017, due to the bond issue expense of $228,816 for bonds issued in fiscal 2016.

### *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 $1,152,600 and $721,800 in fiscal 2017 and 2016, 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. Two large student housing developments in progress in fiscal 2017 were the main factor of the increase.

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 $738,900 in fiscal 2017, an increase of $379,125 (105.4%) 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, 2017, presented in Table 8.

**Table 8 Lines Contributed by Developers**

| *Residential* | **$** |
|---|---|
| Donahue Ridge Phases 3 and 4 | 113,490 |
| Highlands Sector 3 | 37,125 |
| Oaks at Cotswolds Phases 1, 2, and 3 | 144,000 |
| Richland Rd Senior Housing | 48,240 |
| Tuscany Hills Phase 4 | 43,920 |
| West Richland | 162,000 |
| Yarbrough Farms, Pine Valley | 190,125 |
| | 738,900 |

## Other Financial Information

### *Rate Changes*

During fiscal year 2015, based on the consultant's recommendation that the aging spillway at Lake Ogletree was in need of replacement, the Board hired an engineering firm to design a new spillway at Lake Ogletree, the City's main water source. Using the rate study from 2014, staff prepared a new projection model to determine revenue requirements needed for the Board to fund additional debt and meet coverage requirements for the construction of the spillway. Based on staff's recommendation, the Board approved two 5% rate increases effective January 1, 2016, and October 1, 2016, respectively, in an effort to meet its obligation to provide clean and safe drinking water to the citizens of Auburn. Therefore, in November 2015, the Board issued $16.7 million in revenue bonds to cover the cost of replacing the Lake Ogletree spillway.

In continued review of capital projects related to aging infrastructure, at the regular monthly Board meeting in September 2016, the Board approved a 5% rate increase beginning fiscal 2018. The minimum monthly bill of 3,000 gallons for residential water customers increased from $13.29 to $13.89 (5%), effective October 1, 2016, and from $13.89 to $14.58 (5%), effective October 1, 2017.

### *Drought*

In September 2016, Auburn was officially experiencing drought conditions. Conditions continued to deteriorate through October and November. In late October 2016, in response to the Alabama Department of Economic and Community Affairs Office of Water Resources issuing a Drought Declaration for the State of Alabama, with Lee County listed in the 'warning' level, the Board implemented a Phase I Drought Watch in accordance with the Board's Drought Management Plan. Ten days into the Phase I Drought Watch, the Board implemented a Phase II Drought Warning, triggering mandatory water restrictions and a special drought surcharge to help promote water conservation and to reimburse the Board for additional costs associated with meeting peak water demands. Factors for the expediency included the following: only a slight decrease in water demand from voluntary restrictions, long range forecast predicting below normal rainfall, unseasonably warm temperatures, and restrictions from Opelika Utilities limiting purchases made by the Board. Additionally, in accordance with the Safe Harbor Agreement, the Board agreed to reduce the discharge from Lake Ogletree to Chewacla Creek since mandatory water restrictions were imposed.

The drought surcharge was applicable to single family residential and all irrigation meters based on meter size and usage above a set threshold for each meter class. The surcharge was levied at 125% of the current established rate per one thousand gallons. The drought rates were in effect for one month when Lee County emerged from the drought through a series of rain events beginning with the receipt of six inches of rain during the first week of January 2017, raising Lake Ogletree by eight feet to full pool.

### *Projects in Progress*

Projects that were underway in fiscal 2017 and scheduled for completion in fiscal 2018 include:

- Dam outlet structure and spillway improvements at Lake Ogletree, (details below)
- Bailey-Alexander fueling station,
- Bailey-Alexander complex renovations – Phase I,
- Water facilities master plan,
- North College water main improvements,
- Lake Ogletree spillway supplemental drain sump pump system – Phase I,
- Cox Road Loop main installation, and
- South Gay Street and Samford Avenue intersection improvements.

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

- Opelika Road water extension – Phase I,
- Lake Ogletree spillway supplemental drain sump pump system – Phase II,
- James Estes Water Treatment Plant expansion and improvements,
- Mill Creek subdivision pressure reducing valve improvements,
- Gold Hill water pumping station building climate conditioning,
- Farmville Road meter electric control valve,
- Quarry meter project, and
- Well #4 test well.

### *Lake Ogletree Dam Outlet Structure and Spillway*

As mentioned in the 'Rate Changes' section of this document, engineering studies 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 by the Board's consultant. Final design was completed and regulatory permitting was acquired in late fiscal 2015.

The project includes the construction of a new spillway that will consist of a 5.5 cycle, 4-stage labyrinth weir designed to pass 75 percent of the 24-hour probable maximum precipitation event. The project will also include rehabilitation of the existing dam outlet structure by raising the outlet riser deck and slip lining the conduit through the principle dam. The new spillway design increases the current 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 $13.5 million and the contractor initiated mobilization and construction activities in early fiscal 2016. During excavation activities in February 2016, an unexpected subsurface void feature was encountered that prompted the Board's engineers and geologists to employ an extensive subsurface evaluation program (in addition to those performed during project design) to further investigate subsurface conditions. The discoveries resulted in several change orders to the original cost of the project. The final construction contract cost of the project is $16.2 million, an increase of $2.7 million (20.0%) over the awarded bid.

Though the unforeseen subsurface conditions caused a delay to the project, the contractor resumed original contract construction activities in late summer 2016. The spillway was completed in November 2017.

### *Water Sources*

The Board utilizes three sources to provide safe drinking water to the citizens of Auburn: Lake Ogletree, a groundwater well, 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 2017, approximately 40% of Auburn's drinking water came from Lake Ogletree.

In 2012, the Board constructed a well 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 210.24 million gallons per year from the well. In fiscal 2017, approximately 17% 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 2017, water purchases from Opelika Utilities provided approximately 43% 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 2017, 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 2017, the average number of payments accepted via the IVR system increased by 3.1%; however, payments made through online web extensions increased 10.7%, over fiscal 2016. For fiscal year 2017, credit card payments comprise 55.5% of the average total payments; the average number of customers who paid with a credit card was about 9,800 per month out of approximately 17,600, a 3.3% increase from 2016. Phone and walk in credit card payments decreased by 2.3% from fiscal 2016. 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.

## Economic Factors

As the economy within the State of Alabama and the nation as a whole continues to improve marginally, Auburn has remained a 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 2017, Auburn's unemployment rate was 2.8%. The State's unemployment rate in September 2017 was 3.9%; the national rate was 4.2% (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.

WATER WORKS BOARD

water

AT YOUR SERVICE

AUBURN

# Basic Financial Statements

# THE WATER WORKS BOARD OF THE CITY OF AUBURN

## STATEMENT OF NET POSITION

## SEPTEMBER 30, 2017

| | |
|---|---|
| ASSETS | |
| Current assets | |
| Cash | $ 6,490,318 |
| Accounts receivable, net | 1,500,597 |
| Accounts receivable, City of Auburn | 137,716 |
| Inventory | 349,779 |
| Other current assets | 54,537 |
| Total current assets | 8,532,947 |
| Noncurrent assets | |
| Restricted assets | |
| Cash and cash equivalents | 3,773,675 |
| Investments | 3,162,468 |
| Interest receivable | 2,253 |
| Total restricted assets | 6,938,396 |
| Capital assets, nondepreciable | |
| Land and land clearing | 1,338,503 |
| Construction in progress | 17,054,850 |
| Total capital assets, nondepreciable | 18,393,353 |
| Capital assets, depreciable | |
| Utility system and plant | 76,618,980 |
| Buildings and improvements | 6,850,626 |
| Office equipment | 686,415 |
| Mobile equipment | 1,535,236 |
| Tools | 412,425 |
| | 86,103,682 |
| Less accumulated depreciation | (30,364,087) |
| Capital assets, depreciable, net | 55,739,595 |
| Total noncurrent assets | 81,071,344 |
| Total assets | 89,604,291 |
| Deferred outflows of resources | |
| Deferred amounts on refunding | 803,630 |
| Employer pension contributions subsequent to the measurement date | 162,928 |
| Total deferred outflows of resources | 966,558 |
| Total assets and deferred outflows of resources | $ 90,570,849 |

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, 2017

| | |
|---|---|
| LIABILITIES | |
| Current liabilities payable from current assets | |
| Accounts payable | $ 1,847,452 |
| Accounts payable, City of Auburn | 443,112 |
| Accrued expenses | 12,497 |
| Payroll taxes payable | 3,017 |
| Total current liabilities payable from current assets | 2,306,078 |
| Current liabilities payable from restricted assets | |
| Current portion of bonds payable | 865,000 |
| Accounts payable, including retainages | 396,675 |
| Interest payable | 126,395 |
| Total current liabilities payable from restricted assets | 1,388,070 |
| Long-term liabilities | |
| Bonds payable, net of current portion | 34,623,382 |
| Accumulated annual leave | 58,391 |
| Postemployment benefits payable | 39,820 |
| Net pension liability | 770,235 |
| Total long-term liabilities | 35,491,828 |
| Other liabilities | |
| Customer water deposits | 640,767 |
| Total other liabilities | 640,767 |
| Total liabilities | 39,826,743 |
| Deferred inflows of resources | |
| Net difference between projected and actual earnings on pension plan investments | 229,074 |
| Total liabilities and deferred inflows of resources | 40,055,817 |
| NET POSITION | |
| Net investment in capital assets | 39,448,196 |
| Restricted for: | |
| Debt service | 2,592,553 |
| Capital projects | 3,090,950 |
| Unrestricted | 5,383,333 |
| Total net position | $50,515,032 |

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, 2017

| | |
|---|---|
| Operating revenues | |
| Metered sales to consumers | $10,151,654 |
| Fire protection fees | 151,423 |
| Consumer penalties | 101,171 |
| Initiation fees and service charges | 83,069 |
| Collection fees | 182,820 |
| Tapping fees | 129,170 |
| Miscellaneous income | 148,983 |
| Total operating revenues | 10,948,290 |
| Operating expenses | |
| Depreciation expense | 2,074,958 |
| Other operating expenses | 7,863,850 |
| Total operating expenses | 9,938,808 |
| Operating income | 1,009,482 |
| Nonoperating revenues (expenses) | |
| Interest income | 68,984 |
| Gain on disposal of assets | 9,921 |
| Amortization expense - deferred amount on refunding | (166,268) |
| Bond trustee fees and issue expenses | (4,797) |
| Interest expense | (1,283,785) |
| Total nonoperating revenues (expenses) | (1,375,945) |
| Income (loss) before contributions | (366,463) |
| Capital contributions | |
| From developers | 738,900 |
| From access fees | 1,152,600 |
| Total capital contributions | 1,891,500 |
| Increase in net position | 1,525,037 |
| Net position, beginning of year | 48,989,995 |
| Net position, end of year | $50,515,032 |

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, 2017

| | |
|---|---|
| Operating activities | |
| Cash received from customers | $11,034,659 |
| Other cash received | 148,983 |
| Cash paid to City of Auburn for payments in lieu of tax | (302,270) |
| Customer deposits collected | 3,955 |
| Cash paid to suppliers for goods and services | (5,740,696) |
| Cash paid to employees for services | (2,787,433) |
| Net cash provided by operating activities (A) | 2,357,198 |
| Capital and related financing activities | |
| Cash received for access fees | 1,152,600 |
| Cash received from sale of capital assets | 53,525 |
| Cash received on advance to primary government | 105,417 |
| Cash paid for acquisition and construction of capital assets | (8,812,460) |
| Cash paid for principal repayment on debt maturities | (830,000) |
| Cash paid for interest and fiscal fees on debt maturities | (1,560,934) |
| Net cash used by capital and related financing activities | (9,891,852) |
| Investing activities | |
| Interest received on investments | 68,984 |
| Cash paid for purchase of investments | (2,418,365) |
| Cash received on sale of investments | 10,746,272 |
| Net cash provided by investing activities | 8,396,891 |
| Net increase in cash and cash equivalents | 862,237 |
| Cash and cash equivalents, beginning of year | 9,401,756 |
| Cash and cash equivalents, end of year | $10,263,993 |
| Composition of cash and cash equivalents at September 30, 2017: | |
| Cash - unrestricted | $ 6,490,318 |
| Cash and cash equivalents - restricted | 3,773,675 |
| Total cash and cash equivalents | $10,263,993 |

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

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

| | |
|---|---|
| Operating income (loss) | $ 1,009,482 |
| Add: | |
| Depreciation expense | 2,074,958 |
| Decrease in accounts receivable, net | 171,413 |
| Decrease in inventory | 30,460 |
| Decrease in accounts receivable, City of Auburn | 64,389 |
| Decrease in pension related deferred outflows/assets | 5,961 |
| Increase in accounts payable, City of Auburn | 25,134 |
| Increase in accrued expenses | 1,771 |
| Increase in accumulated annual leave | 5,764 |
| Increase in customer water deposits | 3,955 |
| Increase in payroll taxes payable | 1,217 |
| Increase in retainage payable | 96,540 |
| Deduct: | |
| Increase in interest receivable | (450) |
| Increase in prepaid expense | (2,265) |
| Decrease in accounts payable | (1,089,848) |
| Decrease in post employment benefits payable | (4,717) |
| Decrease in pension related deferred inflows/liabilities | (25,332) |
| Decrease in pension liabilities | (11,234) |
| Net cash provided by operations | $ 2,357,198 |

Noncash transactions:

| | |
|---|---|
| Estimated cost of water lines installed by and contributed to the Water Works Board by developers | $ 738,900 |

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

WATER WORKS BOARD

water

AT YOUR SERVICE

AUBURN

# Notes to the Financial Statements

## 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.

## 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:

| | Years |
|---|---|
| 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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

before April 5, 1994. All employees may elect to apply unused accumulated sick leave hours toward their retirement. See Note 9.

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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 6.

## NOTE 2. DEPOSITS AND INVESTMENTS

As of September 30, 2017, 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, 2017, was $2,521,035.

## NOTE 4. RESTRICTED CASH AND INVESTMENTS

At September 30, 2017, the Water Board's restricted cash, cash equivalents and investments were comprised of the following:

| | | |
|---|---|---|
| Cash (access fee account) | $ | 2,521,035 |
| Pooled Investments with City of Auburn | | 1,252,640 |
| Bank of New York Mellon U.S. Treasury Securities Money Market Fund | | 3,162,468 |
| Total restricted cash and cash equivalents | $ | 6,936,143 |

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 $3,162,468. 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 | $ | 1,575,385 |
| Miscellaneous trade | | 6,790 |
| Total accounts receivable | | 1,582,175 |
| Less allowance for doubtful accounts | | (81,578) |
| Accounts receivable (net) | $ | 1,500,597 |

## NOTE 6. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan - *Plan description.* The Employees' Retirement System of Alabama (ERS), an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing 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. The ERS Board of Control consists of 13 trustees. The Plan is

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama 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 § 36-27-6.

*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 Tier 1 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, Tier 1 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

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

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 are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 875 local participating employers. These participating employers include 294 cities, 65 counties, and 516 other public entities. The ERS membership includes approximately 85,874 participants. As of September 30, 2016, membership consisted of:

| | |
|---|---|
| Retired participants and beneficiaries currently receiving benefits | 23,007 |
| Terminated participants and beneficiaries entitled to benefits but not yet receiving benefits | 1,155 |
| Terminated participants entitled to a refund of contributions | 6,654 |
| Active participants | 54,823 |
| Post-DROP participants still in active service | 235 |
| Total | 85,874 |

*Contributions.* Tier 1 employees are those employees who were members of RSA before January 1, 2014. Tier 1 employees (excluding law enforcement and firefighters) contribute 5% of earnable compensation. Tier 1 employees that are certified law enforcement and firefighters contribute 6%.

Tier 2 employees are those employees who are members of RSA for the first time on or after January 1, 2014. Tier 2 employees (excluding law enforcement and firefighters) contribute 6% of earnable compensation. Tier 2 employees that are certified law enforcement and firefighters contribute 7%.

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

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

administrative expenses of the Plan. For the year ended September 30, 2017, the Board's active employee contribution rate was 2.97% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 4.33% of pensionable payroll.

The Board's contractually required contribution rate for the year ended September 30, 2017 was 8.25% of pensionable pay for Tier 1 employees, and 5.75% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2014, 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 $100,331 for the year ended September 30, 2017.

*Total Pension Liability* - The Board's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 rolled forward to September 30, 2016 using standard roll-forward techniques as shown in the following table:

| | Expected | Actual-2015 Valuation Assumptions | Actual-2016 Valuation Assumptions |
|---|---|---|---|
| (a) Total Pension Liability as of September 30, 2015 | $ 3,414,180 | $ 3,401,970 | $ 3,461,436 |
| (b) Discount Rate | 8.00% | 8.00% | 7.75% |
| (c) Entry Age Normal Cost for October 1, 2015 - September 30, 2016 | 98,797 | 98,797 | 93,813 |
| (d) Transfers Among Employers | - | (57,986) | (57,986) |
| (e) Actual Benefit Payments and Refunds for October 1, 2015 - September 30, 2016 | (215,880) | (215,880) | (215,880) |
| (f) Total Pension Liability as of September 30, 2016 [(a) x (1.08)] + (c) + (d) + [(e) x (1.04)] | $ 3,561,596 | $ 3,490,423 | $ 3,541,279 |

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

*Actuarial assumptions.* The total pension liability as of September 30, 2016 was determined based on the annual actuarial funding valuation report prepared as of September 30, 2015. The key actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75% |
| 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 at ages on and after 78. 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 actuarial assumptions used in the September 30, 2015 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based on the results of an actuarial experience study for the period October 1, 2010 to September 30, 2015.

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.

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

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 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%.

*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.

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

*Changes in Net Pension Liability*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at 9/30/2015 | $ 3,414,180 | $ 2,632,711 | $ 781,469 |
| Changes for the year: | | | |
| Service cost | 98,797 | - | 98,797 |
| Interest | 264,499 | - | 264,499 |
| Changes of assumptions | 50,856 | - | 50,856 |
| Differences between expected and actual experience | (13,187) | - | (13,187) |
| Contributions, employer | - | 88,609 | (88,609) |
| Contributions, employee | - | 61,760 | (61,760) |
| Net investment income | - | 261,830 | (261,830) |
| Benefit payments, including refunds of employee contributions | (215,880) | (215,880) | - |
| Transfers among employers | (57,986) | (57,986) | - |
| Net changes | 127,099 | 138,333 | (11,234) |
| Balances at 9/30/2016 | $ 3,541,279 | $ 2,771,044 | $ 770,235 |

*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:

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Board's net pension liability | $ 1,213,278 | $ 770,235 | $ 396,474 |

## NOTE 6. DEFINED BENEFIT PENSION PLAN - CONTINUED

*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, 2016. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2016. The auditor's report dated September 18, 2017 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, 2017, the Board recognized pension income of $30,605. At September 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 229,074 |
| Changes of assumptions | 44,499 | - |
| Net difference between projected and actual earnings on pension plan investments | 22,812 | - |
| Employer contributions subsequent to the measurement date | 95,617 | - |
| Total | $ 162,928 | $ 229,074 |

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: | |
|---|---|
| 2018 | $ (27,311) |
| 2019 | (27,309) |
| 2020 | (7,825) |
| 2021 | (43,391) |
| 2022 | (32,162) |
| Thereafter | (23,765) |
| | $ (161,763) |

## NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

| | Balance 10/01/16 | Transfers/ Additions | Transfers/ Deductions | Balance 09/30/17 |
|---|---|---|---|---|
| Capital assets, nondepreciable: | | | | |
| Land and land clearing | $ 1,382,108 | $ - | $ (43,605) | $ 1,338,503 |
| Construction in progress | 9,035,046 | 8,610,217 | (590,413) | 17,054,850 |
| Total capital assets, nondepreciable | 10,417,154 | 8,610,217 | (634,018) | 18,393,353 |
| Capital assets, depreciable: | | | | |
| Utility system and plant | 75,800,224 | 869,216 | (50,460) | 76,618,980 |
| Buildings and improvements | 6,525,111 | 325,515 | - | 6,850,626 |
| Office equipment | 595,036 | 134,582 | (43,203) | 686,415 |
| Mobile equipment | 1,238,323 | 332,341 | (35,428) | 1,535,236 |
| Tools | 398,109 | 28,294 | (13,978) | 412,425 |
| Total capital assets, depreciable | 84,556,803 | 1,689,948 | (143,069) | 86,103,682 |
| Less accumulated depreciation for: | | | | |
| Utility system and plant | (24,417,035) | (1,622,298) | 50,460 | (25,988,873) |
| Buildings and improvements | (2,499,155) | (261,256) | - | (2,760,411) |
| Office equipment | (509,302) | (28,567) | 43,203 | (494,666) |
| Mobile equipment | (693,711) | (134,953) | 35,428 | (793,236) |
| Tools | (312,995) | (27,884) | 13,978 | (326,901) |
| Total accumulated depreciation | (28,432,198) | (2,074,958) | 143,069 | (30,364,087) |
| Total capital assets, depreciable | 56,124,605 | (385,010) | - | 55,739,595 |
| Capital assets, net | $ 66,541,759 | $ 8,225,207 | $ (634,018) | $ 74,132,948 |

## NOTE 8. COMMITMENTS

The Water Board has commitments for construction projects in connection with system improvements totaling $1,643,406 as of September 30, 2017.

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. In

## NOTE 8. COMMITMENTS - CONTINUED

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 $.55 per 1,000 gallons ($115,632) for the year ended September 30, 2017. The term of the agreement is twenty years, with six five-year extension options. Total water pumped in the 2017 fiscal year was 429,607 thousand gallons with a total annual payment of $236,283.

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 Chewacala Creek to provide for the protection of certain endangered species. The agreement lays out minimal water discharge, maintenance, testing and reporting along the Chewacala 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 9. LONG-TERM DEBT

### Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

| | Balance 09/30/16 | Additions | Reductions | Balance 09/30/17 | Due Within One Year |
|---|---|---|---|---|---|
| Business-type activities: | | | | | |
| Bonds payable: | | | | | |
| Bonds payable-2010 issue | $ 17,520,000 | $ - | $ (770,000) | $ 16,750,000 | $ 810,000 |
| Bonds payable-2015 issue | 16,695,000 | - | (60,000) | 16,635,000 | 55,000 |
| Premium on bonds | 2,214,059 | - | (110,677) | 2,103,382 | - |
| | 36,429,059 | - | (940,677) | 35,488,382 | 865,000 |
| Accumulated leave | 52,627 | 5,764 | - | 58,391 | - |
| Other postemployment benefits liability | 44,537 | - | (4,717) | 39,820 | - |
| Net pension liability | 781,469 | - | (11,234) | 770,235 | - |
| | 878,633 | 5,764 | (15,951) | 868,446 | - |
| Business-type activity long-term liabilities | $ 37,307,692 | $ 5,764 | $ (956,628) | $ 36,356,828 | $ 865,000 |

Bonds payable at September 30, 2017, 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.

## NOTE 9. LONG-TERM DEBT - CONTINUED

Bonds payable of the Water Board of the City of Auburn at September 30, 2017, are comprised of the following individual issues:

| | Interest Rate | Interest Dates | Source of Payment | Principal Issued | Principal Outstanding September 30, 2017 | 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 | $ 16,750,000 | 2032 |
| Capital improvement bonds, Dated 11/24/15 | 3.0% to 5.0% | 3/1-9/1 | Revenues | $ 16,695,000 | $ 16,635,000 | 2040 |

The following schedule shows debt service to maturity for bonds payable of the Water Board of the City of Auburn at September 30, 2017:

| Year Ending September 30 | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 865,000 | $ 1,516,737 | $ 2,381,737 |
| 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 |
| 2023-2027 | 5,775,000 | 6,143,113 | 11,918,113 |
| 2028-2032 | 7,265,000 | 4,651,175 | 11,916,175 |
| 2033-2037 | 9,050,000 | 2,860,750 | 11,910,750 |
| 2038-2040 | 6,545,000 | 611,650 | 7,156,650 |
| Total | $ 33,385,000 | $ 21,432,188 | $ 54,817,188 |

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, 2017.

## NOTE 10. CAPITALIZED INTEREST

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

| | |
|---|---|
| Total interest costs incurred | $ 1,442,177 |
| Less capitalized interest | (158,392) |
| Interest expense | $ 1,283,785 |

## NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

### Plan description

The City provides medical benefits to employees upon retirement according to the retirement eligibility provisions as follows: 25 years of service at any age; or, age 60 and 10 years of service for employees who began eligible employment prior to January 1, 2013.

## NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

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

### Funding policy

The City currently pays for postemployment health care benefits on a pay-as-you-go basis. Additional investments of assets into a third-party trust have been considered by management and were not deemed to be the most appropriate course of action for future funding given current facts. Therefore, these financial statements assume that pay-as-you-go funding will continue.

### Annual required contribution

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Normal cost as of beginning of year | $ 124,348 | $ 100,932 | $ 112,575 |
| Amortization of the unfunded AAL (UAAL) for 30 years | 159,224 | 121,563 | 134,309 |
| Total normal cost and amortization payment | 283,572 | 222,495 | 246,884 |
| Interest to end of year | 11,343 | 8,900 | 9,875 |
| Annual required contribution (ARC) | $ 294,915 | $ 231,395 | $ 256,759 |
| Percent of annual covered payroll | 1.05% | 0.92% | 1.05% |

## NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

### Net postemployment benefit obligation

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Annual required contribution (ARC) | $ 294,915 | $ 231,395 | $ 256,759 |
| Interest on net OPEB obligation (NOO) to end of year | 34,347 | 28,973 | 22,216 |
| NOO amortization adjustment to the ARC | (49,657) | (41,888) | (32,118) |
| Annual OPEB cost | 279,605 | 218,480 | 246,857 |
| Actual annual employer contribution - pay-go cost | (96,015) | (84,151) | (77,918) |
| Change in net OPEB obligation | 183,590 | 134,329 | 168,939 |
| Beginning net OPEB obligation | 858,664 | 724,335 | 555,396 |
| Ending net OPEB obligation | $ 1,042,254 | $ 858,664 | $ 724,335 |
| | | | |
| Percentage of annual OPEB cost contributed | 34.3% | 38.5% | 31.6% |
| Ending net OPEB obligation by employer | | | |
| City of Auburn | $ 1,002,434 | $ 814,127 | $ 689,039 |
| Water Works Board of City of Auburn | 39,820 | 44,537 | 35,296 |
| Total | $ 1,042,254 | $ 858,664 | $ 724,335 |

### Funded status and funding progress

In the fiscal year ended September 30, 2017, the City contributed $96,015 to its postemployment benefits plan. This represents 34.3% of the annual OPEB cost. The plan has no assets and therefore has a funded ratio of zero. As of September 30, 2016, the most recent actuarial valuation, the actuarial accrued liability was $2,863,434, which is defined as that portion, as determined by a particular actuarial cost method, of the actuarial present value of postemployment plan benefits and expenses which is not provided for by the future normal cost. Since the plan has no assets, the entire actuarial accrued liability was unfunded.

## NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

The schedule of funding progress is included in the following table:

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered P/R ( (b - a)/c ) |
|---|---|---|---|---|---|---|
| 09/30/14 | $ - | $ 2,415,369 | $ 2,415,369 | 0% | $ 24,400,268 | 9.9% |
| 09/30/15 | $ - | $ 2,186,158 | $ 2,186,158 | 0% | $ 25,132,276 | 8.7% |
| 09/30/16 | $ - | $ 2,863,434 | $ 2,863,434 | 0% | $ 28,100,312 | 10.2% |

Actuarial methods and assumptions

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

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

In the September 30, 2017, actuarial valuation, the liabilities were computed using the projected unit credit cost method with linear proration to decrement and level dollar amortization over 30 years based on an open group. The actuarial assumptions utilized a 4% discount rate and a 3% inflation rate. The expected rate of increase in medical cost is based on the plan’s actual experience initially, with subsequent years based on a combination of employer history, national trend surveys, and professional judgment. The valuation assumes a 7.5% healthcare cost trend increase for fiscal year 2017, graded down to an ultimate annual rate of 5% for 2024 and later.

## NOTE 12. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Board approved construction contracts totaling approximately $660,000, equipment purchases totaling approximately $91,000 and professional services contracts totaling approximately $225,000.

Management has evaluated subsequent events through March 9, 2018, the date these financial statements were available to be issued.

WATER WORKS BOARD

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# Required Supplementary Information

## THE WATER WORKS BOARD OF THE CITY OF AUBURN

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY

## FISCAL YEAR ENDING SEPTEMBER 30

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

*Employer's covered payroll during the measurement period is the total covered payroll. For FY2017 the measurement period is October 1, 2015 to September 30, 2016. 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

FISCAL YEAR ENDING SEPTEMBER 30

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Actuarially determined contribution * | $ 100,331 | $ 89,550 | $ 76,623 |
| Contributions in relation to the actuarially determined contribution * | 100,331 | 89,550 | 76,623 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered payroll ** | $ 2,210,785 | $ 2,014,542 | $ 1,833,893 |
| Contributions as a percentage of covered payroll | 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 FY2017 is the total covered payroll for the 12 month period of the underlying financial statement.

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

## 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 2017 were based on the September 30, 2014, actuarial valuation.

The following methods and assumptions were used to determine contribution rates:

| | |
|---|---|
| Actuarial cost method: | Entry Age |
| Amortization method: | Level percent closed |
| Remaining amortization period: | 18 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 |

WATER WORKS BOARD

water

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# Other Operating Information

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2017

| | |
|---|---|
| **Water treatment and pumping expense** | |
| Personal services | |
| Salaries and wages | $ 491,221 |
| Employee benefits | 105,686 |
| Total personal services | 596,907 |
| Contractual services | |
| Utilities | 433,398 |
| Pumping and purification | 63,393 |
| Buildings and grounds | 6,625 |
| Sewer services | 71,250 |
| Travel and training | 4,873 |
| Uniform maintenance | 2,984 |
| Dams, lakes and spillways | 460 |
| Source supply DL&S | 33,279 |
| Miscellaneous contractual services | 57,232 |
| Total contractual services | 673,494 |
| Commodities | |
| Water purchased | 2,166,663 |
| Chemical supplies | 177,626 |
| Minor tools and equipment | 53,575 |
| Fuel | 4,754 |
| Safety clothing | 873 |
| Miscellaneous commodities | 4,970 |
| Communications equipment | 1,949 |
| Total commodities | 2,410,410 |
| **Total water treatment and pumping expense** | **3,680,811** |
| **Distribution expense** | |
| Personal services | |
| Salaries and wages | 762,515 |
| Less capitalized costs | (38,386) |
| Employee benefits | 172,917 |
| Total personal services | 897,046 |

(Continued next page)

| | |
|---|---|
| Contractual services | |
| Utilities | 15,447 |
| Travel and training | 1,097 |
| Rental of heavy machinery | 11,573 |
| Uniform maintenance | 5,167 |
| Miscellaneous contractual services | 54,092 |
| Total contractual services | 87,376 |
| Commodities | |
| Mains and services supplies | 125,987 |
| Fuel | 29,381 |
| Vehicle parts | 14,152 |
| Fire hydrants | 22,900 |
| Communications equipment | 288 |
| Heavy machinery parts | 15,809 |
| Minor tools and equipment | 33,904 |
| Miscellaneous commodities | 22,069 |
| Total commodities | 264,490 |
| **Total distribution expense** | **1,248,912** |
| **Meter reading expense** | |
| Personal services | |
| Salaries and wages | 229,568 |
| Employee benefits | 55,998 |
| Total personal services | 285,566 |
| Contractual services | |
| Travel and training | 20 |
| Uniform maintenance | 1,219 |
| Utilities | 3,203 |
| Miscellaneous contractual services | 10,179 |
| Total contractual services | 14,621 |
| Commodities | |
| Fuel | 10,183 |
| Meter parts | 427,918 |
| Miscellaneous commodities | 3,805 |
| Total commodities | 441,906 |
| **Total meter reading expense** | **742,093** |

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2017

| | |
|---|---|
| **Utility billing office expense** | |
| Personal services | |
| Salaries and wages | 470,221 |
| Employee benefits | 138,155 |
| Total personal services | 608,376 |
| Contractual services | |
| Bank fees | 280,281 |
| Data processing professional services | 204,614 |
| Office equipment rental | 3,184 |
| Travel and training | 13,847 |
| Utilities | 1,249 |
| Miscellaneous contractual services | (30) |
| Total contractual services | 503,145 |
| Commodities | |
| Printed supplies | 695 |
| Office and computer supplies | 11,497 |
| Miscellaneous commodities | 400 |
| Total commodities | 12,592 |
| **Total utility billing office expense** | **1,124,113** |
| **Operations administration expense** | |
| Personal services | |
| Salaries and wages | 300,715 |
| Employee benefits | 65,908 |
| Total personal services | 366,623 |
| Contractual services | |
| Memberships and subscriptions | 8,487 |
| Travel and training | 5,689 |
| Utilities | 3,260 |
| Miscellaneous contractual services | 103 |
| Total contractual services | 17,539 |
| Commodities | |
| Fuel | 466 |
| Office and computer supplies | 2,277 |
| Miscellaneous commodities | 62 |
| Total commodities | 2,805 |
| **Total operations administration expense** | **386,967** |

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2017

| | |
|---|---|
| **General operations expense** | |
| Personal services | |
| Other payroll expense | 3,280 |
| Pension expense | (30,605) |
| Total personal services | (27,325) |
| Contractual services | |
| Building and ground contracts | 34,299 |
| Fiscal professional services | 21,750 |
| Legal professional services | 20,191 |
| Insurance | 121,953 |
| Postemployment benefits | (4,716) |
| Unclassified professional services | 99,725 |
| Utilities | 61,350 |
| Miscellaneous contractual services | 20,022 |
| Total contractual services | 374,574 |
| Commodities | |
| Postage | 3,566 |
| Printed supplies | 1,255 |
| Miscellaneous commodities | 14,497 |
| Total commodities | 19,318 |
| Intergovernmental | |
| Tax equivalent to City | 314,387 |
| Total intergovernmental | 314,387 |
| **Total general operations expense** | **680,954** |
| **Total other operating expenses** | **$ 7,863,850** |

# THE WATER WORKS BOARD OF THE CITY OF AUBURN

## FIVE YEAR SCHEDULE OF VARIOUS OPERATING DATA

## FOR THE YEARS ENDED SEPTEMBER 30, 2017, 2016, 2015, 2014, 2013

(Unaudited)

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Water sales | $ 10,151,654 | $ 9,977,399 | $ 9,104,999 | $ 8,777,975 | $ 8,532,700 |
| Fire protection fees | 151,423 | 151,437 | 138,713 | 114,177 | 118,390 |
| Consumer penalties | 101,171 | 106,934 | 108,097 | 111,331 | 82,645 |
| Initiation fees and service charges | 83,069 | 88,199 | 88,335 | 88,417 | 89,014 |
| Collection fees | 182,820 | 142,250 | 172,850 | 233,083 | 180,116 |
| Other operating revenue | 278,153 | 284,651 | 292,377 | 248,964 | 494,021 |
| Total operating revenues | 10,948,290 | 10,750,870 | 9,905,371 | 9,573,947 | 9,496,886 |
| Operating expenses: | | | | | |
| Water treatment and pumping expense | 3,680,811 | 3,111,907 | 2,751,115 | 2,620,346 | 2,928,236 |
| Distribution expense | 1,248,912 | 1,043,283 | 1,004,424 | 1,017,529 | 973,960 |
| Meter reading and utility billing office expense | 1,866,206 | 1,738,835 | 1,539,509 | 1,418,986 | 1,146,715 |
| Operations administration and general operations | 1,067,921 | 1,032,059 | 1,301,474 | 1,192,686 | 1,404,904 |
| Total operating expenses | 7,863,850 | 6,926,084 | 6,596,522 | 6,249,547 | 6,453,815 |
| Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions | $ 3,084,440 | $ 3,824,786 | $ 3,308,849 | $ 3,324,400 | $ 3,043,071 |
| Number of services at September 30 [(1)] | 23,202 | 22,752 | 22,356 | 22,008 | 21,724 |
| Operating revenues per service | $ 472 | $ 473 | $ 443 | $ 435 | $ 437 |
| Operating expenses per service | 339 | 304 | 295 | 284 | 297 |
| Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions per service | $ 133 | $ 169 | $ 148 | $ 151 | $ 140 |
| Million gallons water produced and purchased | 2,519.50 | 2,651.62 | 2,544.99 | 2,504.80 | 2,421.74 |
| Million gallons water sold | 2,353.41 | 2,428.28 | 2,262.04 | 2,203.68 | 2,254.98 |

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