

# REGIONAL SEWER UTILITY FUND

An Enterprise Fund  
of the City of Eugene, Oregon

Financial Statements



Fiscal Year Ended  
June 30, 2016

**REGIONAL SEWER UTILITY FUND**

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Financial Statements

Fiscal Year Ended June 30, 2016

(With Independent Auditors' Report Thereon)

Report Prepared by the City of Eugene  
Finance Division



## INDEPENDENT AUDITOR'S REPORT

An Independently Owned Member  
**McGLADREY ALLIANCE**



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, 2016, 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, 2016, 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, 2016, 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.

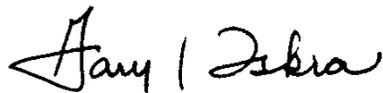
Our opinion is not modified with respect to these matters.

## **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 – 4) 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  
November 21, 2016

## 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, 2016. 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 and deferred outflows of resources less liabilities and deferred inflows of resources) at June 30, 2016, decreased \$2.5 million from (\$3.2) million to (\$5.7) million. The primary cause for this decrease was the Fund's proportionate share of the City's pension liability at June 30, 2016 increased \$4.8 million from a pension asset of \$1.5 million to a pension liability of \$3.3 million. The increase in the pension liability was the result of lower than projected investment earnings on pension plan assets and the Oregon Supreme Court's *Moro* decision. The Court's decision reversed a significant portion of the reductions that the 2013 Oregon Legislature made to future cost of living adjustments. The reversal increased the benefits projected to be paid compared to those developed in the prior actuarial valuation, and consequently increased the plan liabilities.

### 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

<b>Regional Sewer Utility Fund's Net Position</b>		
	2016	2015
Current assets	\$ 2,758,793	3,068,871
Other assets and deferred outflows	822,182	2,016,737
Total assets and deferred outflows	3,580,975	5,085,608
Current liabilities	2,797,880	3,096,297
Bonds payable	2,365,193	2,446,483
Net pension liability	3,276,072	0
Deferred inflows	857,188	2,722,797
Total liabilities and deferred inflows	9,296,333	8,265,577
Net position:		
Unrestricted (deficit)	(5,715,358)	(3,179,969)
Total net position	\$ (5,715,358)	(3,179,969)

<b>Regional Sewer Utility Fund's Change in Net Position</b>		
	<u>2016</u>	<u>2015</u>
Operating revenues:		
Fees, fines, and charges for service	\$ 14,092,755	13,168,164
Miscellaneous	53,916	29,907
Total operating revenues	<u>14,146,671</u>	<u>13,198,071</u>
Operating expenses:		
Personnel services	7,033,665	6,692,785
Administration	879,879	884,481
Materials and supplies	2,761,181	2,254,974
Maintenance and utilities	1,449,675	1,532,202
Pension expense	3,252,523	(1,267,554)
Other expenses	1,100,733	974,833
Total operating expenses	<u>16,477,656</u>	<u>11,071,721</u>
Operating income (loss)	(2,330,985)	2,126,350
Nonoperating revenues:		
Interest revenue	0	4,187
Interest expense	<u>(204,404)</u>	<u>(185,677)</u>
Total nonoperating revenues	<u>(204,404)</u>	<u>(181,490)</u>
Change in net position	(2,535,389)	1,944,860
Net position, July 1	<u>(3,179,969)</u>	<u>(5,124,829)</u>
Net position, June 30	<u>\$ (5,715,358)</u>	<u>(3,179,969)</u>

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

For FY17, 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 2.1%.
- Health benefit rates will increase by 4.9%.
- Retirement costs are expected to range from 22.05% to 29.5% of payroll, depending on which pension plan the employee participates in.

### **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:

Douglas Lauderbach, CPA  
 Financial Reporting Manager, AIC  
 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, 2016  
 (amounts in dollars)

Assets

Current assets

Equity in pooled cash and investments	380,048
Accounts receivable	612,923
Due from other governments	1,271,841
Inventories	491,423
Prepays and deposits	2,558
<b>Total current assets</b>	<b>2,758,793</b>

<b>Total noncurrent assets</b>	<b>0</b>
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Deferred outflows of resources

Related to pensions	822,182
<b>Total deferred outflows of resources</b>	<b>822,182</b>
<b>Total assets and deferred outflows of resources</b>	<b>3,580,975</b>

Liabilities

Current liabilities

Accounts payable	169,497
Wages payable	380,052
Compensated absences	482,812
Due to other governments	1,011,541
Deposits	700,000
Interest payable	11,464
Bonds payable	42,514
<b>Total current liabilities</b>	<b>2,797,880</b>

Noncurrent liabilities

Bonds payable (net of unamortized discount)	2,365,193
Net pension liability	3,276,072
<b>Total noncurrent liabilities</b>	<b>5,641,265</b>

Deferred inflows of resources

Related to pensions	857,188
<b>Total deferred inflows of resources</b>	<b>857,188</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>9,296,333</b>

Net position

Unrestricted	(5,715,358)
<b>Total net position</b>	<b>(5,715,358)</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, 2016  
(amounts in dollars)

<u>Operating revenues</u>	
Charges for services	14,087,030
Fines and forfeits	5,725
Miscellaneous	53,916
<b>Total operating revenues</b>	<b>14,146,671</b>
<u>Operating expenses</u>	
Personnel services	7,033,665
Contractual services	1,024,871
Materials and supplies	2,761,181
Maintenance	765,270
Utilities	684,405
Rent	24,335
Insurance	51,527
Administration	879,879
Pension expense (income)	3,252,523
<b>Total operating expenses</b>	<b>16,477,656</b>
<b>Operating income (loss)</b>	<b>(2,330,985)</b>
<u>Nonoperating revenue (expense)</u>	
Interest expense	(204,404)
<b>Total nonoperating revenue (expense)</b>	<b>(204,404)</b>
<b>Change in net position</b>	<b>(2,535,389)</b>
<b>Total net position, July 1, 2015</b>	<b>(3,179,969)</b>
<b>Total net position, June 30, 2016</b>	<b>(5,715,358)</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, 2016  
 (amounts in dollars)

<u>Cash flows from operating activities</u>	
Cash received from customers	38,848,854
Cash received from MWMC for operating reimbursements	304,939
Cash paid to MWMC for sewer user and septic hauler fees collected	(24,689,715)
Cash paid to suppliers for goods and services	(5,021,382)
Cash paid to employees for services	(6,208,386)
Cash paid for interfund services used	(2,060,918)
Cash paid for central business functions	(879,879)
<b>Net cash provided by (used for) operating activities</b>	<b>293,513</b>
<u>Cash flows from noncapital and related financing activities</u>	
Principal payments on pension bonds	(129,276)
Interest payments on pension bonds	(155,528)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(284,804)</b>
Net increase (decrease) in cash	8,709
Cash, July 1, 2015	371,339
<b>Cash, June 30, 2016</b>	<b>380,048</b>

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

Operating income (loss)	(2,330,985)
<u>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities</u>	
(Increase) Decrease in accounts receivable	13,105
(Increase) Decrease in due from other governments	304,302
(Increase) Decrease in prepaids	27,910
(Increase) Decrease in inventories	(26,530)
(Increase) Decrease in deferred outflows related to pensions	(272,130)
(Increase) Decrease in net pension asset	1,466,685
Increase (Decrease) in net pension liability	3,276,072
Increase (Decrease) in due to other governments	(373,293)
Increase (Decrease) in accounts payable	54,064
Increase (Decrease) in deferred inflows related to pensions	(1,865,609)
Increase (Decrease) in wages payable	6,944
Increase (Decrease) in compensated absences payable	12,978
<b>Net cash provided by (used for) operating activities</b>	<b>293,513</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, 2016

(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 (MWWMC), established on February 9, 1977 by an intergovernmental agreement between Lane County and the Cities of Eugene and Springfield. On November 10, 1983, MWWMC 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 deferred outflows of resources and liabilities and deferred inflows of resources 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, materials and supplies, and pension expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(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, governmental money market bank deposit accounts, bankers' acceptances, municipal bonds, corporate bonds, commercial paper, repurchase agreements, reverse repurchase agreements, and the Oregon Local Government Investment Pool.

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, continued

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 compensation time benefits (compensated absences) are recorded in the Statement of Net Position. 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.

(H) Pensions

For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(2) Stewardship, Compliance, and Accountability

(A) Deficit Net Position

Although the Fund's annual operating expenses are paid by MPMC, for the year ended June 30, 2016, the Fund had a deficit net position of \$5.7 million. The Fund's deficit net position is the result of the recognition of long-term liabilities associated with its future pension obligations.

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

Notes to Basic Financial Statements

(3) Detailed Notes on the Fund

(A) Due from Other Governments

Amounts due from other governments at June 30, 2016 consist of \$1,271,841 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, 2016, 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, 2016. 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, 2016 are reconciled as follows to the operating expenses presented in the accompanying financial statements:

	<u>MWMC budget</u>	<u>MWMC actual</u>
Personnel services	\$ 8,347,791	7,952,997
Material and services	4,242,584	4,018,141
Capital outlay and equipment replacement	45,000	1,292,068
Indirect costs	<u>1,001,150</u>	<u>879,879</u>
Billable contract expenditures	<u>\$ 13,636,525</u>	14,143,085
 <u>Adjust expenses for GAAP reporting:</u>		
Decrease in prepaids		27,910
Increase in accrued vacation not paid		12,978
Increase in inventory from beginning of year		(26,530)
Pension expense		2,400,614
Decrease in pension bonds		<u>(80,401)</u>
Total operating expenses		<u><u>16,477,656</u></u>

(D) Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2016 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
Compensated absences payable	\$ 469,834	12,978	0	482,812	482,812	0
Bonds payable (net of unamortized discount)	<u>2,488,108</u>	0	(80,401)	<u>2,407,707</u>	42,514	2,365,193
Total noncurrent liabilities	<u>\$ 2,957,942</u>	<u>12,978</u>	<u>(80,401)</u>	<u>2,890,519</u>	<u>525,326</u>	<u>2,365,193</u>

(E) Other Post Employment Benefits and Retirement Plans

Information about Eugene's Other Post Employment Benefits and Oregon PERS Retirement Plans is available in the City of Eugene's FY16 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 \$1,000,000 per occurrence for automobile liability, general liability, and 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. During the previous three fiscal years, there were no general liability claims that exceeded the insurance coverage levels.

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 - \$100,000 deductible per occurrence except that buildings in Flood Zones A and V have a \$500,000 deductible per building; 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.