

# 2016



**WATER WORKS BOARD OF THE CITY OF AUBURN  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDING SEPTEMBER 30, 2016**

Lake Ogletree Dam Outlet Structure and Spillway



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

Annual Financial Report  
For the Fiscal Year Ended September 30, 2016

## **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

**Bernard Hill, Ph.D., Member**

Term expires January 2020

**Brad Wilson, Member**

Term expires June 2020

## **Management**

**James C. Buston, III, Interim City Manager**

**Eric A. Carson, PE, Water Resource Management Director**

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

**Kathy C. James, Utility Billing Financial Manager**

## **Prepared by**

### ***Finance Department***

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

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

**Kathy C. James, Utility Billing Financial Manager**

**Amy M. Saylor, Accounting Specialist**

**Thomas J. Prouhet, Finance Information Officer**



THE WATER WORKS BOARD OF THE CITY OF AUBURN

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Water Works Board of the City of Auburn, a component unit of the City of Auburn, Alabama, as of and for the year ended September 30, 2016, 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, 2016, 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 46 through 48) 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'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 27, 2017



**The Water Works Board of the City of Auburn**  
**Management's Discussion and Analysis**  
***Fiscal Year Ended September 30, 2016***

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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, 2016. 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 FY2016 Comprehensive Annual Financial Report and the Board's 2015 Consumer Confidence Report, both of which are published on the City of Auburn web site ([www.auburnalabama.org](http://www.auburnalabama.org)).

### **Financial Highlights**

- The assets of the Board exceeded its liabilities at the close of the fiscal year by \$49.0 million (net position). Of this amount, the Board showed unrestricted assets of \$3.8 million, restricted assets of \$14.1 million, and \$31.1 million in net investment in capital assets.
- The Board's restricted assets increased by 290.5% and long-term liabilities increased by 87.9% from September 30, 2015 to September 30, 2016.
- The Board experienced a 2.7% increase in net position from \$47.7 million at September 30, 2015 to \$49.0 million at September 30, 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, 2016 and 2015.

#### ***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 2016 and 2015 is presented in Tables 1 and 3. For a more detailed comparison of the Board's financial position at fiscal year-end as compared to the prior year-end, please see Appendix I.

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

	<u>2016</u>	<u>2015</u>
	\$	\$
<b>Assets</b>		
Current assets	<u>9,096,033</u>	<u>5,580,589</u>
Noncurrent assets		
Restricted assets	14,104,525	3,611,892
Advance to primary government	105,417	115,000
Capital assets (net)	<u>66,541,759</u>	<u>59,595,491</u>
Total noncurrent assets	<u>80,751,701</u>	<u>63,322,383</u>
Total assets	<u>89,847,734</u>	<u>68,902,972</u>
Deferred outflows of resources	<u>1,138,787</u>	<u>1,208,916</u>
Total assets and deferred outflows of resources	<u><u>90,986,521</u></u>	<u><u>70,111,888</u></u>

***Assets and Deferred Outflows of Resources***

Total assets, as shown in Table 1, increased in fiscal 2016 by \$20.9 million (30.4%); changes involved the following:

- Current assets increased by \$3.5 million (63.0%)
  - Total cash increased by \$3.0 million (79.4%) due to an increase in revenues.
  - Receivables from the City of Auburn increased \$72,514 (56.0%), which 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 \$17.4 million (27.5%)
  - Restricted assets increased by \$10.5 million (290.5%), primarily attributable to an increase in investments of \$9.8 million (579.4%). The Board issued revenue bonds in November 2015 for \$16,695,000, with net proceeds of \$18,107,113. The proceeds are held and invested by the Bank of New York; the balance continues to decline as funds are used for construction expenses.
  - Capital assets, net of depreciation, increased by \$6.9 million (11.7%) from the prior year, as shown in Table 2. The primary reason is the increase in construction in progress of \$8.1 million (897.2%); the major reason for this change is the ongoing Lake Ogletree Dam Outlet Structure and Spillway Improvement project (further details on page 13).

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

Capital Assets	2016 \$	2015 \$
Land and land clearing	1,382,108	1,382,108
Construction in progress	9,035,046	906,043
Utility system, plant and buildings	82,325,335	81,862,337
Mobile equipment	1,238,323	1,090,496
Office equipment	595,036	574,472
Tools	398,109	385,387
Capital assets before depreciation	94,973,957	86,200,843
Accumulated depreciation	(28,432,198)	(26,605,352)
Net capital assets	66,541,759	59,595,491

Assets with a cost of \$868,661 were capitalized during fiscal 2016. These included the following:

- A number of new and replacement water lines such as the addition of 2,150 feet of 4 inch and 8 inch main at Yarbrough Farms, the addition of 1,960 feet of 4 inch and 8 inch main at Asheton Lakes Phase 3B, the addition of 1,850 feet of 4 inch and 8 inch main at Cotswolds 2B, and 2,200 feet of 8 inch main replacement on Stonewall Road, and
- Replacement of five vehicles and heavy equipment in accordance with the Board's vehicle and equipment replacement plan.

Construction in progress costs at September 30, 2016, were \$9.0 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 \$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 \$8.8 million.

### *Liabilities and Deferred Inflows of Resources*

The Board's total liabilities at the 2016 year-end were \$41.7 million, \$19.4 million (87.1%) more than in 2015. Current liabilities increased by \$2.4 million (104.4%) from fiscal 2015. This increase is due to year-end accounts payable invoices totaling \$2.3 million that are related to the Lake Ogletree Dam and Spillway project. In addition, long-term liabilities increased by \$17.1 million (87.9%). Long-term bonds payable, including the current portion, increased by \$17.3 million (90.1%). The major reason was the issuance of \$16.7 million of revenue bonds in November 2015.

At 2016 fiscal year-end, the Board had \$36.4 million in bond debt outstanding, of which \$830,000 will mature during fiscal year 2017. The Board's long-term debt at fiscal year-end 2016 consists of two revenue bond issues. The Board issued bonds for \$16.7 million on November 24, 2015, to fund the construction of the Lake Ogletree Dam Outlet Structure and Spillway and other capital projects. The outstanding principal balance of bonds issued in 2010 was \$17.5 million at September 30, 2016. 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**

	<u>2016</u> \$	<u>2015</u> \$
<b>Liabilities</b>		
Current liabilities payable from current assets	3,367,803	1,461,180
Current liabilities payable from restricted assets	1,259,813	803,253
Long-term liabilities	36,477,692	19,411,679
Customer deposits	<u>636,812</u>	<u>638,659</u>
Total liabilities	41,742,120	22,314,771
Deferred inflows of resources	<u>254,406</u>	<u>77,950</u>
Total liabilities and deferred inflows of resources	<u><u>41,996,526</u></u>	<u><u>22,392,721</u></u>
<b>Net position</b>		
Net investment in capital assets	31,082,599	41,573,449
Restricted for		
Debt service (expendable)	2,586,439	1,691,191
Capital projects (expendable)	11,516,282	1,920,700
Unrestricted	<u>3,804,675</u>	<u>2,533,827</u>
Total net position	<u><u>48,989,995</u></u>	<u><u>47,719,167</u></u>

### **Net Position**

The Board's net position at September 30, 2016 totaled \$49.0 million, an increase of \$1.3 million (2.7%). The components of net position changed as follows:

- Net investment in capital assets decreased by \$10.5 million (25.2%) due to the increase in the outstanding balance of bonds issued for the acquisition and construction of capital assets.
- Restricted net position for debt service increased by \$895,248 (52.9%), primarily the result of an increase in access fee account of \$691,647 (36.0%), because of the Board's decision to deplete bond funds before using access fees to pay for expansion projects.
- Restricted net position for capital projects increased by \$9.6 million (499.6%), as the result of bond proceeds of \$18.1 million.
- Unrestricted net position increased by \$1.3 million (50.2%) due to operating income of \$1.6 million.

## Results of Operations

The Board experienced an operating profit of \$1.6 million in fiscal 2016, an increase of \$377,484 (30.7%) from the prior year's income. This increase in operating income was primarily the result of an increase in water sales of \$872,400 (9.6%) compared to fiscal year 2015. 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.

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Operating revenues</b>		
Water sales to consumers	8,705,370	7,901,866
Water sales to Auburn University	1,272,029	1,203,133
Other operating revenues	<u>773,471</u>	<u>800,372</u>
Total operating revenues	<u>10,750,870</u>	<u>9,905,371</u>
<b>Operating expenses</b>		
Depreciation and amortization	2,217,664	2,079,211
Other operating expenses	<u>6,926,084</u>	<u>6,596,522</u>
Total operating expenses	<u>9,143,748</u>	<u>8,675,733</u>
Operating income	1,607,122	1,229,638
<b>Nonoperating revenues (expenses)</b>	(1,417,869)	(800,054)
<b>Capital contributions</b>	<u>1,081,575</u>	<u>1,234,463</u>
<b>Increase in net position</b>	<u><u>1,270,828</u></u>	<u><u>1,664,047</u></u>

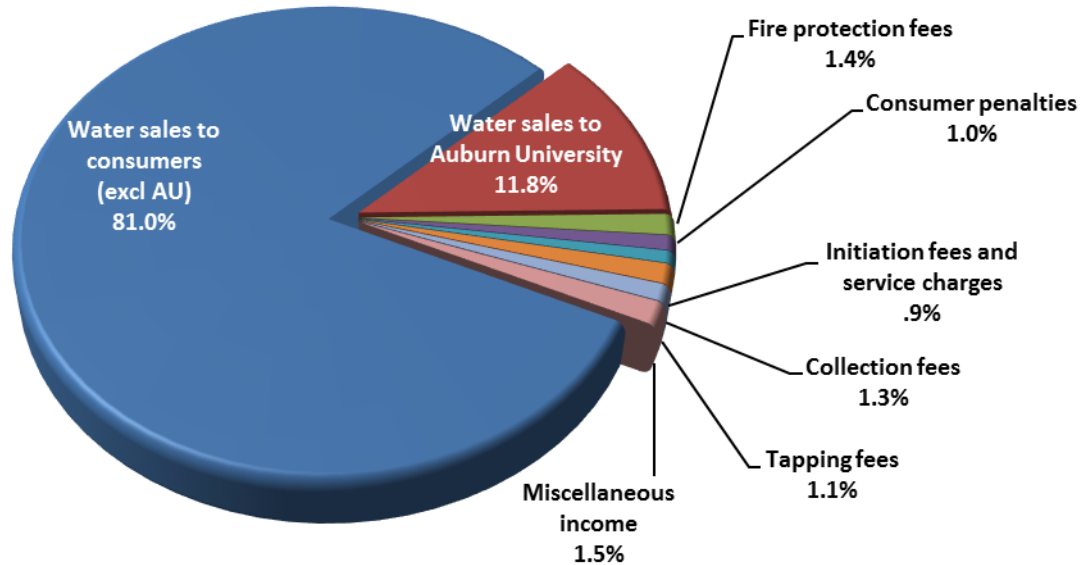
### Operating Revenues

Total operating revenues for fiscal 2016, which include water sales, tap and meter set fees, and collection fees, increased \$845,499 (8.5%). This change is mainly attributable to an increase in water sales and fire protection fees offset by a decrease in collection fees. The largest component of operating revenue is water sales, representing 92.8% of the Board's total revenue. In fiscal 2016, water revenue from consumers, other than Auburn University, increased 10.2%; water revenue from Auburn University increased 5.7%. There were two major components of this increase in water sales revenue. First, the Board implemented a 5.0% rate increase effective January 1, 2016, based on staff analysis and projections to determine revenue requirements needed for the Board to fund additional debt and meet coverage requirements related to the Lake Ogletree Dam Outlet Structure and Spillway improvements project. Second, the Board sold 2.4 billion gallons of water in 2016, an increase of 166 million gallons (7.3%) from 2015. Water usage in fiscal 2015 was lower because the City experienced wetter than average conditions. In contrast, weather conditions in fiscal 2016 were much drier. 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** **2016 Operating Revenues**



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

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Water sales to consumers, excluding AU	8,705,370	7,901,866
Water sales to Auburn University	1,272,029	1,203,133
Fire protection fees	151,437	138,713
Consumer penalties	106,934	108,097
Initiation fees and service charges	88,199	88,335
Collection fees	142,250	172,850
Tapping fees	119,994	121,630
Miscellaneous income	164,657	170,747
<b>Total operating revenues</b>	<b><u>10,750,870</u></b>	<b><u>9,905,371</u></b>

- Rainfall statistics at Lake Ogletree indicated that rainfall decreased by .7% from 2015 to 2016. Normal annual rainfall at the lake is approximately 51 inches. Measured rainfall for

fiscal 2016 at the lake was 52.2 inches; whereas, measured rainfall for fiscal 2015 was 52.6 inches. While the total rainfall for both years was essentially the same, it is important to note the timing. Rainfall in fiscal 2015 was received evenly throughout the year; in fiscal 2016, 44.7 inches (85.7%) of total rainfall measured came in the first seven months. For the remainder of fiscal 2016, measured rainfall declined drastically, ending the year with no rainfall in the month of September. As discussed above, Auburn officially entered drought status in September 2016.

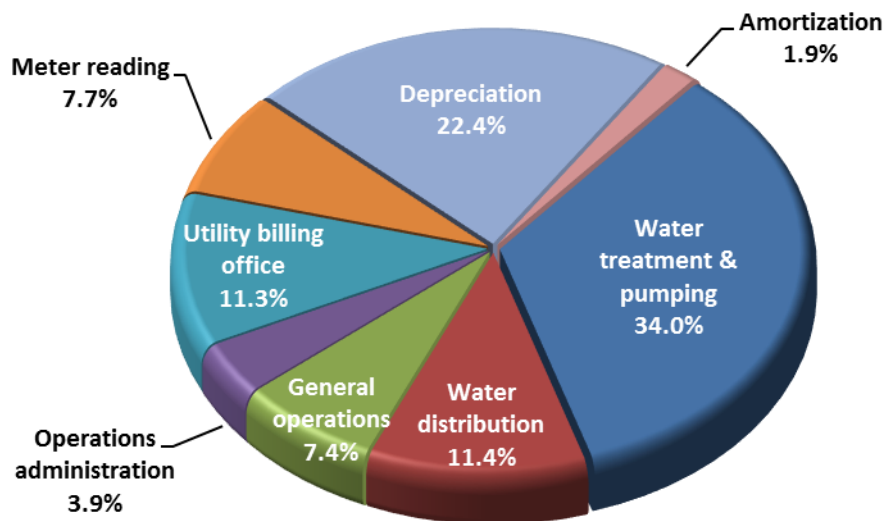
- The minimum monthly bill of 3,000 gallons for residential water customers increased from \$12.60 to \$13.23 (5%), effective January 1, 2016.
- Revenues from regular meters increased by 8.8% while revenues from irrigation meters increased by 18.4%.
- Fire protection fees increased by \$12,724 (9.2%).

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 2016, collection fees decreased by \$30,600 (17.7%). Collection fees are charged to cover the cost of returned checks and automated clearinghouse items.

### Operating Expenses

During fiscal 2016, the Board’s operating expenses increased \$468,015 (5.4%) 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**                      **2016 Operating Expenses by Function**



**Table 6** **Operating Expenses by Function**  
**Fiscal Year Ended September 30**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Water treatment & pumping	3,111,907	2,751,115
Water distribution	1,043,283	1,004,424
General operations	672,477	918,754
Operations administration	359,586	382,720
Utility billing office	1,032,727	984,109
Meter reading	706,104	555,400
Depreciation	2,051,396	1,912,943
Amortization	<u>166,268</u>	<u>166,268</u>
Total operating expenses	<u>9,143,748</u>	<u>8,675,733</u>

- In the water treatment and pumping division, total expenses increased \$360,792 (13.1%). The increase was predominantly due to additional wholesale water purchases from Opelika Utilities (OU). Water purchases from OU were \$1.3 million in fiscal 2016, an increase of \$202,589 (19%), due to the necessity to drop the lake level for the construction of the dam and spillway and to satisfy customer water needs as weather conditions became drier.
- In the general operations division, total expenses decreased \$246,277 (26.8%). The savings was realized through decreases in fiscal professional services of \$12,100 (36.6%), material supplies of \$16,265 (41.1%), and pension expense of \$244,523 (100.6%). Pension expense decreased partially due to an increase in projected earnings on plan investments and an increase in deferred outflows for contributions subsequent to the measurement date.
- In the meter reading division, total expenses increased \$150,704 (27.1%). The increase was mainly due to an increase of \$53,411 (32.2%) in regular full time salaries. Another factor was the increase of \$51,388 (15.4%) in meter parts attributable to the replacement of meters in the system. In addition, Board operating procedures require all large meters be tested and repaired every three years; the cost was \$10,080 for fiscal year 2016.
- Depreciation expense increased by \$138,453 (7.2%) over fiscal 2015. This increase resulted from a rise in depreciable capital assets listed in the 'Assets' section above.

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 2016 and 2015.



**Table 7 Non-operating Revenues and Expenses**  
**Fiscal Year Ended September 30**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Interest income	58,064	55,873
Gain (loss) on disposal of assets	24,599	(319,332)
Net increase in fair value of investments	-	1,796
Bond trustee fees	(231,148)	(2,332)
Interest expense	<u>(1,269,384)</u>	<u>(536,059)</u>
<b>Non-operating revenues (expenses)</b>	<b><u>(1,417,869)</u></b>	<b><u>(800,054)</u></b>
City of Auburn	-	2,943
Capital contributions from developers	359,775	468,320
Access fees	<u>721,800</u>	<u>763,200</u>
<b>Capital contributions</b>	<b><u>1,081,575</u></b>	<b><u>1,234,463</u></b>
<b>Total non-operating revenues (expenses) and capital contributions</b>	<b><u>(336,294)</u></b>	<b><u>434,409</u></b>

In fiscal 2016, interest income increased by \$2,191 (3.9%) from the prior year.

The Board recorded a gain on disposal of assets in fiscal 2016, a change of \$343,931 (107.7%) from the loss recorded in the prior year. This change was primarily due to expenses incurred in fiscal 2015 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 in the same year.

Interest expense on borrowed funds increased by \$733,325 (136.8%) in fiscal 2016, due to bonds issued in fiscal 2016. The Board issued revenue bonds of \$16.7 million to fund the construction of dam and spillway improvements. The bonds were sold at a premium with net proceeds of \$18.1 million.

### **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 \$721,800 and \$763,200 in fiscal 2016 and 2015, 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 \$359,775 in fiscal 2016, a decrease of \$108,545 (23.2%) 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, 2016, presented in Table 8.

**Table 8**                      **Lines Contributed by Developers**

<i>Residential Subdivision</i>	<u>\$</u>
Asheton Lakes Phase 3B	88,200
Camellia Place	33,030
Cotswolds 2B	83,250
Donahue Ridge Phase 2C	14,850
Grace Point	4,365
Parkside Development	21,825
Yarbrough Farms, Club Creek	96,750
 <i>Commercial Development</i>	
Wal Mart	<u>17,505</u>
	<u>359,775</u>

## 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, 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. Therefore, in November 2015, the Board issued \$16.7 million in revenue bonds to cover the cost of replacing the Lake Ogletree spillway.

The minimum monthly bill of 3,000 gallons for residential water customers increased from \$12.60 to \$13.23 (5%), effective January 1, 2016, and from \$13.23 to \$13.89 (5%), effective October 1, 2016. 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 effective October 1, 2017.

### Drought

In early calendar year 2016, Auburn was experiencing normal rainfall and had not been in a drought status for several months. In May 2016, weather conditions began to shift and drier conditions developed. By September 2016, Auburn was officially experiencing drought conditions. Conditions continued to deteriorate through October and November. In 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 in a single weekend, raising Lake Ogletree by eight feet to full pool.

### ***Projects in Progress***

Projects that were underway in fiscal 2016 and scheduled for completion in fiscal 2017 include:

- Dam outlet structure and spillway improvements at Lake Ogletree, (details below)
- Pole barn addition at Bailey Alexander complex,
- City Works implementation at Estes Water Treatment Plant (WTP),
- Water facilities master plan.

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,
- Modification of carbon contact basin piping at the WTP, and
- Backwash variable frequency improvements at WTP.

### ***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 cost of the project currently is \$15.8 million, an increase of \$2.3 million (17.4%) 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. Through February 2017, the project is approximately 67% complete with completion expected in late fall 2017.

### **Water Source**

The Board utilizes three sources to provide safe drinking water to the citizens of Auburn: Lake Ogletree (see details on page 13), 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 2016, approximately 55% 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 2016, approximately 16% of Auburn's water supply came from the well.

In 2012, the Board renewed its water supply agreement with Opelika Utilities. The agreement gives the Board the right to purchase up to 3.6 million gallons of water per day at a contract rate. Additionally, under this 'take or pay' agreement, the Board has an obligation to purchase not less than 138 million gallons of water per year. Water purchases from Opelika Utilities provided approximately 29% 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 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 allow at least 3.5 million gallons of water per day to be pumped directly from the quarry basin to Lake Ogletree.

### **Utility Billing**

In fiscal year 2016, 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 2016, the average number of payments accepted via the IVR system decreased by 3.1%; however, payments made through online web extensions increased 10.7%, over fiscal 2015. For fiscal year 2016, credit card payments comprise 52.2% of the average total payments; the average number of customers who paid with a credit card was about 9,000 per month out of approximately 17,200, a 3.4% increase from 2015. Phone and walk in credit card payments decreased by 4.0% from fiscal 2015. These statistics support the customers' desire for new technology and convenience.

In fiscal 2016, 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 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 2016, Auburn's unemployment rate was 4.9%. The State's unemployment rate in September 2016 was 5.7%; the national rate was 4.8% (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](http://www.auburnalabama.org).



# **Basic Financial Statements**

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

ASSETS	
Current assets	
Cash	\$ 6,789,408
Accounts receivable, net	1,672,010
Accounts receivable, City of Auburn	202,105
Inventory	380,238
Other current assets	52,272
Total current assets	<u>9,096,033</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	2,612,348
Investments	11,490,374
Interest receivable	1,803
Total restricted assets	<u>14,104,525</u>
Advance to primary government	<u>105,417</u>
Capital assets, nondepreciable	
Land and land clearing	1,382,108
Construction in progress	9,035,046
Total capital assets, nondepreciable	<u>10,417,154</u>
Capital assets, depreciable	
Utility system and plant	75,800,224
Buildings and improvements	6,525,111
Office equipment	595,036
Mobile equipment	1,238,323
Tools	398,109
	<u>84,556,803</u>
Less accumulated depreciation	<u>(28,432,198)</u>
Capital assets, depreciable, net	<u>56,124,605</u>
Total noncurrent assets	<u>80,751,701</u>
Total assets	<u>89,847,734</u>
Deferred outflows of resources	
Deferred amounts on refunding	969,898
Employer pension contributions subsequent to the measurement date	168,889
Total deferred outflows of resources	<u>1,138,787</u>
Total assets and deferred outflows of resources	<u>\$ 90,986,521</u>



THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF NET POSITION (CONTINUED)

SEPTEMBER 30, 2016

LIABILITIES

Current liabilities payable from current assets	
Accounts payable	\$ 2,937,300
Accounts payable, City of Auburn	417,977
Accrued expenses	10,726
Payroll taxes payable	<u>1,800</u>
Total current liabilities payable from current assets	<u>3,367,803</u>
Current liabilities payable from restricted assets	
Current portion of bonds payable	830,000
Accounts payable, including retainages	300,135
Interest payable	<u>129,678</u>
Total current liabilities payable from restricted assets	<u>1,259,813</u>
Long-term liabilities	
Bonds payable, net of current portion	35,599,059
Accumulated annual leave	52,627
Postemployment benefits payable	44,537
Net pension liability	<u>781,469</u>
Total long-term liabilities	<u>36,477,692</u>
Other liabilities	
Customer water deposits	<u>636,812</u>
Total other liabilities	<u>636,812</u>
Total liabilities	<u>41,742,120</u>
Deferred inflows of resources	
Net difference between projected and actual earnings on pension plan investments	<u>254,406</u>
Total liabilities and deferred inflows of resources	<u>41,996,526</u>
NET POSITION	
Net investment in capital assets	31,082,599
Restricted for:	
Debt service	2,586,439
Capital projects	11,516,282
Unrestricted	<u>3,804,675</u>
Total net position	<u>\$ 48,989,995</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, 2016

Operating revenues	
Metered sales to consumers	\$ 9,977,399
Fire protection fees	151,437
Consumer penalties	106,934
Initiation fees and service charges	88,199
Collection fees	142,250
Tapping fees	119,994
Miscellaneous income	164,657
Total operating revenues	<u>10,750,870</u>
Operating expenses	
Depreciation expense	2,051,396
Amortization expense - deferred amount on refunding	166,268
Other operating expenses	6,926,084
Total operating expenses	<u>9,143,748</u>
Operating income	<u>1,607,122</u>
Nonoperating revenues (expenses)	
Interest income	58,064
Gain on disposal of assets	24,599
Bond trustee fees and issue expenses	(231,148)
Interest expense	(1,269,384)
Total nonoperating revenues (expenses)	<u>(1,417,869)</u>
Income before contributions	<u>189,253</u>
Capital contributions	
From developers	359,775
From access fees	721,800
Total capital contributions	<u>1,081,575</u>
Increase in net position	1,270,828
Net position, beginning of year	<u>47,719,167</u>
Net position, end of year	<u>\$ 48,989,995</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, 2016

Operating activities	
Cash received from customers	\$10,070,429
Other cash received	164,657
Cash paid to City of Auburn for payments in lieu of tax	(273,964)
Customer deposits collected (paid)	(1,848)
Cash paid to suppliers for goods and services	(1,899,652)
Cash paid to employees for services	<u>(2,571,231)</u>
Net cash provided by operating activities (A)	<u>5,488,391</u>
Capital and related financing activities	
Cash received for access fees	721,800
Cash received from sale of capital assets	24,599
Cash received from issuance of bonds	18,107,113
Cash received on advance to primary government	9,583
Cash paid for acquisition and construction of capital assets	(8,532,638)
Cash paid for principal repayment on debt maturities	(735,000)
Cash paid for interest and fiscal fees on debt maturities	<u>(1,645,620)</u>
Net cash used by capital and related financing activities	<u>7,949,837</u>
Investing activities	
Interest received on investments	58,064
Cash paid for purchase of investments	(16,581,574)
Cash received on sale of investments	<u>6,782,390</u>
Net cash provided by investing activities	<u>(9,741,120)</u>
Net increase in cash and cash equivalents	3,697,108
Cash and cash equivalents, beginning of year	<u>5,704,648</u>
Cash and cash equivalents, end of year	<u>\$ 9,401,756</u>
Composition of cash and cash equivalents at September 30, 2016:	
Cash - unrestricted	\$ 6,789,408
Cash and cash equivalents - restricted	<u>2,612,348</u>
Total cash and cash equivalents	<u>\$ 9,401,756</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2016

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

Operating income (loss)	\$ 1,607,122
Add:	
Depreciation expense	2,051,396
Amortization expense - deferred amount on refunding	166,268
Decrease in inventory	3,727
Increase in accounts payable	2,131,723
Increase in accrued expenses	4,312
Increase in payroll taxes payable	1,693
Increase in retainage payable	300,135
Increase in postemployment benefits payable	9,241
Increase in pension related deferred inflows/liabilities	176,456
Deduct:	
Increase in accounts receivable, net	(435,152)
Increase in accounts receivable, City of Auburn	(72,514)
Increase in interest receivable	(1,803)
Increase in other current assets	(6,045)
Increase in pension related deferred outflows/assets	(96,139)
Decrease in accounts payable, City of Auburn	(231,103)
Decrease in accumulated annual leave	(37,403)
Decrease in net pension liability	(81,675)
Decrease in customer water deposits	<u>(1,848)</u>
Net cash provided by operations	<u>\$ 5,488,391</u>
Noncash transactions:	
Estimated cost of water lines installed by and contributed to the Water Works Board by developers	<u>\$ 359,775</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, 2016

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues for the Water Board are charges to customers for water service. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**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, 2016

### **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, 2016

**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. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, was implemented during the fiscal year ended September 30, 2016. GASB 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was implemented during the fiscal year ended September 30, 2016. GASB 76 identifies—in the context of the current governmental financial reporting environment -the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.



THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Prior to the issuance of the Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure.

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, 2016, 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, 2016, was \$2,612,348.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 4. RESTRICTED CASH AND INVESTMENTS**

At September 30, 2016, the Water Board's restricted cash, cash equivalents and investments were comprised of the following:

Cash (access fee account)	\$ 2,612,348
Bank of New York Mellon U.S. Treasury Securities Money Market Fund	<u>11,490,374</u>
Total restricted cash and cash equivalents	\$ <u>14,102,722</u>

The Bank of New York Mellon U.S. Treasury Securities Money Market Fund listed above is an open-end mutual fund comprised of U.S. Treasury securities totaling \$11,474,083 and cash of \$16,291. 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.

The fair value measurements listed in the table above are based upon Level 1 inputs per GASB Statement No. 72, which are defined as quoted prices in active markets for identical assets or liabilities that a government can access at the measurement date.

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	\$ 1,750,940
Miscellaneous trade	<u>14,429</u>
Total accounts receivable	1,765,369
Less allowance for doubtful accounts	<u>(93,359)</u>
Accounts receivable (net)	\$ <u>1,672,010</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**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](http://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. Under the formula method, members

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

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

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

The ERS serves approximately 876 local participating employers. These participating employers include 294 cities, 65 counties, and 517 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2015, membership consisted of:

Retired participants and beneficiaries	
currently receiving benefits	22,211
Terminated participants and beneficiaries entitled	
to benefits but not yet receiving benefits	1,353
Terminated participants entitled to a	
refund of contributions	5,541
Active participants	55,164
Post-DROP participants still in active service	214
Total	<u>84,483</u>

*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%.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED**

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 administrative expenses of the Plan. For the year ended September 30, 2016, the Board's active employee contribution rate was 3.07% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 4.22% of covered employee payroll.

The Board's contractually required contribution rate for the year ended September 30, 2016 was 7.66% of pensionable pay for Tier 1 employees, and 5.16% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, 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 Board were \$89,550 for the year ended September 30, 2016.

Total Pension Liability - The Board's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED**

	<u>Expected</u>	<u>Actual</u>
(a) Total Pension Liability as of September 30, 2014	\$ 3,481,754	\$ 3,212,053
(b) Entry Age Normal Cost for October 1, 2014 - September 30, 2015	\$ 96,462	\$ 96,462
(c) Actual Benefit Payments and Refunds for October 1, 2014 - September 30, 2015	\$ (145,480)	\$ (145,480)
(d) Total Pension Liability as of September 30, 2015 [(a) x (1.08)] + (b) – [(c) x (1.04)]	\$ 3,705,457	\$ 3,414,180
(e) Difference between Expected and Actual Experience (Gain)/Loss		\$ (291,277)

*Actuarial assumptions.* The total pension liability in the September 30, 2014 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,  
including inflation

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, 2014 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 WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 6. DEFINED BENEFIT PENSION PLAN – CONTINUED**

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

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

	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	25.00%	5.00%
Domestic Large Cap Equity	34.00%	9.00%
Domestic Mid Cap Equity	8.00%	12.00%
Domestic Small Cap Equity	3.00%	15.00%
International Developed Equity	15.00%	11.00%
Emerging Market Equity	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash Equivalents	2.00%	1.50%
	<u>100.00%</u>	

*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, 2016

**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 9/30/2014	\$ 3,481,754	\$ 2,618,610	\$ 863,144
Changes for the year:			
Service cost	96,462	-	96,462
Interest	272,721	-	272,721
Differences between expected and actual experience	(291,277)	-	(291,277)
Contributions, employer	-	72,750	(72,750)
Contributions, employee	-	55,865	(55,865)
Net investment income	-	30,966	(30,966)
Benefit payments, including refunds of employee contributions	(145,480)	(145,480)	-
Net changes	(67,574)	14,101	(81,675)
Balances at 9/30/2015	\$ 3,414,180	\$ 2,632,711	\$ 781,469

*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	\$ 1,207,134	\$ 781,469	\$ 423,093



THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**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, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016 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](http://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, 2016, the Board recognized pension income of \$1,358. At September 30, 2016, 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
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ -	\$ 254,406
Net difference between projected and actual earnings on pension plan investments	83,816	-
Employer contributions subsequent to the measurement date	85,073	-
Total	<u>\$ 168,889</u>	<u>\$ 254,406</u>

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:

2017	\$ (20,789)
2018	(20,789)
2019	(20,787)
2020	(1,303)
2021	(36,871)
Thereafter	<u>(70,051)</u>
	<u>\$ (170,590)</u>

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 7. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2016, was as follows:

	Balance 10/01/15	Transfers/ Additions	Transfers/ Deductions	Balance 09/30/16
Capital assets, nondepreciable:				
Land and land clearing	\$ 1,382,108	\$ -	\$ -	\$ 1,382,108
Construction in progress	<u>906,043</u>	<u>8,449,016</u>	<u>(320,013)</u>	<u>9,035,046</u>
Total capital assets, nondepreciable	<u>2,288,151</u>	<u>8,449,016</u>	<u>(320,013)</u>	<u>10,417,154</u>
Capital assets, depreciable:				
Utility system and plant	75,433,378	507,659	(140,813)	75,800,224
Buildings and improvements	6,428,959	96,152	-	6,525,111
Office equipment	574,472	20,564	-	595,036
Mobile equipment	1,090,496	226,021	(78,194)	1,238,323
Tools	<u>385,387</u>	<u>18,265</u>	<u>(5,543)</u>	<u>398,109</u>
Total capital assets, depreciable	<u>83,912,692</u>	<u>868,661</u>	<u>(224,550)</u>	<u>84,556,803</u>
Less accumulated depreciation for:				
Utility system and plant	(22,941,343)	(1,616,505)	140,813	(24,417,035)
Buildings and improvements	(2,240,699)	(258,456)	-	(2,499,155)
Office equipment	(475,644)	(33,658)	-	(509,302)
Mobile equipment	(653,041)	(118,864)	78,194	(693,711)
Tools	<u>(294,625)</u>	<u>(23,913)</u>	<u>5,543</u>	<u>(312,995)</u>
Total accumulated depreciation	<u>(26,605,352)</u>	<u>(2,051,396)</u>	<u>224,550</u>	<u>(28,432,198)</u>
Total capital assets, depreciable	<u>57,307,340</u>	<u>(1,182,735)</u>	<u>-</u>	<u>56,124,605</u>
Capital assets, net	<u>\$ 59,595,491</u>	<u>\$ 7,266,281</u>	<u>\$ (320,013)</u>	<u>\$ 66,541,759</u>

# THE WATER WORKS BOARD OF THE CITY OF AUBURN

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

### **NOTE 8. COMMITMENTS**

The Water Board has commitments for construction projects in connection with system improvements. During 2015 and 2016, the Board approved construction contracts totaling approximately \$17,600,000 for the Lake Ogletree Spillway project. The majority of these contracts were unfulfilled at year-end. These amounts along with commitments to complete other construction projects as of September 30, 2016, totaled \$13,217,259.

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 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, 2016. The term of the agreement is twenty years, with six five-year extension options. Total water pumped in the 2016 fiscal year was 427,206 thousand gallons with a total annual payment of \$234,963.

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, 2016

**NOTE 9. LONG-TERM DEBT**

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	<u>Balance</u> <u>09/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/16</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
Bonds payable:					
Bonds payable-2010 issue	\$ 18,255,000	\$ -	\$ (735,000)	\$ 17,520,000	\$ 770,000
Bonds payable-2015 issue	-	16,695,000	-	16,695,000	60,000
Premium on bonds	903,209	1,412,113	(101,263)	2,214,059	-
	<u>19,158,209</u>	<u>18,107,113</u>	<u>(836,263)</u>	<u>36,429,059</u>	<u>830,000</u>
Accumulated leave	90,030	5,809	(43,212)	52,627	-
Other postemployment					
benefits liability	35,296	9,241	-	44,537	-
Net pension liability	863,144	-	(81,675)	781,469	-
	<u>988,470</u>	<u>15,050</u>	<u>(124,887)</u>	<u>878,633</u>	<u>-</u>
Business-type					
activity long-term					
liabilities	<u>\$ 20,146,679</u>	<u>\$ 18,122,163</u>	<u>\$ (961,150)</u>	<u>\$ 37,307,692</u>	<u>\$ 830,000</u>

Bonds payable at September 30, 2016, 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 9. LONG-TERM DEBT – CONTINUED**

Bonds payable of the Water Board of the City of Auburn at September 30, 2016, are comprised of the following individual issues:

	Interest Rate	Interest Dates	Source of Payment	Principal Issued	Principal Outstanding September 30, 2016	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	\$ 17,520,000	2032
Capital improvement bonds, Dated 11/24/15	1.5% to 5.0%	3/1-9/1	Revenues	\$ 16,695,000	\$ 16,695,000	2040

The following schedule shows debt service to maturity for bonds payable of the Water Board of the City of Auburn at September 30, 2016:

Year Ending September 30	Principal	Interest	Total
2017	\$ 830,000	\$ 1,556,137	\$ 2,386,137
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
2022-2026	5,540,000	6,377,788	11,917,788
2027-2031	6,955,000	4,964,250	11,919,250
2032-2036	8,635,000	3,276,325	11,911,325
2037-2040	8,535,000	1,003,050	9,538,050
Total	<u>\$ 34,215,000</u>	<u>\$ 22,988,325</u>	<u>\$ 57,203,325</u>

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 9. LONG-TERM DEBT – CONTINUED**

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, 2016.

**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	\$ 1,374,634
Less capitalized interest	<u>(105,250)</u>
Interest expense	<u>\$ 1,269,384</u>

**NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED**

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. 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:

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED**

	2016	2015	2014
Normal cost as of beginning of year	\$ 100,932	\$ 112,575	\$ 97,465
Amortization of the unfunded AAL (UAAL) for 30 years	<u>121,563</u>	<u>134,309</u>	<u>120,449</u>
Total normal cost and amortization payment	222,495	246,884	217,914
Interest to end of year	<u>8,900</u>	<u>9,875</u>	<u>8,717</u>
Annual required contribution (ARC)	<u>\$ 231,395</u>	<u>\$ 256,759</u>	<u>\$ 226,631</u>
Percent of annual covered payroll	0.92%	1.05%	0.98%

**Net postemployment benefit obligation**

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

	2016	2015	2014
Annual required contribution (ARC)	\$ 231,395	\$ 256,759	\$ 226,631
Interest on net OPEB obligation (NOO) to end of year	28,973	22,216	16,668
NOO amortization adjustment to the ARC	<u>(41,888)</u>	<u>(32,118)</u>	<u>(24,097)</u>
Annual OPEB cost	218,480	246,857	219,202
Actual annual employer contribution - pay-go cost	<u>(84,151)</u>	<u>(77,918)</u>	<u>(80,494)</u>
Change in net OPEB obligation	134,329	168,939	138,708
Beginning net OPEB obligation	<u>724,335</u>	<u>555,396</u>	<u>416,688</u>
Ending net OPEB obligation	<u>\$ 858,664</u>	<u>\$ 724,335</u>	<u>\$ 555,396</u>
Percentage of annual OPEB cost contributed	38.5%	31.6%	36.7%
Ending net OPEB obligation by employer			
City of Auburn	\$ 814,127	\$ 689,039	\$ 526,165
Water Works Board of City of Auburn	<u>44,537</u>	<u>35,296</u>	<u>29,231</u>
Total	<u>\$ 858,664</u>	<u>\$ 724,335</u>	<u>\$ 555,396</u>

**Funded status and funding progress**

In the fiscal year ended September 30, 2016, the City contributed \$84,151 to its postemployment benefits plan. This represents 38.5% of the annual OPEB cost. The plan has no assets and therefore has a funded ratio of zero. As of September 30, 2015, the most recent actuarial valuation, the actuarial accrued liability was \$2,186,158, which is



THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED**

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.

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)
9/30/2013	\$ -	\$ 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%
9/30/2015	\$ -	\$ 2,186,158	\$ 2,186,158	0%	\$ 25,132,276	8.7%

**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, 2016, 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

THE WATER WORKS BOARD OF THE CITY OF AUBURN

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

**NOTE 11. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED**

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 7.5% healthcare cost trend increase for fiscal year 2017, graded down to an ultimate annual rate of 5% for 2022 and later.

**NOTE 12. SUBSEQUENT EVENTS**

Subsequent to September 30, 2016, the Board approved contract amendments, one engineering and one construction, totaling \$286,009. Both contracts were associated with the construction of the Lake Ogletree Dam Outlet Structure and Spillway project.

Subsequent to September 30, 2016, the Board approved the purchase of equipment totaling \$137,780. The equipment included a 5,300-gallon chemical tank and a 50 horsepower pump and assembly for the James E. Estes Water Treatment Facility and two replacement vehicles.

Management has evaluated subsequent events through March 8, 2017, the date these financial statements were available to be issued.

**Required  
Supplementary  
Information**

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

FISCAL YEAR ENDING SEPTEMBER 30

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 96,462	\$ 120,498
Interest	272,721	254,155
Differences between expected and actual experience	(291,277)	-
Benefit payments, including refunds of employee contributions	<u>(145,480)</u>	<u>(139,669)</u>
Net change in total pension liability	(67,574)	234,984
Total pension liability - beginning	<u>3,481,754</u>	<u>3,246,770</u>
Total pension liability - ending (a)	<u><u>\$ 3,414,180</u></u>	<u><u>\$ 3,481,754</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 72,750	\$ 74,121
Contributions - member	55,865	55,397
Net investment income	30,966	292,386
Benefit payments, including refunds of employee contributions	(145,480)	(139,669)
Transfers among employers	<u>-</u>	<u>(211,095)</u>
Net change in plan fiduciary net position	14,101	71,140
Plan net position - beginning	<u>2,618,610</u>	<u>2,547,470</u>
Plan net position - ending (b)	<u><u>\$ 2,632,711</u></u>	<u><u>\$ 2,618,610</u></u>
Net pension liability - ending (a) - (b)	\$ 781,469	\$ 863,144
Plan fiduciary net position as a percentage of the total pension liability	77.11%	75.21%
Covered payroll*	\$ 1,833,893	\$ 1,825,037
Net pension liability as a percentage of covered payroll	42.61%	47.29%

\*Employer's covered payroll during the measurement period is the total covered payroll. For FY2016, the measurement period is October 1, 2014 to September 30, 2015. GASB issued a statement "Pension Issues" in March 2016 to redefine covered payroll for FY2016.

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>2016</u>	<u>2015</u>
Actuarially determined contribution *	<u>\$ 89,550</u>	<u>\$ 76,623</u>
Contributions in relation to the actuarially determined contribution *	<u>89,550</u>	<u>76,623</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll **	\$ 2,014,524	\$ 1,833,893
Contributions as a percentage of covered payroll	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

\*\*Employer's covered payroll for FY2016 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.

THE WATER WORKS BOARD OF THE CITY OF AUBURN  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2016

**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 2016 were based on the September 30, 2013, 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:	19 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, 2016

**Water treatment and pumping expense**

Personal services	
Salaries and wages	\$ 447,542
Employee benefits	93,448
Total personal services	<u>540,990</u>
Contractual services	
Utilities	494,255
Pumping and purification	48,796
Buildings and grounds	5,002
Sewer services	71,250
Travel and training	6,396
Uniform maintenance	1,910
Dams, lakes and spillways	2,000
Source supply DL&S	20,418
Miscellaneous contractual services	82,869
Total contractual services	<u>732,896</u>
Commodities	
Water purchased	1,490,560
Chemical supplies	257,665
Minor tools and equipment	82,214
Fuel	2,376
Safety clothing	1,475
Miscellaneous commodities	3,731
Total commodities	<u>1,838,021</u>
<b>Total water treatment and pumping expense</b>	<b><u>3,111,907</u></b>

**Distribution expense**

Personal services	
Salaries and wages	668,703
Less capitalized costs	(37,935)
Employee benefits	143,021
Total personal services	<u>773,789</u>

(Continued next page)



THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2016

Contractual services	
Utilities	15,519
Travel and training	1,622
Rental of heavy machinery	4,592
Uniform maintenance	4,632
Miscellaneous contractual services	<u>14,898</u>
Total contractual services	<u>41,263</u>
Commodities	
Mains and services supplies	118,542
Fuel	23,184
Vehicle parts	14,885
Fire hydrants	14,988
Communications equipment	433
Heavy machinery parts	14,666
Minor tools and equipment	23,498
Miscellaneous commodities	<u>18,035</u>
Total commodities	<u>228,231</u>
<b>Total distribution expense</b>	<b><u>1,043,283</u></b>
<b>Meter reading expense</b>	
Personal services	
Salaries and wages	219,379
Employee benefits	<u>50,472</u>
Total personal services	<u>269,851</u>
Contractual services	
Travel and training	30
Uniform maintenance	1,791
Utilities	2,997
Miscellaneous contractual services	<u>10,080</u>
Total contractual services	<u>14,898</u>
Commodities	
Fuel	9,697
Meter parts	385,958
Miscellaneous commodities	<u>25,700</u>
Total commodities	<u>421,355</u>
<b>Total meter reading expense</b>	<b><u>706,104</u></b>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2016

**Utility billing office expense**

Personal services	
Salaries and wages	447,993
Employee benefits	<u>126,825</u>
Total personal services	<u>574,818</u>
Contractual services	
Bank fees	235,668
Data processing professional services	201,210
Office equipment rental	3,553
Travel and training	7,795
Utilities	1,078
Miscellaneous contractual services	<u>444</u>
Total contractual services	<u>449,748</u>
Commodities	
Printed supplies	788
Office and computer supplies	6,924
Miscellaneous commodities	<u>449</u>
Total commodities	<u>8,161</u>
<b>Total utility billing office expense</b>	<b><u>1,032,727</u></b>

**Operations administration expense**

Personal services	
Salaries and wages	278,271
Employee benefits	<u>60,642</u>
Total personal services	<u>338,913</u>
Contractual services	
Memberships and subscriptions	9,223
Travel and training	5,314
Utilities	2,899
Miscellaneous contractual services	<u>326</u>
Total contractual services	<u>17,762</u>
Commodities	
Fuel	826
Office and computer supplies	1,972
Miscellaneous commodities	<u>113</u>
Total commodities	<u>2,911</u>
<b>Total operations administration expense</b>	<b><u>359,586</u></b>

(Continued next page)

THE WATER WORKS BOARD OF THE CITY OF AUBURN

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED SEPTEMBER 30, 2016

<b>General operations expense</b>	
Personal services	
Other payroll expense	3,536
Pension expense	<u>(1,358)</u>
Total personal services	<u>2,178</u>
Contractual services	
Building and ground contracts	41,450
Fiscal professional services	20,950
Legal professional services	10,295
Insurance	104,772
Postemployment benefits	9,241
Unclassified professional services	64,079
Utilities	65,462
Miscellaneous contractual services	<u>24,393</u>
Total contractual services	<u>340,642</u>
Commodities	
Postage	3,223
Printed supplies	826
Miscellaneous commodities	<u>23,338</u>
Total commodities	<u>27,387</u>
Intergovernmental	
Tax equivalent to City	<u>302,270</u>
Total intergovernmental	<u>302,270</u>
<b>Total general operations expense</b>	<b><u>672,477</u></b>
<b>Total other operating expenses</b>	<b><u>\$ 6,926,084</u></b>

THE WATER WORKS BOARD OF THE CITY OF AUBURN  
 FIVE YEAR SCHEDULE OF VARIOUS OPERATING DATA  
 FOR THE YEARS ENDED SEPTEMBER 30, 2016, 2015, 2014, 2013, 2012

(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:					
Water sales	\$ 9,977,399	\$ 9,104,999	\$ 8,777,975	\$ 8,532,700	\$ 8,324,545
Fire protection fees	151,437	138,713	114,177	118,390	116,584
Consumer penalties	106,934	108,097	111,331	82,645	106,135
Initiation fees and service charges	88,199	88,335	88,417	89,014	87,656
Collection fees	142,250	172,850	233,083	180,116	225,757
Other operating revenue	<u>284,651</u>	<u>292,377</u>	<u>248,964</u>	<u>494,021</u>	<u>571,780</u>
Total operating revenues	<u>10,750,870</u>	<u>9,905,371</u>	<u>9,573,947</u>	<u>9,496,886</u>	<u>9,432,457</u>
Operating expenses:					
Water treatment and pumping expense	3,111,907	2,751,115	2,620,346	2,928,236	2,338,808
Distribution expense	1,043,283	1,004,424	1,017,529	973,960	881,899
Meter reading and utility billing office expense	1,738,831	1,539,509	1,418,986	1,146,715	1,207,050
Operations administration and general operations	<u>1,032,063</u>	<u>1,301,474</u>	<u>1,192,686</u>	<u>1,404,904</u>	<u>1,515,663</u>
Total operating expenses	<u>6,926,084</u>	<u>6,596,522</u>	<u>6,249,547</u>	<u>6,453,815</u>	<u>5,943,420</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions	<u>\$ 3,824,786</u>	<u>\$ 3,308,849</u>	<u>\$ 3,324,400</u>	<u>\$ 3,043,071</u>	<u>\$ 3,489,037</u>
Number of services at September 30 <sup>(1)</sup>	<u>22,752</u>	<u>22,356</u>	<u>22,008</u>	<u>21,724</u>	<u>21,421</u>
Operating revenues per service	\$ 473	\$ 443	\$ 435	\$ 437	\$ 440
Operating expenses per service	<u>304</u>	<u>295</u>	<u>284</u>	<u>297</u>	<u>277</u>
Income before depreciation, amortization, nonoperating revenues (expenses) and capital contributions per service	<u>\$ 169</u>	<u>\$ 148</u>	<u>\$ 151</u>	<u>\$ 140</u>	<u>\$ 163</u>
Million gallons water produced and purchased	<u>2,651.62</u>	<u>2,544.99</u>	<u>2,504.80</u>	<u>2,421.74</u>	<u>2,483.35</u>
Million gallons water sold	<u>2,428.28</u>	<u>2,262.04</u>	<u>2,203.68</u>	<u>2,254.98</u>	<u>2,302.28</u>

Notes: (1) The number of services includes active, new and vacant accounts.  
 (2) Schedule excludes amortization and depreciation.