

The Water Works Board of The City of Auburn, Alabama
Annual Financial Report
Fiscal Year Ending September 30, 2015



2015 ANNUAL FINANCIAL REPORT



The Water Works Board of the City of Auburn

Annual Financial Report
For the Fiscal Year Ended September 30, 2015

Board of Directors

Jeff Clary, Ed.D., Chairman

Term expires January 2022

Butch Brock, Vice Chairman

Term expires August 2021

Jennifer Chambliss, Esq., Secretary

Term expires April 2018

David Mines, Member

Term expires January 2020

Brad Wilson, Member

Term expires June 2020

Management

Charles M. Duggan, Jr., City Manager

Eric A. Carson, PE, Water Resource Management Director

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

Kathy C. James, Utility Billing Financial Manager

Prepared by

Finance Department

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

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

Kathy C. James, Utility Billing Financial Manager

Thomas J. Prouhet, Finance Information Officer



THE WATER WORKS BOARD OF THE CITY OF AUBURN

TABLE OF CONTENTS

SEPTEMBER 30, 2016

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (required supplementary information)	3
Basic Financial Statements	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Net Position	20
Statement of Cash Flows	21
Notes to Financial Statements	23
Required Supplementary Information	
Schedule of Changes in Net Pension Liability	46
Schedule of Employer Contributions	47
Notes to Required Supplementary Information	48
Supplementary Information	
Schedule of Operating Expenses	50
Five Year Schedule of Various Operating Data	54
Appendices	
Comparative Statements of Net Position	56
Comparative Operating Results	57
Revenues and Expenses Comparisons	58



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, 2015, 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, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the Board adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 14) and pension information (pages 44 through 46) 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
February 24, 2016

The Water Works Board of the City of Auburn
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2015

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, 2015. The financial statements contained in this report document the financial performance of the Board. The Board retains ownership and policy making authority for the water system and has contracted the day to day management of the water system to the City of Auburn, Alabama.

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

Management encourages the reader of this letter to consider the information presented here in conjunction with the financial statements and related narrative notes presented in this report. Additional information is available from the City of Auburn's FY2015 Comprehensive Annual Financial Report and the Board's 2014 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 \$47.7 million (net position). Of this amount, the Board showed unrestricted assets of \$2.5 million, restricted assets of \$3.6 million, and \$41.6 million in net investment in capital assets.
- The Board experienced a 2.2% increase in net position from \$46.7 million at September 30, 2014 to \$47.7 million at September 30, 2015.

Condensed Financial Information

The following condensed financial information provides an overview of the Board's financial status for the fiscal years ended September 30, 2015 and 2014.

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 2015 and 2014 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 2 **Changes in Capital Assets**
At September 30

Capital Assets	2015	2014
	<u>\$</u>	<u>\$</u>
Land and land clearing	1,382,108	1,391,165
Construction in progress	906,043	5,747,763
Utility system and plant	75,433,378	70,088,223
Buildings and improvements	6,428,959	5,690,903
Office equipment	574,472	533,826
Mobile equipment	1,090,496	981,406
Tools	<u>385,387</u>	<u>386,287</u>
Capital assets before depreciation	86,200,843	84,819,573
Accumulated depreciation	<u>(26,605,352)</u>	<u>(25,704,045)</u>
Net capital assets	<u><u>59,595,491</u></u>	<u><u>59,115,528</u></u>

Assets with a cost of \$7.5 million were capitalized during fiscal 2015. These included the following:

- Lake Ogletree Raw Water Pump Station,
- James Estes Water Treatment Plant renovations, and
- Replacement of four vehicles in accordance with the Board's equipment replacement plan.

Construction in progress costs at September 30, 2015, were \$906,043. 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 \$16 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 \$797,576.

Liabilities and Deferred Inflows of Resources

The Board's total liabilities at the 2015 year-end were \$22.3 million, \$145,323 (0.6%) less than in 2014. One component of this change was current liabilities payable from current assets decreased by \$110,493 (7.0%), mainly due to a decrease in accounts payable to vendors and to the City for salary reimbursements. Furthermore, current liabilities payable from restricted assets decreased by \$108,677 (11.9%), mainly due to a decrease in interest and retainage payable.

In addition, long-term liabilities increased by \$80,430 (0.4%). Although this increase in total is small, the components of this change are significant. Long-term bonds payable, including the current portion, decreased by \$710,000, due to scheduled principal payments. Offsetting this large decrease is the addition of a net pension liability of \$863,144. In 2015, the Board implemented Governmental Accounting Standards Board (GASB) Statement 68 – *Accounting and Financial Reporting for Pensions*, which requires that a net pension liability be included in the long term liabilities section of the Statement of Net Position. Also, a deferred inflow of resources related to the pension plan's investment earnings, in the amount of \$77,950, is included on the statement.

For more information on the pension plan, see *Note 6 – Defined Benefit Pension Plan* of the Notes to the Financial Statements.

At 2015 fiscal year-end, the Board had \$19.2 million in bond debt outstanding, of which \$735,000 will mature during fiscal year 2016. The Board’s long-term debt at fiscal year-end 2015 consists primarily of a revenue bond. The latest maturity date for the Board’s bond is 2032.

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

	2015	2014
	\$	\$
Liabilities		
Current liabilities payable from current assets	1,461,180	1,571,673
Current liabilities payable from restricted assets	803,253	911,930
Long-term liabilities	19,411,679	19,331,249
Customer deposits	<u>638,659</u>	<u>645,242</u>
Total liabilities	22,314,771	22,460,094
Deferred inflows of resources	<u>77,950</u>	-
Total liabilities and deferred inflows of resources	<u><u>22,392,721</u></u>	<u><u>22,460,094</u></u>
Net position		
Net investment in capital assets	41,573,449	40,495,562
Restricted for		
Debt service (expendable)	1,691,191	1,679,626
Capital projects (expendable)	1,920,700	1,246,202
Unrestricted	<u>2,533,826</u>	<u>3,258,908</u>
Total net position	<u><u>47,719,166</u></u>	<u><u>46,680,298</u></u>

Net Position

The Board’s net position at September 30, 2015 totaled \$47.7 million, an increase of \$1.0 million (2.2%). The components of net position changed as follows:

- Net investment in capital assets increased by \$1.1 million (2.7%)
- Restricted net position (debt service and capital projects) increased by \$686,063 (23.4%), primarily the result of an increase in access fees collected of \$674,498 (54.1%).
- Unrestricted net position decreased by \$725,082 (22.2%) due to the net pension liability of \$863,144 recorded for the first time in fiscal 2015. A portion of this total liability, \$625,179, was recorded as a prior period adjustment for the liability applicable to years before fiscal 2015.

Results of Operations

The Board experienced an operating profit of \$1.2 million in fiscal 2015, a decrease of \$21,686 (1.7%) from the prior year's income. This decrease in operating income was primarily the result of an increase in operating expenses of \$353,110 (4.2%) compared to fiscal year 2014. 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.

	2015	2014
	\$	\$
Operating revenues		
Water sales to consumers	7,901,866	7,563,643
Water sales to Auburn University	1,203,133	1,214,332
Other operating revenues	<u>800,372</u>	<u>795,972</u>
Total operating revenues	<u>9,905,371</u>	<u>9,573,947</u>
Operating expenses		
Depreciation and amortization	2,079,211	2,073,076
Other operating expenses	<u>6,596,522</u>	<u>6,249,547</u>
Total operating expenses	<u>8,675,733</u>	<u>8,322,623</u>
Operating income	1,229,638	1,251,324
Nonoperating revenues (expenses)	(800,054)	(681,966)
Capital contributions	<u>1,234,463</u>	<u>1,238,020</u>
Increase in net position	<u><u>1,664,047</u></u>	<u><u>1,807,378</u></u>

Operating Revenues

Total operating revenues for fiscal 2015, which include water sales, tap and meter set fees, and collection fees, increased \$331,424 (3.5%). This change is attributed mainly to an increase in water sales and tapping fees offset by a decrease in collection fees. The largest component of operating revenue is water sales, representing 91.9% of the Board's total revenue. In fiscal 2015, water revenue from consumers, other than Auburn University, increased 4.5%; water revenue from Auburn University decreased 0.9%. The Board sold 2.3 billion gallons of water in 2015, an increase of 58 million gallons (2.6%) from 2014. Graph 1, Table 5, and the narrative following Table 5 illustrate the Board's various sources of operating revenues.

Graph 1

2015 Operating Revenues

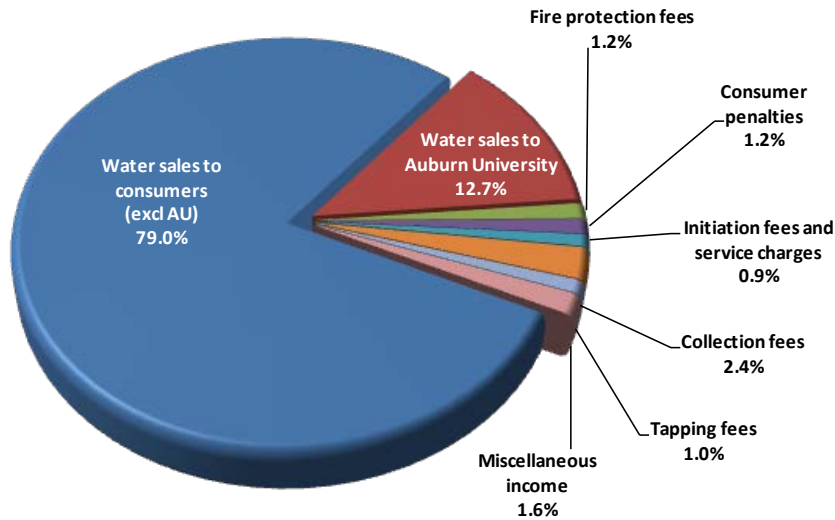


Table 5

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

	2015	2014
	\$	\$
Water sales to consumers, excluding AU	7,901,866	7,563,643
Water sales to Auburn University	1,203,133	1,214,332
Fire protection fees	138,713	114,177
Consumer penalties	108,097	111,331
Initiation fees and service charges	88,335	88,417
Collection fees	172,850	233,083
Tapping fees	121,630	95,245
Miscellaneous income	<u>170,747</u>	<u>153,719</u>
Total operating revenues	<u>9,905,371</u>	<u>9,573,947</u>

- Rainfall statistics at Lake Ogletree indicated that rainfall increased by 1.1% from 2014 to 2015. Normal annual rainfall at the lake is approximately 51 inches. Measured rainfall for fiscal 2015 at the lake was 52.6 inches; whereas, measured rainfall for fiscal 2014 was 52 inches.
- The minimum monthly bill of 3,000 gallons for residential water customers remained constant at \$12.61 during fiscal 2015.
- Revenues from regular meters increased by 4.2% while revenues from irrigation meters decreased by 1.6%.
- Fire protection fees increased by \$24,536 (21.5%). At the July 2014 meeting, the Board approved a change in the method for billing private fire protection service. Effective

November 2014, the fee changed from an annual charge per sprinkler head to a monthly charge based on the size of the fire line.

Water sold to customers other than Auburn University is the single largest component of total operating revenues. Changes in other operating revenue sources influenced the trend in total operating revenues. In fiscal year 2015, tapping fees increased by \$26,385 (27.7%) and collection fees decreased by \$60,233 (25.8%). Tapping fees are charged for connecting to the water system where there is no existing connection and collection fees are charged to cover the cost of returned checks and automated clearinghouse items.

Operating Expenses

During fiscal 2015, the Board’s operating expenses increased \$353,110 (4.2%) 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 below.

Graph 2 2015 Operating Expenses by Function

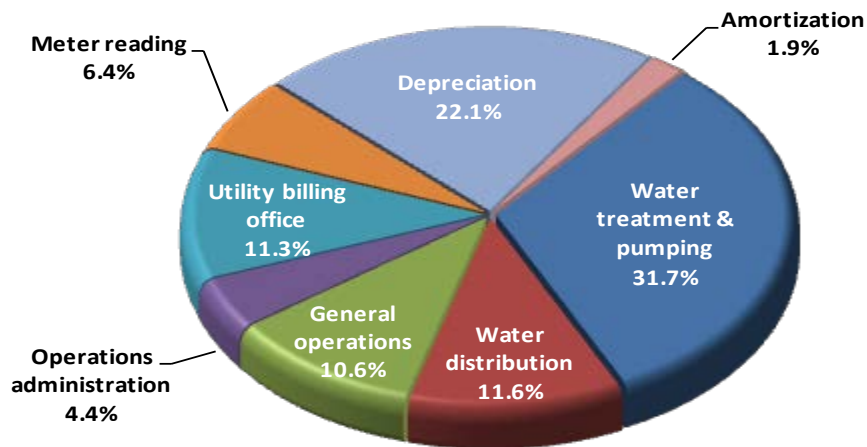


Table 6 Operating Expenses by Function
Fiscal Year Ended September 30

	2015 \$	2014 \$
Water treatment & pumping	2,751,115	2,620,346
Water distribution	1,004,424	1,017,529
General operations	918,754	878,465
Operations administration	382,720	314,221
Utility billing office	984,109	896,441
Meter reading	555,400	522,545
Depreciation	1,912,943	1,906,808
Amortization	166,268	166,268
Total operating expenses	<u>8,675,733</u>	<u>8,322,623</u>

- In the water treatment and pumping division, total expenses increased \$130,769 (5.0%). The increase was predominantly due to additional wholesale water purchases from Opelika Utilities of \$172,668 (19.6%).
- In the operations administrative division, total expenses increased by \$68,499 (21.8%). The increase was primarily due to an increase in personal services of \$67,396 (22.6%). In fiscal 2015, two vacant positions were filled bringing this division to full staff.
- In the utility billing division, total expenses increased \$87,668 (9.8%). The increase was twofold: contractual services increased due to an increase of \$22,456 (15.8%) in data processing services for handling credit cards; and commodities increased by 18.0% as a result of necessary replacement of computer equipment per the City's computer replacement policy.
- In the meter reading division, total expenses increased \$32,855 (6.3%). The increase was mainly due to an increase of \$49,376 (17.3%) in meter parts attributable to the replacement of meters in the system.

Non-operating revenues and expenses consist of items that are 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 2015 and 2014.

Table 7	Non-operating Revenues and Expenses	
	Fiscal Year Ended September 30	
	2015	2014
	<u>\$</u>	<u>\$</u>
Interest income	55,873	60,393
Loss on disposal of assets	(319,332)	(4,378)
Net increase (decrease) in fair value of investments	1,796	(26,395)
Bond trustee fees	(2,332)	(2,332)
Interest expense	<u>(536,059)</u>	<u>(709,254)</u>
Non-operating revenues (expenses)	<u>(800,054)</u>	<u>(681,966)</u>
City of Auburn	2,943	-
Capital contributions from developers	468,320	469,720
Access fees	<u>763,200</u>	<u>768,300</u>
Capital contributions	<u>1,234,463</u>	<u>1,238,020</u>
Total non-operating revenues (expenses) and capital contributions	<u>434,409</u>	<u>556,054</u>

In fiscal 2015, interest income decreased by \$4,520 (7.5%) from the prior year. In anticipation of a bond issue in early 2016, the Board funded certain capital costs with operating funds, including a portion of the Lake Ogletree Raw Water Pump Station project and preliminary engineering and design of the Lake Ogletree Spillway Replacement project. These operating funds were reimbursed when the debt was issued in November 2015. This use of operating funds decreased the cash available for investment, thus decreasing interest income.

The loss on disposal of assets increased by \$314,953 (7,193.3%) from the prior year. This change was primarily due to expenses incurred for the removal of the water tank on Armstrong Street and the retirement of raw water pumps that were replaced during the construction of the Lake Ogletree Raw Water Pump Station project.

Interest expense on borrowed funds decreased by \$173,195 (24.4%) in fiscal 2015, primarily due to the increase in capitalized interest recorded. Capitalized interest is the interest related to a capital project and is added to the cost of the asset. An increase in capitalized interest results in a decrease in interest expense proportionally.

Capital Contributions

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

Access fees are restricted for use in expanding the Board’s water system and are charged to new developments. Access fees provided revenues of \$763,200 and \$768,300 in fiscal 2015 and 2014, respectively. Since access fees are related to growth within the water system, revenues from this source will vary from year to year depending on the number and type of construction projects during any given year.

Capital contributions from developers are received from developers who are required to install water lines within their projects. Typically, these lines are donated to the Board for ongoing maintenance. These donated capital assets are recorded at their estimated fair value as of the date of donation. The Board received donated water infrastructure valued at \$468,320 in fiscal 2015, a decrease of \$1,400 (0.3%) 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, 2015, presented in Table 8.

Table 8
Lines Contributed by Developers

<u>Residential Subdivision</u>	<u>\$</u>
Asheton Lakes Phase 3	107,000
Legacy at Cary Creek	121,800
Shelton Cove Phase 3	16,520
Tivoli Phase 4C	46,000
Yarbrough Farms, The Parc	177,000
	<u>468,320</u>

Other Financial Information

Rate Changes

In November 2013, the Board engaged a utility rate consultant to review and evaluate the adequacy of rates to meet the current and projected operating and capital expenditure demands and to cover debt service associated with necessary capital improvements. In May 2014, the rate study consultant, in conjunction with Water Board staff, concluded that the rates were adequate to meet the near-term revenue requirements, but would need to be reviewed prior to beginning the Lake Ogletree Spillway project.

During fiscal year 2015, the Board hired an engineering firm to evaluate the aging spillway at Lake Ogletree, the City's main water source. The firm deemed it necessary to replace the spillway. 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, in a special called meeting in October 2015, 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. Additionally, in November 2015, the Board issued \$16.7 million in revenue bonds to cover the cost of replacing the Lake Ogletree spillway.

Projects in Progress

The Board has authorized projects that are underway in fiscal 2016. These projects include:

- Dam outlet structure and spillway improvements at Lake Ogletree,
- Pole barn addition at Bailey Alexander complex,
- City Works implementation at Estes Water Treatment Plant (WTP), and
- Installation of fiber optic from Dean Road to WTP.

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

- Motor Control Center (MCC) replacement and improvements at WTP,
- Cox Road and Stonewall Road water mains,
- Lime Silo modifications,
- Bailey-Alexander fueling station,
- Teague Court and West Farmville Tank rehabilitation, and
- Modification of carbon contact basin piping at the WTP.

Utility Billing

In fiscal year 2015, the Utility Billing Office (UBO) continued to see the trend of customers preferring the convenience of paying their bills through UBO's interactive voice recognition (IVR) system and through the City's website. For fiscal year 2015, the average number of payments accepted via the IVR system and through online web extensions increased 12.6% and 20.5%, respectively, over fiscal 2014. For fiscal year 2015, the average number of customers who paid with a credit card was about 8,400 per month out of a total of approximately 17,200, a 4.8% increase from 2014. Phone and walk in credit card payments decreased by 3.0%. These statistics support the customers' desire for new technology and convenience.

Water Source

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.

The main water supply comes from Lake Ogletree, located in southeast Auburn. Lake Ogletree is approximately 300 acres and is fed primarily by Chewacala Creek. In fiscal 2015, approximately 57% 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 2015, 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. Water purchases from Opelika Utilities provided approximately 26% of the water supply for the City of Auburn.

Economic Factors

As the economy within the State of Alabama and the nation as a whole continues to improve marginally, Auburn has remained a relatively stable and growing economy, although the rate of growth has slowed. The City's unemployment rates typically compare favorably with the State and national rates. The most recent data available from the Alabama Department of Labor show that for September 2015, Auburn's unemployment rate was 4.9%. The State's unemployment rate in September 2015 was 5.9%; the national rate was 4.9% (US Bureau of Labor Statistics).

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

Conclusion

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

Basic Financial Statements

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

ASSETS	
Current assets	
Cash	\$ 3,783,947
Accounts receivable, net	1,236,858
Accounts receivable, City of Auburn	129,591
Inventory	383,965
Other current assets	46,227
Total current assets	<u>5,580,588</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	1,920,700
Investments	1,691,192
Total restricted assets	<u>3,611,892</u>
Advance to primary government	<u>115,000</u>
Capital assets, nondepreciable	
Land and land clearing	1,382,108
Construction in progress	906,043
Total capital assets, nondepreciable	<u>2,288,151</u>
Capital assets, depreciable	
Utility system and plant	75,433,378
Buildings and improvements	6,428,959
Office equipment	574,472
Mobile equipment	1,090,496
Tools	385,387
	<u>83,912,692</u>
Less accumulated depreciation	<u>(26,605,352)</u>
Capital assets, depreciable, net	<u>57,307,340</u>
Total noncurrent assets	<u>63,322,383</u>
Total assets	<u>68,902,971</u>
Deferred outflows of resources	
Deferred amounts on refunding	1,136,166
Employer pension contributions subsequent to the measurement date	72,750
Total deferred outflows of resources	<u>1,208,916</u>
Total assets and deferred outflows of resources	<u>\$ 70,111,887</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF NET POSITION (CONTINUED)

SEPTEMBER 30, 2015

LIABILITIES	
Current liabilities payable from current assets	
Accounts payable	\$ 805,576
Accounts payable, City of Auburn	649,081
Accrued expenses	6,415
Payroll taxes payable	<u>108</u>
Total current liabilities payable from current assets	<u>1,461,180</u>
Current liabilities payable from restricted assets	
Current portion of bonds payable	735,000
Interest payable	<u>68,253</u>
Total current liabilities payable from restricted assets	<u>803,253</u>
Long-term liabilities	
Bonds payable, net of current portion	18,423,209
Accumulated annual leave	90,030
Postemployment benefits payable	35,296
Net pension liability	<u>863,144</u>
Total long-term liabilities	<u>19,411,679</u>
Other liabilities	
Customer water deposits	<u>638,659</u>
Total liabilities	<u>22,314,771</u>
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	<u>77,950</u>
Total liabilities and deferred inflows of resources	<u>22,392,721</u>
NET POSITION	
Net investment in capital assets	41,573,449
Restricted for:	
Debt service	1,691,191
Capital projects	1,920,700
Unrestricted	<u>2,533,826</u>
Total net position	<u>\$47,719,166</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2015

Operating revenues	
Metered sales to consumers	\$ 9,104,999
Fire protection fees	138,713
Consumer penalties	108,097
Initiation fees and service charges	88,335
Collection fees	172,850
Tapping fees	121,630
Miscellaneous income	170,747
Total operating revenues	<u>9,905,371</u>
Operating expenses	
Depreciation expense	1,912,943
Amortization expense - deferred amount on refunding	166,268
Other operating expenses	6,596,522
Total operating expenses	<u>8,675,733</u>
Operating income	<u>1,229,638</u>
Nonoperating revenues (expenses)	
Interest income	55,873
Loss on disposal of assets	(319,332)
Net increase in the fair value of investments	1,796
Bond trustee fee	(2,332)
Interest expense	(536,059)
Total nonoperating revenues (expenses)	<u>(800,054)</u>
Income before contributions	<u>429,584</u>
Capital contributions	
From the City of Auburn	2,943
From developers	468,320
From access fees	763,200
Total capital contributions	<u>1,234,463</u>
Increase in net position	<u>1,664,047</u>
Net position, beginning of year	46,680,298
Prior period adjustment	(625,179)
Net position, beginning of year as restated	<u>46,055,119</u>
Net position, end of year	<u>\$47,719,166</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2015

Operating activities	
Cash received from customers	\$ 9,576,289
Other cash received	170,747
Cash paid to City of Auburn for payments in lieu of tax	(269,208)
Customer deposits collected (paid)	(6,582)
Cash paid to suppliers for goods and services	(3,978,565)
Cash paid to employees for services	<u>(2,320,954)</u>
Net cash provided by operating activities (A)	<u>3,171,727</u>
Capital and related financing activities	
Cash received for access fees	763,200
Cash received from sale of capital assets	154,496
Cash paid for advance to primary government	(115,000)
Cash paid for acquisition and construction of capital assets	(2,136,182)
Cash paid for principal repayment on debt maturities	(710,000)
Cash paid for interest and fiscal fees on debt maturities	<u>(842,670)</u>
Net cash used by capital and related financing activities	<u>(2,886,156)</u>
Investing activities	
Interest received on investments	55,872
Cash paid for purchase of investments	(1,550,244)
Cash received on sale of investments	1,550,338
Realized gain (loss) on investments	<u>(20,840)</u>
Net cash provided by investing activities	<u>35,126</u>
Net increase in cash and cash equivalents	320,697
Cash and cash equivalents, beginning of year	<u>5,383,950</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,704,647</u></u>
Composition of cash and cash equivalents at September 30, 2015:	
Cash - unrestricted	\$ 3,783,947
Cash and cash equivalents - restricted	<u>1,920,700</u>
Total cash and cash equivalents	<u><u>\$ 5,704,647</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2015

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

Operating income (loss)	\$ 1,229,638
Add:	
Depreciation expense	1,912,943
Amortization expense - deferred amount on refunding	166,268
Decrease in inventory	23,390
Decrease in other receivables	2,369
Decrease in pension related deferred outflows/assets	1,371
Increase in accounts payable, City of Auburn	275,648
Increase in accumulated annual leave	413
Increase in postemployment benefits payable	6,065
Increase in pension related deferred inflows/liabilities	241,794
Deduct:	
Increase in accounts receivable, net	(144,384)
Increase in accounts receivable, City of Auburn	(16,322)
Increase in other current assets	(2,842)
Decrease in accounts payable	(490,943)
Decrease in payroll taxes payable	(8,068)
Decrease in accrued expenses	(19,031)
Decrease in customer water deposits	<u>(6,582)</u>
Net cash provided by operations	<u>\$ 3,171,727</u>
Noncash transactions:	
Estimated cost of water lines installed by and contributed to the Water Works Board by developers	\$ 468,320
Net increase in the fair value of investments	<u>1,796</u>
	<u>\$ 470,116</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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. Statutes authorize the Board to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; U.S. dollar denominated deposit accounts and certificates of deposit; pre-funded public obligations as defined by state law; and interests in any common trust fund or other collective investment bank, trust company or savings and loan association.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital assets - Capital assets are defined by the Board as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at actual cost (or estimated historical cost if actual cost is not available) if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

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

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

Inventory - Inventory is valued at cost and consists of expendable supplies held for future consumption or capitalization.

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

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

Accumulated annual leave and sick leave - The Board allows employees to accumulate vacation and sick leave up to certain limits for use in subsequent periods. Upon termination of employment, an employee receives payment of accumulated vacation hours at current wage rates. Upon retirement with at least ten years of service, an employee can receive payment of one-half of accumulated sick leave hours if hired

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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 Works Board employees are covered under the City's health insurance plan. Premiums are charged to the Board and are calculated using trends in actual claims experience, along with overall program costs, including third party administration and reinsurance. Employees may also be charged for additional benefits through supplemental insurance programs. Medical claims exceeding \$85,000 per 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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.

Recently implemented accounting pronouncements - GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the fiscal year ended September 30, 2015. GASB 68 improves accounting and financial reporting by state and local governments for pensions through reporting and informing the readers of the financial statements about the long-term commitments/liabilities of the primary government and its component units on pension liabilities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

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, 2015, 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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, 2015, was \$1,920,700.

NOTE 4. RESTRICTED CASH AND INVESTMENTS

At September 30, 2015, the Water Board's restricted cash, cash equivalents and investments were comprised of the following:

Cash (access fee account)	\$ 1,920,700
Bank of New York Mellon U.S. Treasury Securities Money Market Fund	<u>1,691,192</u>
Total restricted cash and cash equivalents	<u>\$ 3,611,892</u>

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

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

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

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

Water	\$ 1,303,822
Miscellaneous trade	<u>1,667</u>
Total accounts receivable	1,305,489
Less allowance for doubtful accounts	<u>(68,631)</u>
Accounts receivable (net)	<u>\$ 1,236,858</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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 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 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED

Under the formula method, members of the ERS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 846 local participating employers. These participating employers include 287 cities, 65 counties, and 494 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits	21,691
Terminated employees entitled to but not yet receiving benefits	1,252
Terminated employees not entitled to a benefit	5,048
Active members	<u>55,883</u>
Total	<u><u>83,874</u></u>

Contributions. Tier 1 employees are those employees who were members of RSA before January 1, 2013. 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, 2013. 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 WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the preretirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2015, the Board's active employee contribution rate was 2.98% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 3.88% of covered employee payroll.

The Board's contractually required contribution rate for the year ended September 30, 2015 was 7.04% of pensionable pay for Tier 1 employees, and 4.74% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2012, 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 from the System were \$72,750 for the year ended September 30, 2015.

Total Pension Liability - The Board's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2013 rolled forward to September 30, 2014 using standard roll-forward techniques as shown in the following table:

(a) Total Pension Liability as of September 30, 2013	\$ 3,246,770
(b) Entry Age Normal Cost for October 1, 2013 - September 30, 2014	\$ 120,498
(c) Actual Benefit Payments and Refunds for October 1, 2013 - September 30, 2014	\$ (139,669)
Total Pension Liability as of September 30, 2014 [(a) x (1.08)] + (b) - [(c) x (1.04)]	\$ 3,481,754

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED

Actuarial assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75% - 7.25%
Investment rate of return*	8.00%

* Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
	<u>100.00%</u>	

* 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, 8%. 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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 9/30/2013	\$ 3,246,770	\$ 2,547,470	\$ 699,300
Changes for the year:			
Service cost	120,498		120,498
Interest	254,155		254,155
Contributions, employer		74,121	(74,121)
Contributions, employee		55,397	(55,397)
Net investment income		292,386	(292,386)
Benefit payments, including refunds of employee contributions	(139,669)	(139,669)	-
Transfers among employers	-	(211,095)	211,095
Net changes	234,984	71,140	163,844
Balances at 9/30/2014	\$ 3,481,754	\$ 2,618,610	\$ 863,144

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 8%, 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 (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
	Board's net pension liability	\$ 1,325,090	\$ 863,144

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, 2014. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2014. The auditor's report dated June 3, 2015 on the Schedule of

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED

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, 2015, the Board recognized pension expense of \$72,750. At September 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 77,950
Employer contributions subsequent to the measurement date	<u>72,750</u>	<u>-</u>
Total	<u>\$ 72,750</u>	<u>\$ 77,950</u>

There were no deferred outflows of resources and deferred inflows of resources derived from differences between expected and actual experience or changes of assumptions related to pensions.

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:	
2016	\$ 19,488
2017	19,488
2018	19,488
2019	<u>19,486</u>
	<u>\$ 77,950</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015, was as follows:

	<u>Balance 10/01/14</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deductions</u>	<u>Balance 09/30/15</u>
Capital assets, nondepreciable:				
Land and land clearing	\$ 1,391,165	\$ 2,943	\$ (12,000)	\$ 1,382,108
Construction in progress	<u>5,747,763</u>	<u>2,326,119</u>	<u>(7,167,839)</u>	<u>906,043</u>
Total capital assets, nondepreciable	<u>7,138,928</u>	<u>2,329,062</u>	<u>(7,179,839)</u>	<u>2,288,151</u>
Capital assets, depreciable:				
Utility system and plant	70,088,223	6,491,337	(1,146,182)	75,433,378
Buildings and improvements	5,690,903	738,056	-	6,428,959
Office equipment	533,826	40,646	-	574,472
Mobile equipment	981,406	225,596	(116,506)	1,090,496
Tools	<u>386,287</u>	<u>30,697</u>	<u>(31,597)</u>	<u>385,387</u>
Total capital assets, depreciable	<u>77,680,645</u>	<u>7,526,332</u>	<u>(1,294,285)</u>	<u>83,912,692</u>
Less accumulated depreciation for:				
Utility system and plant	(22,299,840)	(1,505,035)	863,532	(22,941,343)
Buildings and improvements	(2,012,769)	(227,930)	-	(2,240,699)
Office equipment	(402,610)	(73,034)	-	(475,644)
Mobile equipment	(685,596)	(83,952)	116,507	(653,041)
Tools	<u>(303,230)</u>	<u>(22,992)</u>	<u>31,597</u>	<u>(294,625)</u>
Total accumulated depreciation	<u>(25,704,045)</u>	<u>(1,912,943)</u>	<u>1,011,636</u>	<u>(26,605,352)</u>
Total capital assets, depreciable	<u>51,976,600</u>	<u>5,613,389</u>	<u>(282,649)</u>	<u>57,307,340</u>
Capital assets, net	<u>\$ 59,115,528</u>	<u>\$ 7,942,451</u>	<u>\$ (7,462,488)</u>	<u>\$ 59,595,491</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 8. COMMITMENTS

The Water Board has commitments for construction projects in connection with system improvements. On August 20, 2015, the Board approved a construction contract with ASI Constructors, Inc. for \$13,446,470 for the Lake Ogletree Spillway project. The majority of the contract was unfulfilled at year-end. This amount along with commitments to complete other construction projects as of September 30, 2015, totaled \$14,293,527.

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 was two pronged. 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 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 \$.54 per 1,000 gallons (\$113,530) for the year ended September 30, 2015. The term of the agreement is twenty years, with six five-year extension options. Total water pumped in the 2015 fiscal year was 418,559 thousand gallons with a total annual payment of \$225,320.16.

In October of 2003 the Water Board entered into 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 9. LONG-TERM DEBT

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2015, was as follows:

	<u>Balance</u> <u>09/30/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/15</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
Bonds payable:					
Bonds payable-2010 issue	\$ 18,965,000	\$ -	\$ (710,000)	\$ 18,255,000	\$ 735,000
Add: deferred amount for issuance premium	<u>957,401</u>	<u>-</u>	<u>(54,192)</u>	<u>903,209</u>	<u>-</u>
Total	<u>19,922,401</u>	<u>-</u>	<u>(764,192)</u>	<u>19,158,209</u>	<u>735,000</u>
Accumulated leave	89,617	1,228	(815)	90,030	-
Other postemployment benefits liability	29,231	6,065	-	35,296	-
Net pension liability	<u>699,300</u>	<u>163,844</u>	<u>-</u>	<u>863,144</u>	<u>-</u>
Total	<u>818,148</u>	<u>171,137</u>	<u>(815)</u>	<u>988,470</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 20,740,549</u>	<u>\$ 171,137</u>	<u>\$ (765,007)</u>	<u>\$ 20,146,679</u>	<u>\$ 735,000</u>

Bonds payable at September 30, 2015, are comprised of an original bond issue of \$21,595,000 dated June 1, 2010. The 2010 bond proceeds were used to call the 2001 and 2002 series bonds dated July 1, 2001 and August 1, 2002, respectively, and to fund various capital projects. The 2010 bonds were issued at an average interest rate of 4.36%. The stated maturity dates of the 2010 bonds are September 1 beginning in 2011 and continuing through 2032.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 9. LONG-TERM DEBT – CONTINUED

Bonds payable of the Water Board of the City of Auburn at September 30, 2015, are comprised of the following individual issues:

	<u>Interest Rate</u>	<u>Interest Dates</u>	<u>Source of Payment</u>	<u>Principal Issued</u>	<u>Principal Outstanding September 30, 2015</u>	<u>Year of Final Principal Maturity</u>
Business type activities						
Bonds payable:						
Capital improvement bonds, Dated 06/01/10	3.0% to 5.0%	3/1-9/1	Revenues	\$ 21,595,000	\$ 18,255,000	2032

The following schedule shows debt service to maturity for bonds payable of the Water Board of the City of Auburn at September 30, 2015:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 735,000	\$ 819,038	\$ 1,554,038
2017	770,000	782,288	1,552,288
2018	810,000	743,788	1,553,788
2019	850,000	703,288	1,553,288
2020	890,000	660,788	1,550,788
2021-2025	5,005,000	2,749,623	7,754,623
2026-2030	6,270,000	1,487,250	7,757,250
2031-2032	<u>2,925,000</u>	<u>176,600</u>	<u>3,101,600</u>
Total	<u>\$ 18,255,000</u>	<u>\$ 8,122,663</u>	<u>\$ 26,377,663</u>

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

The 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, 2015.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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	\$ 784,370
Less capitalized interest	<u>(248,311)</u>
Interest expense	<u>\$ 536,059</u>

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Water 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 obtains the services of an independent actuary so as to determine it’s OPEB liabilities.

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 WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Plan description

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

Funding policy

The City currently pays for postemployment health care benefits on a pay-as-you-go basis. 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, closed amortization period of 30 years (the maximum amortization period allowed by GASB 45) has been used for the postemployment benefits. The total ARC for the years ended September 30 are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Normal cost as of beginning of year	\$ 112,575	\$ 97,465	\$ 95,184
Amortization of the unfunded AAL (UAAL) for 30 years	<u>134,309</u>	<u>120,449</u>	<u>117,416</u>
Total normal cost and amortization payment	246,884	217,914	212,600
Interest to end of year	<u>9,875</u>	<u>8,717</u>	<u>8,504</u>
Annual required contribution (ARC)	<u>\$ 256,759</u>	<u>\$ 226,631</u>	<u>\$ 221,104</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

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:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual required contribution (ARC)	\$ 256,759	\$ 226,631	\$ 221,104
Interest on net OPEB obligation (NOO) to end of year	22,216	16,668	11,000
NOO amortization adjustment to the ARC	<u>(32,118)</u>	<u>(24,097)</u>	<u>(15,905)</u>
Annual OPEB cost	246,857	219,202	216,199
Actual annual employer contribution - pay-go cost	<u>(77,918)</u>	<u>(80,494)</u>	<u>(74,531)</u>
Change in net OPEB obligation	168,939	138,708	141,668
Beginning net OPEB obligation	<u>555,396</u>	<u>416,688</u>	<u>275,020</u>
Ending net OPEB obligation	<u>\$ 724,335</u>	<u>\$ 555,396</u>	<u>\$ 416,688</u>
Percentage of annual OPEB cost contributed	31.6%	36.7%	34.5%
Ending net OPEB obligation by employer			
City of Auburn	\$ 689,039	\$ 526,165	\$ 388,845
Water Works Board of City of Auburn	<u>35,296</u>	<u>29,231</u>	<u>27,843</u>
Total	<u>\$ 724,335</u>	<u>\$ 555,396</u>	<u>\$ 416,688</u>

Funded status and funding progress

In the fiscal year ended September 30, 2015, the City contributed \$77,918 to its postemployment benefits plan. This represents 30.3% of the ARC. The plan has no assets and therefore has a funded ratio of zero. As of September 30, 2014, the most recent actuarial valuation, the actuarial accrued liability was \$2,415,369, 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. The schedule of funding progress is included in the following table.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered P/R ((b - a)/c)
9/30/2012	\$ -	\$ 2,111,571	\$ 2,111,571	0%	\$ 22,357,728	9.4%
9/30/2013	\$ -	\$ 2,166,123	\$ 2,166,123	0%	\$ 23,028,460	9.4%
9/30/2014	\$ -	\$ 2,415,369	\$ 2,415,369	0%	\$ 24,400,268	9.9%

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, 2015, 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 an 8.0% healthcare cost trend increase for fiscal year 2016, graded down to an ultimate annual rate of 5% for 2022 and later.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 12. SUBSEQUENT EVENTS

Subsequent to September 30, 2015, the Board approved construction contracts totaling approximately \$152,000 and equipment purchases totaling approximately \$246,000.

On November 19, 2015 the Board approved a bond issue of \$16,695,000 so as to fund the construction of dam and spillway improvements, construction of a new pump station and various other capital improvements to the system. The bonds were sold at a premium with net proceeds of \$18,107,113.

Management has evaluated subsequent events through February 24, 2016, the date these financial statements were available to be issued.

NOTE 13. PRIOR PERIOD ADJUSTMENT

As described in Note 1, the Board adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the current year. As a result, beginning Net Position was reduced by \$625,179 in order to record the Board's net pension liability.



**Required
Supplementary
Information**

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

MEASUREMENT PERIOD ENDING SEPTEMBER 30

	<u>2014</u>
Total pension liability	
Service cost	\$ 120,498
Interest	254,155
Benefit payments, including refunds of employee contributions	<u>(139,669)</u>
Net change in total pension liability	234,984
Total pension liability - beginning	<u>3,246,770</u>
Total pension liability - ending (a)	<u><u>\$ 3,481,754</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 74,121
Contributions - member	55,397
Net investment income	292,386
Benefit payments, including refunds of employee contributions	<u>(139,669)</u>
Transfers among employers	<u>(211,095)</u>
Net change in plan fiduciary net position	71,140
Plan net position - beginning	<u>2,547,470</u>
Plan net position - ending (b)	<u><u>\$ 2,618,610</u></u>
Net pension liability - ending (a) - (b)	\$ 863,144
Plan fiduciary net position as a percentage of the total pension liability	75.21%
Covered-employee payroll*	\$ 1,825,037
Net pension liability as a percentage of covered-employee payroll	47.29%

*Employer's covered payroll during the measurement period is the total payroll paid to covered employees (not just pensionable payroll). For FY2014 the measurement period is October 1, 2013 to September 30, 2014.

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

	<u>2015</u>
Actuarially determined contribution	<u>\$ 76,623</u>
Contributions in relation to the actuarially determined contribution	<u>76,623</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 1,872,901
Contributions as a percentage of covered- employee payroll	4.09%

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2015

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2012, 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

Other Operating Information

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	<u>\$</u>
Water treatment and pumping expense	
Personal services	
Salaries and wages	386,318
Employee benefits	<u>80,810</u>
Total personal services	<u>467,128</u>
Contractual services	
Utilities	501,492
Pumping and purification	43,087
Buildings and grounds	3,028
Sewer services	71,250
Travel and training	9,217
Uniform maintenance	1,356
Miscellaneous contractual services	<u>35,858</u>
Total contractual services	<u>665,288</u>
Commodities	
Water purchased	1,278,503
Chemical supplies	257,125
Water samples analysis supplies	426
Minor tools and equipment	68,748
Fuel	6,305
Safety clothing	676
Miscellaneous commodities	4,780
Communications equipment	<u>2,136</u>
Total commodities	<u>1,618,699</u>
Total water treatment and pumping expense	<u>2,751,115</u>
Distribution expense	
Personal services	
Salaries and wages	598,459
Less capitalized costs	(22,865)
Employee benefits	<u>127,138</u>
Total personal services	<u>702,732</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	<u>\$</u>
Contractual services	
Utilities	13,226
Travel and training	1,563
Rental of heavy machinery	2,272
Uniform maintenance	4,519
Miscellaneous contractual services	<u>25,081</u>
Total contractual services	<u>46,661</u>
Commodities	
Mains and services supplies	128,898
Fuel	25,290
Vehicle parts	19,128
Fire hydrants	9,819
Communications equipment	612
Heavy machinery parts	18,253
Minor tools and equipment	26,666
Miscellaneous commodities	<u>26,365</u>
Total commodities	<u>255,031</u>
Total distribution expense	<u>1,004,424</u>
Meter reading expense	
Personal services	
Salaries and wages	165,969
Employee benefits	<u>36,300</u>
Total personal services	<u>202,269</u>
Contractual services	
Uniform maintenance	2,242
Utilities	3,201
Miscellaneous contractual services	<u>300</u>
Total contractual services	<u>5,743</u>
Commodities	
Fuel	11,696
Meter parts	334,571
Miscellaneous commodities	<u>1,121</u>
Total commodities	<u>347,388</u>
Total meter reading expense	<u>555,400</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	<u>\$</u>
Utility billing office expense	
Personal services	
Salaries and wages	427,061
Employee benefits	<u>123,010</u>
Total personal services	<u>550,071</u>
Contractual services	
Bank fees	201,153
Data processing professional services	201,567
Office equipment rental	3,549
Travel and training	7,164
Utilities	1,170
Miscellaneous contractual services	<u>1,592</u>
Total contractual services	<u>416,195</u>
Commodities	
Printed supplies	160
Office and computer supplies	17,014
Miscellaneous commodities	<u>669</u>
Total commodities	<u>17,843</u>
Total utility billing office expense	<u>984,109</u>
Operations administration expense	
Personal services	
Salaries and wages	295,247
Employee benefits	<u>69,913</u>
Total personal services	<u>365,160</u>
Contractual services	
Memberships and subscriptions	8,478
Travel and training	2,913
Utilities	2,820
Miscellaneous contractual services	<u>69</u>
Total contractual services	<u>14,280</u>
Commodities	
Office and computer supplies	<u>3,280</u>
Total commodities	<u>3,280</u>
Total operations administration expense	<u>382,720</u>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	<u>\$</u>
General operations expense	
Personal services	
Other payroll expense	6,909
Pension expense	<u>243,165</u>
Total personal services	<u>250,074</u>
Contractual services	
Building and ground contracts	35,211
Fiscal professional services	33,050
Legal professional services	9,000
Insurance	106,585
Postemployment benefits	6,065
Unclassified professional services	65,496
Utilities	69,326
Miscellaneous contractual services	<u>24,030</u>
Total contractual services	<u>348,763</u>
Commodities	
Fuel	1,046
Postage	4,924
Printed supplies	387
Miscellaneous commodities	<u>39,596</u>
Total commodities	<u>45,953</u>
Intergovernmental	
Tax equivalent to City	<u>273,964</u>
Total intergovernmental	<u>273,964</u>
Total general operations expense	<u>918,754</u>
Total other operating expenses	<u><u>6,596,522</u></u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN
 FIVE YEAR SCHEDULE OF VARIOUS OPERATING DATA
 FOR THE YEARS ENDED SEPTEMBER 30, 2015, 2014, 2013, 2012, 2011

	(Unaudited)				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues:					
Water sales	\$ 9,104,999	\$ 8,777,975	\$ 8,532,700	\$ 8,324,545	\$ 8,519,360
Fire protection fees	138,713	114,177	118,390	116,584	116,137
Consumer penalties	108,097	111,331	82,645	106,135	111,445
Initiation fees and service charges	88,335	88,417	89,014	87,656	89,296
Collection fees	172,850	233,083	180,116	225,757	229,638
Other operating revenue	292,377	248,964	494,021	571,780	344,585
Total operating revenues	<u>9,905,371</u>	<u>9,573,947</u>	<u>9,496,886</u>	<u>9,432,457</u>	<u>9,410,461</u>
Operating expenses:					
Water treatment and pumping expense	2,751,115	2,620,346	2,928,236	2,338,808	2,853,980
Distribution expense	1,004,424	1,017,529	973,960	881,899	940,441
Meter reading and utility billing office expense	1,539,509	1,418,986	1,146,715	1,207,050	1,154,929
Operations administration and general operations	1,301,474	1,192,686	1,404,904	1,515,663	1,538,083
Total operating expenses	<u>6,596,522</u>	<u>6,249,547</u>	<u>6,453,815</u>	<u>5,943,420</u>	<u>6,487,433</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions	<u>\$ 3,308,849</u>	<u>\$ 3,324,400</u>	<u>\$ 3,043,071</u>	<u>\$ 3,489,037</u>	<u>\$ 2,923,028</u>
Number of services at September 30 ⁽¹⁾	<u>22,356</u>	<u>22,008</u>	<u>21,724</u>	<u>21,421</u>	<u>21,077</u>
Operating revenues per service	<u>\$ 443</u>	<u>\$ 435</u>	<u>\$ 437</u>	<u>\$ 440</u>	<u>\$ 446</u>
Operating expenses per service	<u>295</u>	<u>284</u>	<u>297</u>	<u>277</u>	<u>308</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions per service	<u>\$ 148</u>	<u>\$ 151</u>	<u>\$ 140</u>	<u>\$ 163</u>	<u>\$ 138</u>
Million gallons water produced and purchased	<u>2,544.99</u>	<u>2,504.80</u>	<u>2,421.74</u>	<u>2,483.35</u>	<u>2,614.81</u>
Million gallons water sold	<u>2,262.04</u>	<u>2,203.68</u>	<u>2,254.98</u>	<u>2,302.28</u>	<u>2,437.74</u>

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

(2) Schedule excludes amortization and depreciation.