

REGIONAL SEWER UTILITY FUND

An Enterprise Fund
of the City of Eugene, Oregon

Financial Statements



Fiscal Year Ended
June 30, 2012

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Fiscal Year Ended June 30, 2012

(With Independent Auditors' Report Thereon)

Report Prepared by the City of Eugene
Finance Division

INDEPENDENT AUDITORS' REPORT



To the Honorable Mayor and Councilors
of the City of Eugene, and the Commissioners
of the Metropolitan Wastewater Management Commission
Eugene, Oregon

We have audited the accompanying financial statements of the Regional Sewer Utility Fund of the City of Eugene, Oregon as of and for the year ended June 30, 2012. These financial statements are the responsibility of the City of Eugene's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Regional Sewer Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Eugene, Oregon, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Regional Sewer Utility Fund financial statements as a whole. The management's discussion and analysis (page 3 – 4) is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Sewer Utility Fund as of June 30, 2012, and the changes in financial position and, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ISLER CPA

By: Gary Iskra, CPA, a member of the firm

Eugene, Oregon
December 7, 2012

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Management's Discussion and Analysis

The management of the Regional Sewer Utility Fund (Fund), a sub-fund of the City of Eugene's (Eugene) Wastewater Utility Enterprise Fund, presents this narrative overview and analysis to facilitate both a short and a long-term analysis of the financial activities of the fund for the fiscal year ended June 30, 2012. This Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditors' report.

Financial Highlights

The net assets of the Fund (assets less liabilities) at June 30, 2012, increased \$59,235 from \$26,087 to \$85,322.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of two components:

1. Fund financial statements
2. Notes to the basic financial statements

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fund uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Fund is reported as an Enterprise fund.

Enterprise funds. Enterprise funds are used to account for ongoing operations and activities which are similar to those found in the private sector. The measurement focus is upon the determination of net income.

The basic fund financial statements can be found on pages 5 - 7 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. They are an integral part of the financial statements and should be read in conjunction with them.

Fund Financial Analysis

Regional Sewer Utility Fund's Net Assets		
	2012	2011
Current and other assets	\$ 2,081,957	2,419,017
Total assets	2,081,957	2,419,017
Current liabilities	1,922,293	2,344,377
Noncurrent liabilities	74,342	48,553
Total liabilities	1,996,635	2,392,930
Net assets:		
Unrestricted	85,322	26,087
Total net assets	\$ 85,322	26,087

Regional Sewer Utility Fund's Change in Net Assets		
	2012	2011
Operating revenues:		
Fees, fines, and charges for service	\$ 12,369,633	11,298,067
Miscellaneous	62,973	59,598
Total operating revenues	<u>12,432,606</u>	<u>11,357,665</u>
Operating expenses:		
Personnel services	6,963,722	6,819,135
Administration	889,000	898,000
Materials and supplies	2,001,999	1,380,238
Maintenance and utilities	1,633,680	1,444,653
Other expenses	887,798	868,931
Total operating expenses	<u>12,376,199</u>	<u>11,410,957</u>
Operating income (loss)	56,407	(53,292)
Nonoperating revenues:		
Interest revenue	2,828	5,248
Total nonoperating revenues	<u>2,828</u>	<u>5,248</u>
Change in net assets	59,235	(48,044)
Net assets, July 1	26,087	74,131
Net assets, June 30	<u>\$ 85,322</u>	<u>26,087</u>

Next Year's Budgets and Rates

For FY13, the following factors were taken into account when developing the regional sewer budget:

- Interest rates on investments will be 0.50%.
- Salaries for non-represented employees remain unchanged, the other collectively bargained agreements will increase between 2.0 – 3.0%.
- Health benefit rates will increase by 5.5%.
- PERS and OPSRP costs are expected to be 25.5% and 21.7% of payroll, respectively.

Requests for Information

These financial statements are designed to provide a general overview of the Fund's finances for all those with an interest in the Fund. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Fionan Cronin, CPA
Assistant Finance Director
City of Eugene
100 West 10th Avenue, Suite 400
Eugene, Oregon 97401

REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

Statement of Net Assets

June 30, 2012
(amounts in dollars)

Assets

Current assets

Equity in pooled cash and investments	158,184
Accounts receivable	207,897
Due from other governments	1,189,821
Inventories	526,055
Total assets	2,081,957

Liabilities

Current liabilities

Accounts payable	71,084
Wages payable	299,664
Compensated absences payable	475,402
Due to other governments	375,620
Deposits	700,000
Unearned revenue	523
Total current liabilities	1,922,293

Noncurrent liabilities

Compensated absences payable	36,267
Net OPEB obligation	38,075
Total noncurrent liabilities	74,342
Total liabilities	1,996,635

Net assets

Unrestricted	85,322
Total net assets	85,322

The accompanying notes are an integral part of the financial statements.

REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

**Statement of Revenues, Expenses,
and Changes in Fund Net Assets**

For the fiscal year ended June 30, 2012

(amounts in dollars)

Operating revenues

Charges for services	12,364,814
Fines and forfeits	4,819
Miscellaneous	62,973
Total operating revenues	12,432,606

Operating expenses

Personnel services	6,963,722
Contractual services	764,658
Materials and supplies	2,001,999
Maintenance	801,509
Utilities	832,171
Rent	14,302
Insurance	108,838
Administration	889,000
Total operating expenses	12,376,199

Operating income (loss)	56,407
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Nonoperating revenue

Interest revenue	2,828
Total nonoperating revenue	2,828

Change in net assets	59,235
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Total net assets, July 1, 2011	26,087
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Total net assets, June 30, 2012	85,322
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The accompanying notes are an integral part of the financial statements.

REGIONAL SEWER UTILITY FUND
 An Enterprise Fund of the City of Eugene, Oregon
Statement of Cash Flows
 For the fiscal year ended June 30, 2012
 (amounts in dollars)

<u>Cash flows from operating activities</u>	
Cash received from customers	32,183,742
Cash received from MWMC for operating reimbursements	147,350
Cash paid to MWMC for sewer user and septic hauler fees collected	(19,762,961)
Cash paid to suppliers for goods and services	(4,133,487)
Cash paid to employees for services	(6,046,196)
Cash paid for interfund services used	(1,699,482)
Cash paid for central business functions	(889,000)
Net cash provided by (used for) operating activities	(200,034)
<u>Cash flows from investing activities</u>	
Interest revenue	2,828
Net cash provided by (used for) investing activities	2,828
Net increase (decrease) in cash	(197,206)
Cash, July 1, 2011	355,390
Cash, June 30, 2012	158,184

Reconciliation of operating income (loss) to net cash provided by (used for) operating activities

Operating income (loss)	56,407
<u>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities</u>	
(Increase) Decrease in accounts receivable	239,991
(Increase) Decrease in due from other governments	(104,989)
(Increase) Decrease in inventories	4,852
Increase (Decrease) in accounts payable	(29,958)
Increase (Decrease) in wages payable	(177,790)
Increase (Decrease) in compensated absences payable	29,394
Increase (Decrease) in due to other governments	(233,344)
Increase (Decrease) in deferred revenue	523
Increase (Decrease) in net OPEB obligation	14,880
Net cash provided by (used for) operating activities	(200,034)

The accompanying notes are an integral part of the financial statements.

REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The financial statements of the Regional Sewer Utility Fund (Fund), a sub-fund of the City of Eugene's (Eugene) Wastewater Utility Enterprise Fund, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

The Fund has early implemented GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

The more significant of the Fund's accounting policies are described below.

(A) The Financial Reporting Entity

Regional wastewater facilities were constructed through the Metropolitan Wastewater Management Commission (MWMC), established on February 9, 1977 by an intergovernmental agreement between Lane County and the Cities of Eugene and Springfield. On November 10, 1983, MWMC entered into a contract with Eugene for the physical operation of the regional wastewater treatment facilities.

The Fund operates and maintains the regional wastewater treatment facility, sludge disposal system, and the seasonal industrial wastewater disposal site serving the metropolitan area.

(B) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured by the Fund. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

The Fund is accounted for using an economic resources measurement focus, whereby all assets and liabilities are included in the Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Fund Net Assets present increases and decreases in those net assets. The Fund also uses the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Funds' proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements.

Operating revenues and operating expenses are intermediate components within the Fund's Statement of Revenues, Expenses, and Changes in Fund Net Assets that include only those transactions that constitute their principal, ongoing activities exclusive of investing or financing transactions. Significant operating revenues include charges for services. Significant operating expenses include personnel and materials and supplies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(1) Summary of Significant Accounting Policies, continued

(C) Equity in Pooled Cash and Investments

The Fund invests cash through Eugene in various investments.

Policies adopted by the Investment Advisory Board and the Eugene City Council authorize Eugene to invest in obligations of the U.S. Treasury and its agencies, time certificates of deposit, bankers' acceptances, municipal bonds, corporate bonds, commercial paper, repurchase agreements, reverse repurchase agreements, and the Oregon Local Government Investment Pool.

It is Eugene's policy to report at amortized cost all short-term, highly-liquid money market investments (including corporate bonds, commercial paper, bankers' acceptances, municipal bonds, and U.S. Treasury and agency obligations) and participating interest-earning investment contracts with a remaining maturity at time of purchase of one year or less. Such investments are stated at cost, increased by accretion of discounts and reduced by amortization of premiums, both computed by the straight-line method. Callable investments purchased at a discount are amortized to the maturity date, and callable investments purchased at a premium are amortized to the first call date. Investments with a remaining maturity, at time of purchase, of more than one year are valued at fair value.

Eugene maintains a common cash and investments pool for all City funds. Interest earned on the pooled cash and investments is allocated quarterly based on each fund's average cash and investments balance as a proportion of Eugene's total pooled cash and investments. For purposes of the Statement of Cash Flows, Eugene considers "cash" to include the pooled cash and investments, since the pool has the general characteristics of a demand deposit account, in that any participating fund may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

(D) Inventories

Inventories of materials and supplies are valued at cost, which approximates market, on a first-in, first-out basis of accounting.

(E) Compensated Absences

Liabilities for accumulated or vested vacation leave and compensated absences are recorded in the Statement of Net Assets. Sick leave does not vest and is recorded as taken.

(F) Administration Expense

Administration expense represents reimbursement to Eugene's General Fund for general services provided to all City funds including the Fund. The charge for general service costs is based on an approved overhead rate applied to direct costs.

(G) Accounts Receivable

Significant unbilled accounts receivable are accrued as revenue when earned.

REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(2) Detailed Notes on the Fund

(A) Due From Other Governments

Amounts due from other governments at June 30, 2012 consist of \$1,189,821 from MWMC for services provided in the operation and maintenance of the regional sewer facility. Eugene does not require collateral on this receivable.

(B) Due to Other Governments

All amounts due to other governments at June 30, 2012, were due to MWMC. These amounts were for septic hauler and user fees.

(C) Contract with Metropolitan Wastewater Management Commission

The contract between Eugene and MWMC requires Eugene to perform the operational and maintenance functions relating to the regional sewage treatment facilities. Under the terms of the contract, Eugene must submit an annual budget to MWMC projecting the costs of performing the operational and maintenance functions, including the cost of supervision and overhead. The MWMC adopted budget, as it relates to the contract with Eugene, specifies personnel services, materials and services, capital outlay, and indirect cost expenditure appropriations for the following functions: Administrative and Management Services, Regional Wastewater Treatment Facility Operations, Regional Wastewater Treatment Facility Maintenance, Biosolids Management, Industrial Source Control (Pretreatment), Regional Environmental Analytical Services, Computer Services, and Projects Group.

Eugene submits monthly billings to MWMC for actual expenses plus indirect charges at the approved overhead rate. MWMC has the right to appeal or seek clarification of any billing within ten days of its receipt. Annually, Eugene is to provide MWMC with an accounting, consistent with generally accepted accounting principles (GAAP), of actual revenues and expenses incurred in performance of the operational and maintenance functions. Negotiations between Eugene and MWMC will be the primary means of settling disputes that may arise; arbitration proceedings are available to either party in the case of unsettled disputes or other matters.

In order to meet the working capital requirements of the Fund, MWMC has deposited \$700,000 with Eugene as of June 30, 2012. The deposit amount may vary in the future depending on changes in the working capital requirements of the Fund and is subject to repayment on demand.

REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(2) Detailed Notes on the Fund, continued

(C) Contract with Metropolitan Wastewater Management Commission, continued

Billable contract expenditures incurred by Eugene for the year ended June 30, 2012 are reconciled as follows to the operating expenses presented in the accompanying financial statements:

	MWMC <u>budget</u>	MWMC <u>actual</u>
Personnel services	\$ 7,445,623	6,919,448
Material and services	3,519,464	3,620,021
Capital outlay and equipment replacement	1,599,337	898,604
Indirect costs	<u>1,169,241</u>	<u>889,000</u>
Billable contract expenditures	<u>\$ 13,733,665</u>	12,327,073
 <u>Adjust expenses for GAAP reporting:</u>		
Increase in accrued vacation not paid		29,394
Decrease in inventory from beginning of year		4,852
Increase in net OPEB obligation		<u>14,880</u>
Total operating expenses		<u><u>12,376,199</u></u>

(D) Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2012 was as follows:

	Beginning <u>balance</u>	Additions	Reductions	Ending <u>balance</u>	Due within <u>one year</u>
<u>Noncurrent liabilities</u>					
Compensated absences payable	\$ 482,275	453,022	(423,628)	511,669	475,402
Net OPEB obligation	<u>23,195</u>	<u>15,100</u>	<u>(220)</u>	<u>38,075</u>	<u>0</u>
Noncurrent liabilities	<u>\$ 505,470</u>	<u>468,122</u>	<u>(423,848)</u>	<u>549,744</u>	<u>475,402</u>

(E) Other Post Employment Benefits and Defined Benefit Pension Plans

Information about Eugene's Other Post Employment Benefits and Defined Benefit Pension Plans is available in the City of Eugene's FY12 Comprehensive Annual Financial Report (Notes to Basic Financial Statements) at <http://www.eugene-or.gov/financialreports>.

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REGIONAL SEWER UTILITY FUND
An Enterprise Fund of the City of Eugene, Oregon

Notes to Basic Financial Statements

(2) Detailed Notes on the Fund, continued

(F) Risk Management

The Fund is a participant in the City's Risk and Benefits Internal Service Fund which accounts for and finances its risks of loss. The Risk and Benefits Fund has a self-insured liability program which covers personal injury, public official errors and omissions, automobile, and employer's liability, with a maximum self-insured retention of \$2,000,000 per occurrence. In addition, the Risk and Benefits Fund has a self-insured workers' compensation program which covers employees' work related illnesses and injuries, including employer's liability, with a maximum self-insured retention of \$1,000,000 per occurrence.

The Fund, as a participant in the Risk and Benefits Fund, retains a portion of the risk of loss for general liability. Coverage for workers' compensation, general liability, and employees' medical claims in excess of the self-insurance retention limit is purchased from commercial insurers. The Risk and Benefits Fund also purchases all risk property insurance coverage from a commercial insurer. The property insurance policy has a basic \$25,000 deductible, with earthquake and flood insurance coverages subject to the following deductibles: flood - \$250,000 deductible per occurrence; earthquake – 2%. During the previous three fiscal years, there were no general liability claims that exceeded the insurance coverage levels.