

# REGIONAL SEWER UTILITY FUND

An Enterprise Fund  
of the City of Eugene, Oregon

Financial Statements



Fiscal Year Ended  
June 30, 2014

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Financial Statements

Fiscal Year Ended June 30, 2014

(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

## Report on the Financial Statements



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, 2014, and the related notes to the 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.

## Auditors' Responsibility

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 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 Regional Sewer Utility Fund as of June 30, 2014, and the changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

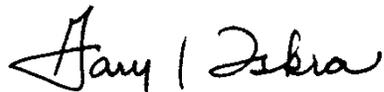
As discussed in Note 1, the financial statements present only the Regional Sewer Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Eugene, Oregon, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 3 – 5) 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.

## **ISLER CPA**

A handwritten signature in black ink that reads "Gary Iskra". The signature is written in a cursive style with a large, stylized initial "G".

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

Eugene, Oregon  
December 12, 2014

## 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, 2014. 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 position of the Fund (assets less liabilities) at June 30, 2014, decreased \$69,613 from \$48,477 to \$(21,166). The Fund bills the Metropolitan Wastewater Management Commission (MWWMC) for the actual expenses of operating and maintaining the regional sewage treatment facilities. The decrease in net position is the result of generally accepted accounting principle (GAAP) accruals that are not included in the MWWMC billings.

### 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 6 - 8 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

<b>Regional Sewer Utility Fund's Net Assets</b>		
	2014	2013
Current and other assets	\$ 3,079,329	2,454,312
Total assets	3,079,329	2,454,312
Current liabilities	3,097,620	2,402,879
Noncurrent liabilities	2,875	2,986
Total liabilities	3,100,495	2,405,865
Net assets:		
Unrestricted	(21,166)	48,447
Total net assets	\$ (21,166)	48,447

<b>Regional Sewer Utility Fund's Change in Net Assets</b>		
	2014	2013
Operating revenues:		
Intergovernmental	\$ 408	0
Fees, fines, and charges for service	12,048,319	12,839,463
Miscellaneous	28,622	23,862
Total operating revenues	<u>12,077,349</u>	<u>12,863,325</u>
Operating expenses:		
Personnel services	7,068,922	7,260,505
Administration	829,594	947,863
Materials and supplies	1,773,380	2,423,240
Maintenance and utilities	1,502,489	1,440,193
Other expenses	973,425	827,704
Total operating expenses	<u>12,147,810</u>	<u>12,899,505</u>
Operating income (loss)	(70,461)	(36,180)
Nonoperating revenues:		
Interest revenue	848	1,312
Total nonoperating revenues	<u>848</u>	<u>1,312</u>
Income (loss) before operating transfers	(69,613)	(34,868)
Transfers out	<u>0</u>	<u>(2,007)</u>
Change in net assets	(69,613)	(36,875)
Net assets, July 1	48,447	85,322
Net assets, June 30	<u>\$ (21,166)</u>	<u>48,447</u>

#### **Next Year's Budgets and Rates**

For FY15, the following factors were taken into account when developing the regional sewer budget:

- Salaries for non-represented employees and employees covered under collective bargaining agreements will increase 2.0%.
- Health benefit rates will increase by 7.3%.
- Retirement costs are expected to range from 21.01% to 25.85% of payroll, depending on which pension plan the employee participates in.

#### **GASB Statement No. 68**

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 Accounting and Financial Reporting for Pensions. As a result of this new statement, beginning in FY15, the Fund will report its portion of the net pension liability in the Statement of Net Position.

### **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 10<sup>th</sup> Avenue, Suite 400  
Eugene, Oregon 97401

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

**Statement of Net Position**

June 30, 2014

(amounts in dollars)

Assets

Current assets

Accounts receivable	603,643
Due from other governments	2,013,411
Due from other governments - grants	408
Inventories	454,547
Prepays and deposits	7,320
<b>Total assets</b>	<b>3,079,329</b>

Liabilities

Current liabilities

Accounts payable	136,852
Wages payable	289,068
Compensated absences payable	480,428
Due to other funds	545,451
Due to other governments	945,821
Deposits	700,000
<b>Total current liabilities</b>	<b>3,097,620</b>

Noncurrent liabilities

Compensated absences payable	2,875
<b>Total noncurrent liabilities</b>	<b>2,875</b>
<b>Total liabilities</b>	<b>3,100,495</b>

Net position

Unrestricted	(21,166)
<b>Total net position</b>	<b>(21,166)</b>

*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 Position**

For the fiscal year ended June 30, 2014  
(amounts in dollars)

<u>Operating revenues</u>	
Intergovernmental	408
Charges for services	12,042,094
Fines and forfeits	6,225
Miscellaneous	28,622
<b>Total operating revenues</b>	<b>12,077,349</b>
<u>Operating expenses</u>	
Personnel services	7,068,922
Contractual services	893,330
Materials and supplies	1,773,380
Maintenance	784,225
Utilities	718,264
Rent	14,631
Insurance	65,464
Administration	829,594
<b>Total operating expenses</b>	<b>12,147,810</b>
Operating income (loss)	(70,461)
<u>Nonoperating revenue</u>	
Interest revenue	848
<b>Total nonoperating revenue</b>	<b>848</b>
Change in net position	(69,613)
Total net position, July 1, 2013	48,447
<b>Total net position, June 30, 2014</b>	<b>(21,166)</b>

*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, 2014

(amounts in dollars)

<u>Cash flows from operating activities</u>	
Cash received from customers	34,791,376
Cash paid to MWMC for sewer user and septic hauler fees collected	(23,531,509)
Cash paid to suppliers for goods and services	(2,776,265)
Cash paid to employees for services	(5,907,282)
Cash paid for interfund services used	(1,880,408)
Cash paid for central business functions	(829,594)
<b>Net cash provided by (used for) operating activities</b>	<b>(133,682)</b>
<u>Cash flows from investing activities</u>	
Interest revenue	848
<b>Net cash provided by (used for) investing activities</b>	<b>848</b>
Net increase (decrease) in cash	(132,834)
Cash, July 1, 2013	132,834
<b>Cash, June 30, 2014</b>	<b>0</b>

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

Operating income (loss)	(70,461)
<u>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities</u>	
(Increase) Decrease in accounts receivable	(102,431)
(Increase) Decrease in due from other governments	(715,051)
(Increase) Decrease in prepaids	(7,320)
(Increase) Decrease in inventories	66,951
Increase (Decrease) in accounts payable	(23,765)
Increase (Decrease) in wages payable	(60,305)
Increase (Decrease) in compensated absences payable	13,712
Increase (Decrease) in due to other funds	545,451
Increase (Decrease) in due to other governments	222,523
Increase (Decrease) in net OPEB obligation	(2,986)
<b>Net cash provided by (used for) operating activities</b>	<b>(133,682)</b>

*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, 2014

(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 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 Position, and the Statement of Revenues, Expenses, and Changes in Fund Net Position present increases and decreases in net position. 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 Position 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) Stewardship, Compliance, and Accountability

(A) Deficit Net Position

For the year ended June 30, 2014 the Fund had a deficit net position balance of \$21,166. The Fund bills MWMC for the actual expenses of operating and maintaining the regional sewage treatment facilities. The decrease in net position is the result of GAAP accruals that are not included in the MWMC billings; this includes compensated absences, fair market value adjustment on investments, inventories, OPEB, prepaids and deposits, and beginning in FY15 the Fund's portion of the net pension liability.

(3) Detailed Notes on the Fund

(A) Due From Other Governments

Amounts due from other governments at June 30, 2014 consist of \$1,043 due from the Eugene Water and Electric Board and \$2,012,368 from MWMC for services provided in the operation and maintenance of the regional sewer facility. Eugene does not require collateral on these receivables.

(B) Due to Other Governments

All amounts due to other governments at June 30, 2014, 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, 2014. 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

(3) 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, 2014 are reconciled as follows to the operating expenses presented in the accompanying financial statements:

	<u>MWMC budget</u>	<u>MWMC actual</u>
Personnel services	\$ 7,864,894	7,058,194
Material and services	3,341,309	3,660,077
Capital outlay and equipment replacement	1,725,728	529,588
Indirect costs	<u>1,137,500</u>	<u>829,594</u>
 Billable contract expenditures	 \$ <u>14,069,431</u>	 12,077,453
 <u>Adjust expenses for GAAP reporting:</u>		
Increase in prepaids		(7,320)
Increase in accrued vacation not paid		13,712
Decrease in inventory from beginning of year		66,951
Decrease in net OPEB obligation		<u>(2,986)</u>
 Total operating expenses		 <u>12,147,810</u>

(D) Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2014 was as follows:

<u>Noncurrent liabilities</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Compensated absences payable	\$ 469,591	430,894	(417,182)	483,303	480,428
Net OPEB obligation	<u>2,986</u>	<u>0</u>	<u>(2,986)</u>	<u>0</u>	<u>0</u>
Noncurrent liabilities	<u>\$ 472,577</u>	<u>430,894</u>	<u>(420,168)</u>	<u>483,303</u>	<u>480,428</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 FY14 Comprehensive Annual Financial Report (Notes to Basic Financial Statements) at <http://www.eugene-or.gov/financialreports>.

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

Notes to Basic Financial Statements

(3) 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 \$500,000 per occurrence and \$750,000 per occurrence for employee benefit and employment practice liability. 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% of the combined value of the property at the location, subject to a minimum deductible of \$100,000 per location and the deductible applies separately to each location. During the previous three fiscal years, there were no general liability claims that exceeded the insurance coverage levels.