
City of Fort Wayne Utilities

*A Division of the
City of Fort Wayne, Indiana*



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Financial Statements

December 31, 2011 & 2010

CITY OF FORT WAYNE UTILITIES
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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF THE CITY OF FORT WAYNE UTILITIES, ALLEN COUNTY, INDIANA

We have audited the accompanying financial statements of each major fund of the City of Fort Wayne Utilities (City Utilities), as of and for the years ended December 31, 2011, and 2010. These statements collectively comprise City Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of City Utilities' 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 and the Government Auditing Standards, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City Utilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 of the Utilities are intended to present the financial position, the changes in financial position and cash flows of only that portion of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Fort Wayne as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the financial position of each major fund of City Utilities as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated June 26, 2012, on our consideration of City Utilities' compliance with laws and regulations and its internal control structure.

June 26, 2012

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TO: THE OFFICIALS OF THE CITY OF FORT WAYNE UTILITIES, ALLEN COUNTY, INDIANA

We have audited the financial statements of the City of Fort Wayne Utilities (City Utilities), as of and for the years ended December 31, 2011, and 2010, and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of City Utilities' management and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 26, 2012

State Board of Accounts

Management's Discussion and Analysis

Introduction

As management of the City of Fort Wayne Utilities (Utilities), we offer readers of the Utilities' financial statements, this narrative overview and analysis of the financial activities of the Utilities for the fiscal years ended December 31, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements and the notes to the basic financial statements.

Financial Highlights

- The assets of the Utilities exceeded its liabilities as of December 31, 2011, 2010 and 2009 by \$506.7 million, \$481.6 million and \$465.4 million, respectively.
- The Utilities' net assets increased for the years ended December 31, 2011, 2010 and 2009 by \$25.1 million, \$16.2 million and \$16.5 million, respectively.
- The Utilities' added new bonded debt and long-term notes payable for years ended December 31, 2011, 2010 and 2009 of \$69.4 million, \$44.2 million and \$31.4 million, respectively. The 2011 increase in debt consists of two new Water SRF loans, one new Wastewater Revenue Bond, one new Wastewater SRF loan and additional withdrawals against existing SRF loans.
- The Utilities' investment in capital assets for the years ended December 31, 2011, 2010 and 2009 increased approximately \$27.2 million, \$40.3 million and \$34.0 million, respectively. Significantly, the Utilities met all 2009-2011 capital investment milestones required by the 2008 Federal Consent Decree.
- The 35 year Electric Light lease expired in February 2010. In October 2010, the City entered into an agreement with the former lessee to transfer the remaining leased assets of the Electric Utility in exchange for a multi-year compensation package in excess of \$39 million over 15 years. In August 2011, the Indiana Utility Regulatory Commission ratified the transfer agreement.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Utilities' basic financial statements. The Utilities are governmental entities classified as enterprise funds,

subsets of proprietary funds. When an entity charges a fee to cover the entire cost of its operation, these services are classified as a proprietary fund. And more specifically, when an entity is self-supported completely by providing services to outside customers, it is an enterprise fund. An enterprise fund's financial statements are comprised of three statements and the accompanying notes to these statements. The three statements are: 1) statement of net assets, 2) statement of revenues, expenses and changes in net assets and 3) statement of cash flows. The notes provide additional information that is essential to a full understanding of the data provided in the Utilities' financial statements. The notes can be found on pages 16-40 of this report.

The Utilities provide water, wastewater, stormwater, electric, and yard waste services. The Utilities' financial statements have been prepared to reflect the activity of each of these services. The Electric Utility generation and distribution systems were leased to a private firm in 1975. Portions of the lease payments are directed by Common Council ordinance into the Community Trust.

City of Fort Wayne Utilities
Condensed Statement of Net Assets

	(\$millions)			Variance		Variance	
	December 31			2010-2009		2009-2010	
	2011	2010	2009	\$millions	%	\$millions	%
Net capital assets	\$ 643.3	\$ 616.1	\$ 590.6	\$ 27.2	4.4%	\$ 25.5	4.3%
Other assets	215.1	132.2	111.4	82.9	62.7%	20.8	18.7%
Total assets	858.4	748.3	702.0	110.1	14.7%	46.3	6.6%
Current liabilities	55.2	53.7	53.7	1.5	2.8%	0.0	0.0%
Long term liabilities	296.5	213.0	182.9	83.5	39.2%	30.1	16.5%
Total liabilities	351.7	266.7	236.6	85.0	31.9%	30.1	12.7%
Total net assets	\$ 506.7	\$ 481.6	\$ 465.4	\$ 25.1	5.2%	\$ 16.2	3.5%
Invested in capital assets, net of related debt	\$ 412.6	\$ 408.2	\$ 411.2	4.4	1.1%	(3.0)	-0.7%
Restricted	68.5	56.2	51.5	12.3	21.9%	4.7	9.1%
Unrestricted	25.6	17.2	2.7	8.4	48.8%	14.5	537.0%
Total net assets	\$ 506.7	\$ 481.6	\$ 465.4	\$ 25.1	5.2%	\$ 16.2	3.5%

City of Fort Wayne Utilities
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	(\$millions)			Variance		Variance	
	Year Ended December 31			2010-2011		2009-2010	
	2011	2010	2009	\$millions	%	\$millions	%
Operating revenues:							
Water service revenues	\$ 33.3	\$ 33.5	\$ 31.3	\$ (0.2)	-0.6%	\$ 2.2	7.0%
Wastewater service revenues	51.1	42.5	36.1	8.6	20.2%	6.4	17.7%
Stormwater service revenues	10.8	9.7	9.8	1.1	11.3%	(0.1)	-1.0%
Electric revenues	0.0	1.7	1.7	(1.7)	-100.0%	0.0	0.0%
Yard Waste revenues	0.1	0.2	0.2	(0.1)	-50.0%	0.0	0.0%
Total operating revenues	95.3	87.6	79.1	7.7	8.8%	8.5	10.7%
Operating expenses:							
Water operations	28.0	26.7	25.2	1.3	4.9%	1.5	6.0%
Wastewater operations	30.1	28.7	26.4	1.4	4.9%	2.3	8.7%
Stormwater operations	6.2	6.4	8.5	(0.2)	-3.1%	(2.1)	-24.7%
Electric operations	0.1	1.1	0.6	(1.0)	-90.9%	0.5	83.3%
Yard Waste operations	0.1	0.1	0.2	0.0	0.0%	(0.1)	-50.0%
Total operating expenses	64.5	63.0	60.9	1.5	2.4%	2.1	3.4%
Operating income	30.8	24.6	18.2	6.2	25.2%	6.4	35.2%
Net nonoperating revenues (expenses)	(1.7)	(2.4)	1.4	0.7	-29.2%	(3.8)	-271.4%
Income before capital contributions and transfers out	29.1	22.2	19.6	6.9	31.1%	2.6	13.3%
Capital contributions	2.8	1.1	2.0	1.7	154.5%	(0.9)	-45.0%
Transfers out	(6.8)	(7.1)	(5.1)	0.3	-4.2%	(2.0)	39.2%
Increase in net assets	25.1	16.2	16.5	8.9	54.9%	(0.3)	-1.8%
Net assets - January 1st	481.6	465.4	448.9	16.2	3.5%	16.5	3.7%
Net assets - December 31st	\$ 506.7	\$ 481.6	\$ 465.4	\$ 25.1	5.2%	\$ 16.2	3.5%

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a governmental unit's financial health. In the case of the Utilities, assets exceeded liabilities by \$506.7 million, \$ 481.6 million and \$465.4 million as of December 31, 2011, 2010 and 2009, respectively. The largest portion (81.4%) of the Utilities' net assets in 2011 reflects its investment in capital assets (land, buildings, machinery, equipment and distribution and collection infrastructure), less any related debt used to acquire those assets that is still outstanding.

Another significant portion of the Utilities' net assets (\$68.5 million, or 13.5%) represents resources that are subject to external restrictions on how they may be used.

The Utilities net assets increased \$25.1 million, \$16.2 million and \$16.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. Net asset growth in 2011 was more than 2010 by \$8.9 million as follows:

- Operating income in 2011 was \$6.2 million more than 2010. Overall revenues increased \$7.7 million or 8.8%. Wastewater rates increased 11% effective July 1, 2011. Expenses increased \$1.5 million or 2.4%. Depreciation (driven by heavy infrastructure investments), staffing increases associated with the delivering the requirement of the 2008 Federal Consent Decree and increased cost of employee benefits account for the increase in expenses.
- Capital contributions in 2011 were \$1.7 million more than 2010. Capital contributions are principally the value of infrastructure donated to the Utilities by local area developers.
- Nonoperating net expenses were \$0.7 million less than the prior year.
 - Investment income decreased in 2011 from 2010 by \$5.6 million, predominately from equity market fluctuations. Community Trust funds invest in marketable securities.
 - Loss on disposal of assets was \$1.2 million more than the prior year. Certain assets were retired earlier than their estimated useful life to accommodate new structures for CSO solutions.
 - Net gain from the installment sale of the Electric Utility assets was \$7.6 million in 2011.

Capital Assets and Capital Improvement Program

The Utilities total capital assets in service are \$862.7 million with an accumulated depreciation of \$264.1 million for a net book value of \$598.6 million. The statement of net assets also includes \$44.7 million in construction in progress reflecting capital projects in various stages of completion. During 2011, approximately \$27.2 million was spent on capital investments.

Debt

At December 31, 2011, the Utilities had approximately \$298.9 million in bonds and loans payable, an increase of \$55.3 million over last year.

The Utilities closed on four new long-term bond/loan issues in 2011. Other than the smaller \$3.1 million water loan, the bonds finance significant capital expenditures. The smaller water loan cash funded debt service reserves that were previously funded by surety bond insurance. The underlying insurers failed to emerge from the 2008-2009 recession with the requisite AAA/aaa status causing the water utility to cash fund the debt service reserve. The new bond/loan issues in 2011 were:

- An open market wastewater revenue bond for \$38.1 million payable over 15 years at 2.8%.
- A traditional SRF wastewater loan for up to \$33.6 million @ 2.29% payable over 20 years.
- A SRF shared pool water loan for \$26.9 million, payable over 20 years @ 2.967% interest.
- A SRF traditional taxable water loan for \$3.1 million @ 3.746% interest, payable over three years.

The Utilities paid principal of \$31.9 million and \$31.1 million in 2011 and 2010 respectively.

In February 2011, the Utilities issued a Bond Anticipation Note (BAN4) of \$17.8 million payable within a year with interest at 0.65%. The proceeds were used to retire a Bond Anticipation Note previously issued February 2010. Subsequently, BAN4 was refinanced by another Bond Anticipation Note for \$17.8 million, payable on or before February 5, 2013 with interest at 0.48%.

Economic Factors and Next Year's Budget and Rates

- On December 28, 2007, the Utilities agreed to a Long-Term Control Plan (LTCP), in the form of a federal Consent Decree, which will ultimately bring the Utilities' combined storm and sanitary sewer system into compliance with the federal Clean Water Act. The Consent Decree became effective April 1, 2008. The Utilities committed to combined sewer overflow reductions that require an approximate investment of \$240.0 million (denominated in 2005 dollars) in infrastructure solutions over the next 18 years. The Utilities also agreed to:
 - Eliminate three sanitary sewer overflows at an estimated cost of \$31.0 million.
 - Maintain the entire storm and sewer systems to performance standards prescribed in the LTCP.
 - Mitigate assessed penalties with local investments in septic tank elimination subsidies and rain garden stipends.

The Consent Decree further provides for stipulated penalties for failure to achieve specified construction milestones, reporting deadlines or maintenance objectives. The Utilities are in full compliance with terms and conditions of the Consent Decree.

Consistent with the long term nature of the Consent Decree, Fort Wayne City Council (Council) approved a five year rate proposal that generally increased wastewater unit rates by approximately 25% effective July 1, 2009 and again on July 1, 2010-2013 of each year by 15%, 11%, 9% and 9%, respectively.

At that same time, Council authorized the issuance of up to \$255 million in debt to fund a six year capital plan that will accomplish a significant portion of the infrastructure investment required to fulfill the requirements of the Consent Decree. The Utilities has issued \$146.8 million debt associated with the \$255 million Council authorization.

The Utilities are in full compliance with the terms and conditions of the Consent Decree. Significantly, the Utilities completed: the upgrade to the Wastewater plant primaries, completed the pilot testing for the capture and disposal of floatables and completed eight combined sewer separation projects. The Utilities also constructed a backflow process that fully treats nearly 1 billion gallons of wastewater per year that previously entered the Maumee River only partially treated. Untreated wastewater storage capacity was increased by nearly 100 million gallons through several CSO pond enhancement projects.

The wastewater treatment plant upgrade ultimately will treat up to 85 million gallons per day (mgd), up from 60 mgd. In early 2012, the plant achieved its interim milestone and is operational at 70 mgd.

Lining wastewater pipelines significantly extends the life of the pipeline, improves overall system flow and reduces reactive maintenance. Since 2008, the Utilities have invested \$12.0 million to line approximately 58 miles of pipe. The replacement rate over the previous four years is right at our annual goal of 1% per year.

- In June 2002, the Utilities initiated a condemnation action of Aqua Indiana's North Assets. On February 12, 2008, the Utilities paid Aqua Indiana \$16.9 million, the appraised value, and took possession of those assets. The North Assets were quickly integrated with the Utilities' water and sewer system and began generating revenues at existing rates from 8,600 new retail water customers and 1,600 new retail sewer customers. Aqua Indiana asserts that the purchase price is inadequate and has sued for unspecified damages.
- The City entered into an agreement to transfer the remaining leased Electric Utility assets to another electric utility (Transferee). In August 2011, the Indiana Utility Regulatory Commission (IURC) approved the agreement. In exchange for the remaining leased Electric Utility assets and the right to be the exclusive supplier of electricity in the City, the Transferee agreed to pay the City in excess of \$39 million over the next 15 years, including an initial payment of \$5 million in 2011.
- The Water Utility successfully acquired SRF funding in 2011 for an ultra-violet disinfection system (UV system) valued at nearly \$20 million. The UV system was selected as the optimal incremental disinfection methodology to comply

with an EPA mandate; the Long Term 2 Enhanced Surface Water Treatment Rule. This timely funding allows for the completion and testing of the UV system before the enforcement date of April 2014.

- In early 2012, the Fort Wayne City Council authorized a 39.7% water rate increase to be implemented in three phases starting in January 2013. The Council further authorized the issue of up to \$40 million in bonding. The increased rates and the bonding will provide funding for many repair and replacement projects but, significantly, up to 40 miles of water main replacement. Water main breaks have steadily increased in recent years and funding for our water main replacement program was significantly inadequate. The new rates and bond will allow us to achieve our goal to replace 1%, or ten miles, of our water main pipelines per year

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show accountability for the money they receive. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy Director of Business Services - City Utilities, City of Fort Wayne Utilities, 200 E Berry Street, Suite 270, Fort Wayne, IN 46802.

CITY OF FORT WAYNE UTILITIES

Statement of Net Assets
At December 31, 2011

	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	<u>Total 2011</u>
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 4,394,647	\$ 9,217,439	\$ 2,472,252	\$ 6,500,846	\$ 267,187	\$ 22,852,371
Receivables:						
Customers, net of allowance for doubtful accounts of \$56,792	3,164,170	6,723,098	1,516,840	-	36,920	11,441,028
Miscellaneous	-	-	-	786,270	-	786,270
Installment receivable - current portion	-	-	-	1,740,000	-	1,740,000
Interest	2,071	43,717	-	-	-	45,788
Due from City of Fort Wayne	358,541	200,338	110,721	-	51	669,651
Interfund receivable	703,890	-	-	-	-	703,890
Materials and supplies	1,051,633	76,629	-	-	-	1,128,262
Prepaid expenses	88,246	1,061,750	2,343	-	29	1,152,368
	<u>9,763,198</u>	<u>17,322,971</u>	<u>4,102,156</u>	<u>9,027,116</u>	<u>304,187</u>	<u>40,519,628</u>
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	27,643,929	37,775,013	631,271	3,547,674	-	69,597,887
Restricted investments	5,000,000	35,000,000	-	32,125,512	-	72,125,512
Net pension asset	-	-	-	-	-	-
Unamortized bond issuance costs	1,315,205	1,026,367	187,053	-	-	2,528,625
Installment receivable	-	-	-	29,145,000	-	29,145,000
Assessments receivable	-	1,263,570	-	-	-	1,263,570
Capital assets:						
Land	4,685,407	1,424,823	2,327,000	75,732	-	8,512,962
Distribution and collection	138,511,758	256,477,324	114,358,815	-	-	509,347,897
Buildings and improvements	58,331,697	118,041,945	2,475,845	1,121,198	68,777	180,039,462
Equipment and other	88,146,952	72,374,791	3,928,889	342,787	52,419	164,845,838
Less: Accumulated depreciation	(93,118,895)	(134,738,036)	(34,725,998)	(1,444,149)	(91,187)	(264,118,265)
Plus: Construction in progress	6,208,995	31,894,835	6,566,143	-	1,514	44,671,487
Net capital assets	202,765,914	345,475,682	94,930,694	95,568	31,523	643,299,381
	<u>236,725,048</u>	<u>420,540,632</u>	<u>95,749,018</u>	<u>64,913,754</u>	<u>31,523</u>	<u>817,959,975</u>
Total assets	<u>\$ 246,488,246</u>	<u>\$ 437,863,603</u>	<u>\$ 99,851,174</u>	<u>\$ 73,940,870</u>	<u>\$ 335,710</u>	<u>\$ 858,479,603</u>
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 1,399,241	\$ 4,802,565	\$ 367,417	\$ 22,704	\$ 16,169	\$ 6,608,096
Due to City of Fort Wayne	654,571	976,586	292,356	627	4,260	1,928,400
Interfund payable - current portion	117,426	789,519	52,825	-	61	959,831
Compensated absences payable - current portion	564,305	435,285	125,694	-	917	1,126,201
Unearned revenue - current portion	-	-	-	1,740,000	-	1,740,000
Other current liabilities	842,576	2,973,473	208,897	3,759	1,148	4,029,853
Accrued interest payable	617,893	2,950,033	206,271	-	-	3,774,197
Bonds payable - current portion	1,775,000	5,710,000	1,020,000	-	-	8,505,000
Loans payable - current portion	2,447,000	5,061,576	-	-	-	7,508,576
Notes payable - current portion	17,840,000	-	-	-	-	17,840,000
Customer deposits	1,205,857	-	-	-	-	1,205,857
	<u>27,463,869</u>	<u>23,699,037</u>	<u>2,273,460</u>	<u>1,767,090</u>	<u>22,555</u>	<u>55,226,011</u>
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	14,613,623	112,627,694	11,459,775	-	-	138,701,092
Loans payable	50,843,000	75,457,673	-	-	-	126,300,673
Interfund payable	330,836	228,978	66,331	-	211	626,356
Compensated absences payable	830,485	472,992	73,581	-	867	1,377,925
Unearned revenue	-	-	-	29,290,000	-	29,290,000
Net pension obligation	68,988	94,884	33,802	-	-	197,674
Other long-term liabilities	-	-	-	11,582	-	11,582
	<u>66,686,932</u>	<u>188,882,221</u>	<u>11,633,489</u>	<u>29,301,582</u>	<u>1,078</u>	<u>296,505,302</u>
Total liabilities	<u>94,150,801</u>	<u>212,581,258</u>	<u>13,906,949</u>	<u>31,068,672</u>	<u>23,633</u>	<u>351,731,313</u>
NET ASSETS						
Invested in capital assets, net of related debt	137,855,402	192,207,525	82,450,919	95,568	31,523	412,640,937
Restricted						
For debt service	6,212,068	24,091,241	425,000	-	-	30,728,309
For capital projects	2,000,000	144,952	-	-	-	2,144,952
For community trust	-	-	-	35,673,185	-	35,673,185
Unrestricted	6,269,975	8,838,627	3,068,306	7,103,445	280,554	25,560,907
	<u>152,337,445</u>	<u>225,282,345</u>	<u>85,944,225</u>	<u>42,872,198</u>	<u>312,077</u>	<u>506,748,290</u>
Total liabilities and net assets	<u>\$ 246,488,246</u>	<u>\$ 437,863,603</u>	<u>\$ 99,851,174</u>	<u>\$ 73,940,870</u>	<u>\$ 335,710</u>	<u>\$ 858,479,603</u>

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Statement of Net Assets
At December 31, 2010

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2010
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 3,587,058	\$ 6,427,628	\$ 714,149	\$ 119,013	\$ 272,074	\$ 11,119,922
Receivables:						
Customers, net of allowance for doubtful accounts of \$44,457	3,047,898	5,127,373	1,106,493	-	17,986	9,299,750
Interest	-	6,222	-	-	-	6,222
Due from City of Fort Wayne	8,172	11,185	4,555	2,794	66	26,772
Interfund receivable	1,407,780	144,451	-	-	-	1,552,231
Materials and supplies	1,060,190	57,603	-	-	-	1,117,793
Prepaid expenses	86,979	133,071	1,144	-	8	221,202
Total current assets	9,198,077	11,907,533	1,826,341	121,807	290,134	23,343,892
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	3,724,573	64,900,480	632,079	34,038	-	69,291,170
Restricted investments	-	-	-	37,034,676	-	37,034,676
Net pension asset	128,859	172,058	68,307	-	-	369,224
Unamortized bond issuance costs	880,531	1,004,641	222,799	-	-	2,107,971
Assessments receivable	-	100,794	-	-	-	100,794
Capital assets:						
Land	4,566,419	1,424,823	2,327,000	110,703	-	8,428,945
Distribution and collection	131,846,299	234,800,217	109,114,697	5,666,429	-	481,427,642
Buildings and improvements	58,152,546	120,162,588	2,475,845	1,194,836	68,777	182,054,592
Equipment and other	87,845,662	84,117,329	4,288,557	1,256,422	54,791	177,562,761
Less: Accumulated depreciation	(87,573,958)	(141,967,035)	(33,228,255)	(8,061,795)	(89,320)	(270,920,363)
Plus: Construction in progress	8,969,162	23,018,689	5,522,902	-	440	37,511,193
Net capital assets	203,806,130	321,556,611	90,500,746	166,595	34,688	616,064,770
Total noncurrent assets	208,540,093	387,734,584	91,423,931	37,235,309	34,688	724,968,605
Total assets	\$ 217,738,170	\$ 399,642,117	\$ 93,250,272	\$ 37,357,116	\$ 324,822	\$ 748,312,497
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 2,027,245	\$ 6,003,820	\$ 244,167	\$ 162,621	\$ 28,339	\$ 8,466,192
Due to City of Fort Wayne	646,968	812,786	302,128	626	4,592	1,767,100
Interfund payable - current portion	-	1,407,780	-	144,451	-	1,552,231
Compensated absences payable - current portion	576,334	423,682	125,102	-	875	1,125,993
Other current liabilities	903,921	3,156,743	187,159	148,759	1,129	4,397,711
Accrued interest payable	240,821	2,802,788	221,661	-	-	3,265,270
Bonds payable - current portion	1,705,000	5,470,000	985,000	-	-	8,160,000
Loans payable - current portion	1,870,000	4,064,929	-	-	-	5,934,929
Notes payable - current portion	17,840,000	-	-	-	-	17,840,000
Customer deposits	1,161,602	-	-	-	-	1,161,602
Total current liabilities	26,971,891	24,142,528	2,065,217	456,457	34,935	53,671,028
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	16,398,338	80,247,544	12,487,375	-	-	109,133,257
Loans payable	23,290,000	79,202,925	-	-	-	102,492,925
Compensated absences payable	858,896	448,784	73,885	-	860	1,382,425
Other long-term liabilities	-	-	-	12,389	-	12,389
Total noncurrent liabilities	40,547,234	159,899,253	12,561,260	12,389	860	213,020,996
Total liabilities	67,519,125	184,041,781	14,626,477	468,846	35,795	266,692,024
NET ASSETS						
Invested in capital assets, net of related debt	144,227,024	186,773,599	77,028,371	166,595	34,688	408,230,277
Restricted						
For debt service	297,918	16,739,120	410,417	-	-	17,447,455
For capital projects	500,000	1,156,186	-	-	-	1,656,186
For community trust	-	-	-	37,068,714	-	37,068,714
Unrestricted	5,194,103	10,931,431	1,185,007	(347,039)	254,339	17,217,841
Total net assets	150,219,045	215,800,336	78,623,795	36,888,270	289,027	481,620,473
Total liabilities and net assets	\$ 217,738,170	\$ 399,642,117	\$ 93,250,272	\$ 37,357,116	\$ 324,822	\$ 748,312,497

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended December 31, 2011

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2011
OPERATING REVENUES:						
Charges for goods and services	\$ 33,299,143	\$ 51,105,546	\$ 10,866,155	\$ -	\$ 153,582	\$ 95,424,426
OPERATING EXPENSES:						
Personnel services	8,425,363	7,736,693	1,754,531	-	11	17,916,598
Contractual services	1,157,242	2,284,012	234,182	-	90,360	3,765,796
Utilities	1,356,920	1,482,828	-	-	-	2,839,748
Chemicals	2,462,612	618,977	-	-	-	3,081,589
Administrative services	3,613,178	4,973,312	1,765,058	2,952	31,148	10,385,648
Other supplies/services	3,717,369	3,442,245	479,848	68,616	4,407	7,712,485
Depreciation	7,275,176	9,593,765	2,012,134	857	4,361	18,886,293
Total operating expenses	28,007,860	30,131,832	6,245,753	72,425	130,287	64,588,157
Operating income (loss)	5,291,283	20,973,714	4,620,402	(72,425)	23,295	30,836,269
NONOPERATING REVENUES (EXPENSES):						
Investment income	11,002	89,205	1,555	(1,329,996)	-	(1,228,234)
Installment interest income	-	-	-	1,511,890	-	1,511,890
Interest expense	(1,652,894)	(3,631,447)	(344,428)	-	(3)	(5,628,772)
Amortization of debt issuance costs	(93,791)	(132,087)	(35,746)	-	-	(261,624)
Other revenues/(expenses)	-	-	-	(61,386)	-	(61,386)
Loss on disposal of assets	(418,116)	(1,546,844)	(18,819)	(78,535)	(242)	(2,062,556)
Gain on installment sale	-	-	-	6,014,380	-	6,014,380
Total nonoperating revenues (expenses)	(2,153,799)	(5,221,173)	(397,438)	6,056,353	(245)	(1,716,302)
Income before capital contributions and transfers	3,137,484	15,752,541	4,222,964	5,983,928	23,050	29,119,967
Capital contributions	1,367,342	1,255,371	170,783	-	-	2,793,496
Transfers in	-	-	3,925,240	-	-	3,925,240
Transfers out	(2,386,426)	(7,325,903)	(998,557)	-	-	(10,710,886)
Change in net assets	2,118,400	9,682,009	7,320,430	5,983,928	23,050	25,127,817
Total net assets-beginning of year	150,219,045	215,600,336	78,623,795	36,888,270	289,027	481,620,473
Total net assets-end of year	\$ 152,337,445	\$ 225,282,345	\$ 85,944,225	\$ 42,872,198	\$ 312,077	\$ 506,748,290

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended December 31, 2010

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2010
OPERATING REVENUES:						
Charges for goods and services	\$ 33,511,691	\$ 42,532,710	\$ 9,656,494	\$ 2,794	\$ 158,506	\$ 85,862,195
Lease revenue	-	-	-	1,740,000	-	1,740,000
Total operating revenues	33,511,691	42,532,710	9,656,494	1,742,794	158,506	87,602,195
OPERATING EXPENSES:						
Personnel services	7,996,540	7,402,689	1,537,877	-	11	16,937,117
Contractual services	995,619	1,630,929	172,188	-	96,948	2,895,684
Utilities	1,293,337	1,480,417	-	-	-	2,773,754
Chemicals	2,200,521	753,015	-	-	-	2,953,536
Administrative services	3,570,142	4,770,448	1,887,661	-	30,777	10,259,028
Other supplies/services	3,569,344	3,489,745	826,665	1,069,081	5,195	8,960,030
Depreciation	7,047,897	9,125,985	1,960,951	60,445	5,521	18,200,799
Total operating expenses	26,673,400	28,653,228	6,385,342	1,129,526	138,452	62,979,948
Operating income	6,838,291	13,879,482	3,271,152	613,268	20,054	24,622,247
NONOPERATING REVENUES (EXPENSES):						
Investment income	18,104	112,971	1,709	4,195,034	-	4,327,818
Interest expense	(1,772,900)	(3,516,861)	(302,740)	-	-	(5,592,501)
Amortization of debt issuance costs	(90,608)	(116,278)	(38,241)	-	-	(245,127)
Other revenues (expenses)	-	-	-	(59,912)	-	(59,912)
Loss on disposal of assets	(505,753)	(284,159)	(45,221)	-	(429)	(835,562)
Total nonoperating revenues (expenses)	(2,351,157)	(3,804,327)	(384,493)	4,135,122	(429)	(2,405,284)
Income before capital contributions and transfers	4,487,134	10,075,155	2,886,659	4,748,390	19,625	22,216,963
Capital contributions	342,505	389,405	413,118	-	-	1,145,028
Transfers in	-	77,905	492,052	-	-	569,957
Transfers out	(1,921,873)	(3,649,535)	(952,549)	(1,185,000)	-	(7,708,957)
Change in net assets	2,907,766	6,892,930	2,839,280	3,563,390	19,625	16,222,991
Total net assets-beginning of year	147,311,279	208,707,406	75,784,515	33,324,880	269,402	465,397,482
Total net assets-end of year	\$ 150,219,045	\$ 215,600,336	\$ 78,623,795	\$ 36,888,270	\$ 289,027	\$ 481,620,473

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2011

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2011
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 33,534,018	\$ 48,295,760	\$ 10,349,642	\$ 2,794	\$ 134,663	\$ 92,316,877
Payments to suppliers	(12,671,509)	(12,935,540)	(2,108,060)	(498,790)	(138,077)	(28,351,976)
Payments to employees	(8,806,123)	(10,539,481)	(1,756,473)	(2,952)	(11)	(21,105,040)
Other receipts (payments)	207,511	(674,180)	100,910	-	(21)	(365,780)
Net cash provided (used) by operating activities	<u>12,263,897</u>	<u>24,146,559</u>	<u>6,586,019</u>	<u>(498,948)</u>	<u>(3,446)</u>	<u>42,494,081</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	<u>(2,386,426)</u>	<u>(3,400,663)</u>	<u>(998,557)</u>	-	-	<u>(6,785,646)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(4,138,163)	(33,028,654)	(2,311,855)	-	(1,441)	(39,480,113)
Proceeds from installment sale	-	-	-	6,885,000	-	6,885,000
Proceeds from long-term debt	47,840,000	39,414,324	-	-	-	87,254,324
Interest paid on long-term debt	(1,917,829)	(6,832,190)	(534,868)	-	-	(9,284,887)
Debt issuance costs	(528,465)	(153,813)	-	-	-	(682,278)
Principal paid on long-term debt	<u>(21,415,000)</u>	<u>(9,532,929)</u>	<u>(984,999)</u>	-	-	<u>(31,932,928)</u>
Net cash provided (used) by capital and related financing activities	<u>19,840,543</u>	<u>(10,133,262)</u>	<u>(3,831,722)</u>	<u>6,885,000</u>	<u>(1,441)</u>	<u>12,759,118</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	(5,000,000)	(35,000,000)	-	(31,792,394)	-	(71,792,394)
Sale of investments	-	-	-	34,317,895	-	34,317,895
Investment income received	<u>8,931</u>	<u>51,710</u>	<u>1,555</u>	<u>983,916</u>	-	<u>1,046,112</u>
Net cash provided (used) by investing activities	<u>(4,991,069)</u>	<u>(34,948,290)</u>	<u>1,555</u>	<u>3,509,417</u>	-	<u>(36,428,387)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,726,945	(24,335,656)	1,757,295	9,895,469	(4,887)	12,039,166
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,311,631</u>	<u>71,328,108</u>	<u>1,346,228</u>	<u>153,051</u>	<u>272,074</u>	<u>80,411,092</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 32,038,576</u>	<u>\$ 46,992,452</u>	<u>\$ 3,103,523</u>	<u>\$ 10,048,520</u>	<u>\$ 267,187</u>	<u>\$ 92,450,258</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	5,291,283	20,973,714	4,620,402	(72,425)	23,295	30,836,269
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	7,275,176	9,593,765	2,012,134	857	4,361	18,886,293
Provision for doubtful accounts	2,374	6,583	-	-	-	8,957
Changes in assets and liabilities:						
Receivables	234,875	(2,809,786)	(516,513)	2,794	(18,919)	(3,107,549)
Other assets	205,137	(680,763)	100,910	-	(21)	(374,737)
Accounts payable and other liabilities	<u>(744,948)</u>	<u>(2,936,954)</u>	<u>369,086</u>	<u>(430,174)</u>	<u>(12,162)</u>	<u>(3,755,152)</u>
Net cash provided (used) by operating activities	<u>\$ 12,263,897</u>	<u>\$ 24,146,559</u>	<u>\$ 6,586,019</u>	<u>\$ (498,948)</u>	<u>\$ (3,446)</u>	<u>\$ 42,494,081</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Fixed assets included in accounts payable	\$ 633,779	\$ 3,774,023	\$ 283,912	\$ -	\$ -	\$ 4,691,714
Fixed asset contributions	1,367,342	1,255,371	170,783	-	-	2,793,496
Interfund fixed asset contribution	-	(3,925,240)	3,925,240	-	-	-
Capitalized interest added to fixed assets	632,292	3,338,138	167,449	-	-	4,137,879
Unrealized loss on investments	-	-	-	(4,716,198)	-	(4,716,198)
Installment receivable included in unearned revenue	-	-	-	30,885,000	-	30,885,000

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Statement of Cash Flows
For the Year Ended December 31, 2010

	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	<u>Total 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 33,872,089	\$ 42,100,314	\$ 9,639,954	\$ (0.00)	\$ 177,132	\$ 85,789,489
Receipts from leases	-	-	-	1,740,000	-	1,740,000
Payments to suppliers	(12,082,149)	(12,243,473)	(4,544,892)	(904,017)	(131,017)	(29,905,548)
Payments to employees	(7,618,769)	(4,600,106)	(1,484,592)	-	(11)	(13,703,478)
Other receipts (payments)	<u>(65,460)</u>	<u>(73,786)</u>	<u>51,732</u>	<u>2,992</u>	<u>78</u>	<u>(84,444)</u>
Net cash provided by operating activities	<u>14,105,711</u>	<u>25,182,949</u>	<u>3,662,202</u>	<u>838,975</u>	<u>46,182</u>	<u>43,836,019</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	<u>(1,921,873)</u>	<u>(3,157,483)</u>	<u>(874,644)</u>	<u>(1,185,000)</u>	<u>-</u>	<u>(7,139,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(9,957,003)	(30,865,312)	(1,929,567)	-	(594)	(42,752,476)
Proceeds from long-term debt	17,840,000	44,712,718	-	-	-	62,552,718
Interest paid on long-term debt	(2,608,038)	(5,539,984)	(567,426)	-	-	(8,715,448)
Debt issuance costs	(269,236)	(239,198)	-	-	-	(508,434)
Principal paid on long-term debt	<u>(21,285,001)</u>	<u>(8,924,370)</u>	<u>(945,000)</u>	<u>-</u>	<u>-</u>	<u>(31,154,371)</u>
Net cash used by capital and related financing activities	<u>(16,279,278)</u>	<u>(856,146)</u>	<u>(3,441,993)</u>	<u>-</u>	<u>(594)</u>	<u>(20,578,011)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	-	-	-	(5,742,148)	-	(5,742,148)
Sale of investments	-	-	-	4,285,000	-	4,285,000
Investment income received	<u>18,104</u>	<u>106,749</u>	<u>1,709</u>	<u>1,047,819</u>	<u>-</u>	<u>1,174,381</u>
Net cash provided (used) by investing activities	<u>18,104</u>	<u>106,749</u>	<u>1,709</u>	<u>(409,329)</u>	<u>-</u>	<u>(282,767)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,077,336)	21,276,069	(652,726)	(755,354)	45,588	15,836,241
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,388,967</u>	<u>50,052,039</u>	<u>1,998,954</u>	<u>908,405</u>	<u>226,486</u>	<u>64,574,851</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,311,631</u>	<u>\$ 71,328,108</u>	<u>\$ 1,346,228</u>	<u>\$ 153,051</u>	<u>\$ 272,074</u>	<u>\$ 80,411,092</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	6,838,291	13,879,482	3,271,152	613,268	20,054	24,622,247
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	7,047,897	9,125,985	1,960,951	60,445	5,521	18,200,799
Provision for doubtful accounts	(100,182)	(131,202)	(21,267)	-	-	(252,651)
Changes in assets and liabilities:						
Receivables	360,398	(432,396)	(16,540)	(2,794)	18,626	(72,706)
Other assets	34,722	57,416	72,999	-	78	165,215
Accounts payable and other liabilities	<u>(75,415)</u>	<u>2,683,664</u>	<u>(1,605,093)</u>	<u>168,056</u>	<u>1,903</u>	<u>1,173,115</u>
Net cash provided by operating activities	<u>\$ 14,105,711</u>	<u>\$ 25,182,949</u>	<u>\$ 3,662,202</u>	<u>\$ 838,975</u>	<u>\$ 46,182</u>	<u>\$ 43,836,019</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Fixed assets included in accounts payable	\$ 1,149,058	\$ 5,136,780	\$ 169,486	\$ -	\$ -	\$ 6,455,324
Fixed asset contributions	342,505	389,405	413,118	-	-	1,145,028
Interfund fixed asset contribution	-	(414,147)	414,147	-	-	-
Capitalized interest added to fixed assets	217,511	2,946,045	241,788	-	-	3,405,344
Unrealized gain on investments	-	-	-	2,813,236	-	2,813,236

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

(1) Nature of Operations and Significant Accounting Policies

Financial Reporting Entity

The City of Fort Wayne Utilities (the Utilities) are included in the City of Fort Wayne, Indiana reporting entity pursuant to the entity definition criteria contained in the Governmental Accounting Standards Board (GASB) Statement 14.

The Utilities consist of Water, Wastewater, Stormwater, and Electric utilities in addition to the Yard Waste facility. All five areas are considered proprietary in nature. The electric utility generation and distribution systems were leased to a private firm in 1975.

Basis of Accounting and Financial Reporting

The Utilities prepare their financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Utilities elected, under GASB Statement 20, not to apply statements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the combined statement of cash flows, the Utilities consider all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value, except for short-term (less than one year), highly liquid investments (i.e. Certificates of Deposit, U.S. Treasury Securities, etc.), which are reported at cost or amortized cost.

Restricted Assets/Net Assets

All restricted assets/net assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

Capital Assets

Property, plant and equipment are recorded at cost, which includes interest incurred during construction periods. Donated property, plant and equipment are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized. When an individual asset is retired, depreciation is calculated. The difference between the original cost and the calculated depreciation results in a recognized loss.

Water, Wastewater, Stormwater and Yard Waste Utilities' assets are depreciated by individual asset. Electric Utility assets not under lease are depreciated using the group method. Depreciation of leased Electric Utility assets is calculated annually by dividing net assets by the years remaining on the 35-year lease.

Estimated useful lives, in years, are as follows:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Yard Waste Facility</u>
Buildings and improvements	25-44	25-44	--	35	20
Equipment and other	7-67	7-67	7-67	10-35	6-12
Distribution and collection	67	67	67	--	--

Net interest cost incurred on borrowed funds for the Water, Wastewater and Stormwater Utilities is capitalized as a component of the cost of construction. Net interest capitalized for the Water Utility was \$632,292 and \$217,511 in 2011 and 2010, respectively. Net interest capitalized for the Wastewater Utility was \$3,338,138 and \$2,946,045 in 2011 and 2010, respectively. Net interest capitalized for the Stormwater Utility was \$167,499 and \$241,788 in 2011 and 2010, respectively.

Unbilled Utility Revenue

The Water Utility accrues revenue for estimated water distributed but not yet billed as of the balance sheet date. Likewise, the Wastewater Utility and Stormwater Utility accrue revenue for estimated wastewater and stormwater service not yet billed as of such date.

Materials and Supplies

Materials and supplies are stated at cost (average cost for the Water Utility; first-in, first-out for the Wastewater Utility). Amounts for Stormwater, Electric and Yard Waste are immaterial and not reported.

CITY OF FORT WAYNE UTILITIES

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Bond Issuance Costs, Discounts and Premiums

Bond issuance costs, discounts and premiums are amortized over the lives of the respective bond issues using the interest method.

Compensated Absences

Employees earn vacation at rates from ten days to twenty-five days per year, based on the number of years of service. One year of unused vacation leave may be carried over to the next. Unpaid vacation pay is recorded as a liability as the benefits accrue to the employee.

Accrued compensated absences for Utilities' personnel are charged as an operating expense, using the vesting method, based on earned but unused vacation and sick leave days including the Utilities' share of social security and medicare taxes.

Unused sick leave may be carried over from year to year. City employees must have completed ten years of service to receive payment for unused sick leave. Unused sick leave payoffs are calculated as follows: (1) \$1.00 for each hour up to 520 hours, plus (2) 50% of the employee's normal straight time hourly rate times each sick leave hour over 520. In lieu of item "2" above, the employee may receive credit at the rate of 100% of the employee's normal straight time hourly rate for each sick leave hour over 520 if used to purchase group health insurance; with any remaining hours paid to the employee at the rate of 50% of employee's normal straight time hourly rate. There is a \$25,000 limit on the amount paid for sick time accrual. Council approved exceptions to this limit in 2000. The liability recorded for unused sick leave is an estimate based on prior experience of the actual payoff method chosen.

Classification of Revenue

The Utilities have classified their revenue as either operating or nonoperating according to the following criteria:

- Operating revenues include activities that have the characteristics of exchange transactions, such as customer charges and lease payments.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as contributions and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting, and GASB Statement 34, such as investment income.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the results of the operations.

(2) Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories. The Utilities do not have a formal policy for custodial credit risk.

Investments

Authorization for investment activity is stated in Indiana Code IC 5-13. The Utilities had the following investments at December 31, 2011 and 2010.

December 31, 2011	Investment Maturities (in years)	
	Fair Value	Less than one
Certificate of Deposit	\$40,000,000	\$40,000,000
Mutual Funds	<u>\$32,125,512</u>	<u>\$32,125,512</u>
Total	<u>\$72,125,512</u>	<u>\$72,125,512</u>

December 31, 2010	Investment Maturities (in years)	
	Fair Value	Less than one
Mutual Funds	<u>\$37,034,676</u>	<u>\$37,034,676</u>

Investment Policies

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal

CITY OF FORT WAYNE UTILITIES

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government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years. Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the Federal Investment Company act of 1940, as amended. Investments in money market mutual funds may not exceed fifty percent (50%) of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States, obligations issued by a federal agency, a federal instrumentality, a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of or interest in an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one (1) day.

The Community Trust, which invests in a variety of securities and mutual funds, is not subject to the requirements of Indiana Statutes governing authorized investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Utilities do not have a formal investment policy that limits investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Utilities do not have a formal investment policy for credit risk. The distribution of securities with credit ratings is summarized below.

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Notes to Financial Statements

December 31, 2011 and 2010

<u>Investment Type</u>	<u>Morningstar Rating</u>	<u>2011</u>	<u>2010</u>
Certificate of Deposit	Not Rated	\$40,000,000	\$ --
Mutual Funds	Below Average	6,679,179	9,938,595
	Average	23,927,909	15,350,851
	Above Average	--	9,523,579
	High	1,518,424	--
	Not Rated	--	2,221,651
	Total		<u>\$72,125,512</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of their investment or collateral securities that are in the possession of an outside party. The Utilities do not have a policy in regard to custodial credit risk. For investments that are uninsured and 1) uncollateralized, 2) collateralized with securities held by the pledging financial institution, or 3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name.

Foreign Currency Risk

This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The Utilities' exposure to foreign currency risk derives from their investment at December 31, 2011 in foreign mutual funds with a fair value of \$5,638,939 and at December 31, 2010 in foreign mutual funds with a fair value of \$9,077,556. The Utilities do not have a policy in regard to foreign currency risk.

Other

Under the City's cash management program, the Utilities participate in pooled cash account arrangements for some of their cash and investment activities. Interfund borrowing is shown as interfund receivables/payables in the accompanying financial statements. Interest income is allocated to accounts with positive balances.

For the year ending December 31, 2011, the Community Trust had net investment loss of \$1,334,143. The Trust incurred realized gains of \$2,332,535, unrealized losses of \$4,716,198 and cash net income of \$1,049,521. For the year ending December 31, 2010, the Community Trust had a net investment gain of \$4,194,485. The Trust incurred realized gains of \$274,066, unrealized gains of \$2,813,236 and cash net income of \$1,107,183.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
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(3) Restricted Assets

Restricted assets consisted of the following at December 31, 2011:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Total</u>
Cash and cash equivalents:					
Sinking fund	\$ 664,993	\$ 7,319,931	\$ 631,271	\$ --	\$ 8,616,195
Debt service reserve	1,164,968	14,721,343	--	--	15,886,311
Construction	22,608,111	35,588,786	--	--	38,196,897
Airport expressway	2,000,000	--	--	--	2,000,000
Customer deposits	1,205,857	--	--	--	1,205,857
Connection fees	--	143,360	--	--	143,360
Septic elimination program	--	1,593	--	--	1,593
Community trust	--	--	--	<u>3,547,674</u>	<u>3,547,674</u>
Total	<u>\$ 27,643,929</u>	<u>\$ 37,775,013</u>	<u>\$ 631,271</u>	<u>\$ 3,547,674</u>	<u>\$ 69,597,887</u>
Investments:					
Construction fund	\$ 5,000,000	\$ 35,000,000	\$ --	\$ --	\$ 40,000,000
Community trust	--	--	--	<u>32,125,512</u>	<u>32,125,512</u>
Total	<u>\$ 5,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ --</u>	<u>\$ 32,125,512</u>	<u>\$ 72,125,512</u>

Restricted assets consisted of the following at December 31, 2010:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Total</u>
Cash and cash equivalents:					
Sinking fund	\$ 538,739	\$ 10,147,892	\$ 632,079	\$ --	\$ 11,318,710
Debt service reserve	--	9,394,016	--	--	9,394,016
Construction	1,524,232	44,202,386	--	--	46,726,616
Airport expressway	500,000	--	--	--	500,000
Customer deposits	1,161,602	--	--	--	1,161,602
Connection fees	--	115,637	--	--	115,637
Asset transfer contingency	--	1,040,549	--	--	1,040,549
Community trust	--	--	--	<u>34,038</u>	<u>34,038</u>
Total	<u>\$ 3,724,573</u>	<u>\$ 64,900,480</u>	<u>\$ 632,078</u>	<u>\$ 34,038</u>	<u>\$ 69,291,170</u>
Investments					
Community trust	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 37,034,676</u>	<u>\$ 37,034,676</u>

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Notes to Financial Statements
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Sinking Fund

Monthly deposits into sinking fund account for the Sewage Works Utility's net revenues is required to be in an amount equal to at least 1/6 of the next semi-annual interest payment and 1/12 of the next annual principal payment. Other related debt service requirements are held in the debt service account.

Monthly deposits into sinking fund accounts of both the Water and Stormwater Utilities' net revenues are required to be in an amount equal to at least 1/6 of the next semi-annual interest payments and 1/12 of the next annual principal payments. Upon meeting certain minimum balance requirements, transfers may be made to unrestricted cash accounts. Surety bonds purchased by the Utilities cover the Waterworks and Stormwater Reserve Accounts requirements.

Debt Service Reserve

In addition to the sinking fund accounts, revenue bonds require debt service "reserve accounts" which require funding at: the lesser of 10% of bond proceeds, the maximum annual principal and interest required thereon, or 125% of the average annual principal and interest requirements thereon. The Utilities calculate its debt service reserve accounts on a consolidated basis and may fund the debt service reserve by holding cash or through the purchase of surety bond insurance. Among other requirements, the surety bond insurer must maintain a AAA or Aaa rating with Standards and Poor's or Moody's respectively.

Prior to 2009, all Utility revenue bonds' debt service reserves were funded through surety bond insurance except the Sewage Works Junior Revenue Bonds of 1998 A and 1998 B which were cash funded. As a result of the financial crisis that occurred in late 2008 – early 2009 and up to and including 2010, the surety bond insurers failed to maintain their AAA/Aaa rating. While still insured, this failure to maintain AAA/Aaa ratings required the Utilities to cash fund the debt service reserve accounts for the affected revenue bonds. As of December 31, 2011, all surety bond insurance for Waterworks and Sewage Works Revenue Bonds have been replaced with cash funded debt service reserves as required by bond ordinance.

The surety bond insurer for the Stormwater Management District Revenue Bonds of 2006 has failed to maintain the required AAA/Aaa rating. The appropriate disclosures have been made to the bondholders and no other action has been taken.

Construction

Unspent bond issue proceeds to be used in the construction of designated capital assets are included in this account.

CITY OF FORT WAYNE UTILITIES

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Airport Expressway

In 2010, Water Utility entered into a tri-lateral agreement with the Redevelopment Commission and a Developer to construct a water main extension along the airport expressway. The Redevelopment Commission agreed to advance TIF funds to the Water Utility at such times so as to pay the Developer according to the contractual payment schedule. Monies received by the Water Utility prior to the Developer's payment due date will be held in a restricted account.

Customer Deposits

Customer deposits are refundable amounts received from Water Utility customers to insure against nonpayment of billings or water main damages.

Connection Fees

Certain area connection fees are designated for repayment of certain development costs as well as for reinvestment in specific areas. The unspent connection fees are reported in this restricted category.

Asset Transfer Contingency

On October 28, 2010, the City entered into an agreement to transfer the remaining Electric Utility assets to a private electric utility. As part of the agreement, regular monthly installment payments were received. Until the transfer agreement had received all regulatory approvals, the payments had forfeiture conditions and as such, were set aside and reported as restricted assets. The contingent balance as of December 31, 2010 was \$1,040,549. This amount was held in the Wastewater Utility since the Electric Utility used it to partially repay a prior interfund loan from the Wastewater Utility. The transfer agreement was subsequently approved in 2011 and all restrictions were lifted (see Note 6).

Septic Elimination Program

In 2009, the Fort Wayne Board of Public Works authorized the creation of a City Utilities Revolving Fund as an alternative funding source for septic tank elimination in Allen County. This fund provides the funding necessary to construct wastewater mains allowing homeowners to discontinue use of failing septic tanks and connect to public infrastructure. The program also provides financial incentives to encourage septic tank elimination. Any unexpended funds are restricted for future septic tank elimination projects.

CITY OF FORT WAYNE UTILITIES

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December 31, 2011 and 2010

(4) Assessments Receivable

Assessments receivable represent assessments due from customers for sewer connections. The individual assessments range from \$2,000 to \$24,000 and are due in 120 monthly principal installments plus interest on the unpaid portion at ranges from 0% to 7% per year.

(5) Community Trust

The City Council established the Community Trust in 1975 to account for a portion of the proceeds received from a private utility leasing the assets of the Electric Utility (see Note 6). On February 28, 2010, the Electric Utility's lease expired. The Community Trust received its final \$270,000 annual deposit in May of 2009 and is no longer entitled to future lease revenues or sales proceeds under the 1975 authorizing ordinance, also now expired.

The accumulated rents and investment earnings of the Community Trust were meant to enable the City to reclaim its Electric Utility by reimbursing the private utility for additions, extensions and betterments upon either default of its obligations under the lease or upon expiration of the lease.

Under the provisions of the 1975 authorizing ordinance, the corpus of the trust was to be free from invasion as long as the lease was in force. The lease has expired, the previously leased Electric Utility assets have been sold (see Note 6) and the corpus of the trust no longer needs to be held in reserve to reclaim the Electric Utility from the lessor (private utility).

(6) Lease and Subsequent Installment Sale of Electric Utility Assets

The Electric Utility had leased its entire utility system, including power plant, substations, and transmissions and distribution system, to a private electric utility serving the surrounding area. The lease term commenced March 1, 1975, and expired on February 28, 2010. Lease payments of \$290,000, including the last lease payment under this lease, were received for the year ended December 31, 2010.

On October 28, 2010, the City entered into an agreement to transfer the remaining Electric Utility assets to a private electric utility (Transferee), which had previously leased the assets for 35 years under a lease agreement that expired on February 28, 2010. On August 10, 2011, the Indiana Utility Regulatory Commission approved the transfer agreement. Under the terms of the transfer agreement, the City transferred ownership of the remaining leased Electric Utility assets, relinquished the right to buy back any betterments under the expired lease and will never again supply electricity within the City of Fort Wayne. The Transferee, in exchange for the remaining Electric Utility assets and the right to be the exclusive supplier of electricity, paid an initial payment of \$5,786,270. The City paid \$555,000 to the Transferee for products and services provided to the City under the previous lease. The Transferee also agreed to pay to the City annual payments as per the following table:

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

Annual Amount	Period	Period Totals	Amount Received	Future Payments
\$1,740,000	3/1/10 to 2/28/13	\$ 5,220,000	\$3,335,000	\$1,885,000
2,200,000	3/1/13 to 2/28/16	6,600,000	--	6,600,000
2,400,000	3/1/16 to 2/28/21	12,000,000	--	12,000,000
2,600,000	3/1/21 to 2/28/25	<u>10,400,000</u>	--	<u>10,400,000</u>
	Totals	<u>\$34,220,000</u>	<u>\$3,335,000</u>	<u>\$30,885,000</u>

For accounting purposes, the asset transfer is being treated as an installment sale. As of December 31, 2011, total future payments are \$30,885,000 of which \$1,740,000 is reported as Installment receivable – current portion. Using an 8.13% discount rate, the 2011 gain from installment sale was \$6,014,380 and the imputed interest from installment sale was \$1,511,290.

A historical cost summary of the Electric Utility Plant at December 31, 2011:

	Utility Plant on <u>Operating Lease</u>	<u>Other</u>	<u>Total</u>
Land	\$ --	\$ 75,732	\$ 75,732
Buildings and improvements	--	1,121,198	1,121,198
Equipment	--	342,787	342,787
Distribution and collection	--	--	--
Gross capital assets	--	1,539,717	1,539,717
Less:			
Accumulated depreciation	--	(1,444,149)	(1,444,149)
Net capital assets	<u>\$ --</u>	<u>\$ 95,568</u>	<u>\$ 95,568</u>

A historical cost summary of the Electric Utility Plant at December 31, 2010:

	Utility Plant on <u>Operating Lease</u>	<u>Other</u>	<u>Total</u>
Land	\$ 69,102	\$ 41,601	\$ 110,703
Buildings and improvements	158,564	1,036,272	1,194,836
Equipment	1,100,447	155,975	1,256,422
Distribution and collection	<u>5,666,429</u>	--	<u>5,666,429</u>
Gross capital assets	6,994,542	1,233,848	8,228,390
Less:			
Accumulated depreciation	<u>(6,877,636)</u>	<u>(1,184,159)</u>	<u>(8,061,795)</u>
Net capital assets	<u>\$ 116,906</u>	<u>\$ 49,689</u>	<u>\$ 166,595</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

(7) Capital Assets

The following changes occurred in capital assets during the years ended December 31:

<u>2011</u>	Balance <u>Jan. 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	Adjustments / <u>Transfers</u>	Balance <u>Dec. 31, 2011</u>
Land	\$ 8,428,945	\$ --	\$ 34,971	\$ 118,988	\$ 8,512,962
Distribution and collection	481,427,642	--	6,628,793	34,549,048	509,347,897
Buildings and improvement	182,054,592	--	3,368,710	1,353,580	180,039,462
Equipment and other	177,562,761	1,699,924	16,798,019	2,381,172	164,845,838
Construction in progress	<u>37,511,193</u>	<u>45,990,216</u>	<u>--</u>	<u>(38,829,922)</u>	<u>44,671,487</u>
	886,985,133	47,690,140	26,830,493	(427,134)	907,417,646
Less accumulated depreciation:					
Distribution and collection	124,564,806	7,283,791	6,746,859	572,153	125,673,891
Buildings and improvement	57,493,095	4,030,911	2,176,699	(8364)	59,338,943
Equipment and other	<u>88,862,462</u>	<u>7,571,591</u>	<u>16,756,472</u>	<u>(572,150)</u>	<u>79,105,431</u>
	<u>270,920,363</u>	<u>18,886,293</u>	<u>25,680,030</u>	<u>(8,361)</u>	<u>264,118,265</u>
Net Capital Assets	<u>\$616,064,770</u>	<u>\$28,803,847</u>	<u>\$ 1,150,463</u>	<u>\$ (418,773)</u>	<u>\$643,299,381</u>

<u>2010</u>	Balance <u>Jan. 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	Adjustments / <u>Transfers</u>	Balance <u>Dec. 31, 2010</u>
Land	\$ 5,745,055	\$ --	\$ --	\$ 2,683,890	\$ 8,428,945
Distribution and collection	460,342,865	--	548,730	21,633,507	481,427,642
Buildings and improvement	182,680,882	13,140	89,166	(550,264)	182,054,592
Equipment and other	162,045,510	1,283,350	3,198,376	17,432,277	177,562,761
Construction in progress	<u>35,867,404</u>	<u>43,199,802</u>	<u>--</u>	<u>(41,556,013)</u>	<u>37,511,193</u>
	846,681,716	44,496,292	3,836,272	(356,603)	886,985,133
Less accumulated depreciation:					
Distribution and collection	118,111,056	6,984,290	530,085	(455)	124,564,806
Buildings and improvement	53,784,877	3,780,544	72,331	5	57,493,095
Equipment and other	<u>84,178,012</u>	<u>7,435,965</u>	<u>2,795,437</u>	<u>43,922</u>	<u>88,862,462</u>
	<u>256,073,945</u>	<u>18,200,799</u>	<u>3,397,853</u>	<u>43,472</u>	<u>270,920,393</u>
Net Capital Assets	<u>\$590,607,771</u>	<u>\$26,295,493</u>	<u>\$ 438,419</u>	<u>\$ (400,075)</u>	<u>\$616,064,770</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

(8) Developer Notes Payable

Certain future revenues in newly developed areas are pledged as payment to retire developer debt associated with infrastructure installed to enable the new developments. Capital surcharges applicable only to designated new development regions and area connection fees generated from the designated new development regions will be applied to the developer debt until paid in full. Only revenue generated and collected from the new developments is available to retire the debt. Pledged revenues were \$301,455 and \$296,725 in 2011 and 2010, respectively. Developer notes payable were \$2,201,994 and \$2,387,620 for 2011 and 2010, respectively. The debt accrues interest at prime, which as of the end of 2011 was at 3.25%, plus 1%. Developer notes payable are included in current liabilities.

(9) Bond Anticipation Note

In 2008, the Waterworks Utility financed the acquisition of Aqua Indiana asset with Waterworks Utility Revenue Bond Anticipation Notes, Series 2008 (BAN1) issued February 5, 2008 for \$17,840,000. BAN1 was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2009 (BAN2) issued on February 11, 2009 in the amount of \$17,840,000. BAN2 had an interest rate of 4.25% and was payable on February 11, 2010. BAN2 was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2010 (BAN3). BAN3 was issued on February 11, 2010 in the amount of \$17,840,000. BAN3 had an interest rate of 0.60% and was payable on or before February 10, 2011. BAN3 was retired by the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2011 (BAN4). BAN4 was issued on February 9, 2011 in the amount of \$17,840,000 with an interest rate of 0.65% and is payable on February 8, 2012

(10) Long-Term Debt

Bonds Payable:

Details of all Utilities' bonds payable at December 31, 2011 are as follows:

Water Works Revenue Bonds of 2003 – original issue of \$5,800,000 – interest rates range from 2.00% to 4.250% and mature serially in amounts ranging from \$405,000 in 2012 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$8,136.	\$ 2,723,136
Water Works Revenue Bonds of 2006 – original issue of \$16,700,000 – interest rates range from 2.70% to 4.40% and mature serially in amounts ranging from \$1,370,000 in 2012 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$35,487.	13,665,487

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Sewage Works Junior Revenue Bonds of 1998, Series A – original issue of \$10,640,000 – interest rates range from 4.25% to 5.00% and matures in the amount of \$975,000 in 2012 less unamortized bond discount of \$155.	974,845
Sewage Works Junior Revenue Bonds of 1998, Series B – original issue of \$16,760,000 – interest rates range from 4.00% to 4.50% and matures in the amount of \$1,535,000 in 2012, less unamortized bond discount of \$150.	1,534,850
Sewage Works Junior Refunding and Revenue Bonds of 2002, Series B – original issue of \$19,080,000 – interest rates range from 3.50% to 5.50% and mature serially in amounts from \$1,040,000 in 2012 to \$1,100,000 in 2017, redeemable at 100% beginning in 2013, plus unamortized bond premium of \$91,914.	6,851,914
Sewage Works Junior Revenue Bonds of 2002, Series C – original issue of \$5,750,000 – interest rates range from 1.30% to 4.55% and mature serially in amounts from \$405,000 in 2012 to \$500,000 in 2017, redeemable at 100% beginning in 2014.	2,700,000
Sewage Works Junior Revenue Bonds of 2003 – original issue of \$12,350,000 – interest rates range from 2.00% to 3.80% and mature serially in amounts from \$825,000 in 2012 to \$1,045,000 in 2018, plus unamortized bond premium of \$12,706.	6,527,706
Sewage Works Revenue Bonds of 2007 – original issue of \$24,155,000 – interest rates range from 4.25% to 4.75% and mature serially in amounts from \$930,000 in 2012 to \$1,775,000 in 2027, redeemable at 100% beginning in 2017, less unamortized bond discount of \$20,750.	20,839,250
Sewage Works Revenue Bonds of 2010 – original issue of \$41,045,000 – interest rates range from 4.25% to 4.50% and mature serially in amounts from \$1,715,000 in 2013 to \$3,135,000 in 2030, less unamortized bond discount of \$235,871.	40,809,129
Sewage Works Revenue Bonds of 2011 – Series A – original issue \$38,100,000 – interest rate is 2.8% annually and mature serially in amounts from \$2,580,000 in 2014 to \$3,490,000 in 2026.	38,100,000
Stormwater Management District Revenue Bonds of 2006 – original issue of \$17,000,000 – interest rates range from 3.75% to 4.00% and mature serially in amounts from \$1,020,000 in 2012 to \$1,500,000 in 2021, plus unamortized bond premium of \$39,775.	<u>12,479,775</u>
Total	147,206,092

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

Less: Current portion	<u>(8,505,000)</u>
Noncurrent Bonds payable, net	<u>\$138,701,092</u>

Total bond debt service requirements to maturity as of December 31, 2011 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	8,505,000	4,630,505	14,135,505
2013	7,975,000	5,457,430	13,432,430
2014	10,840,000	5,127,388	15,967,388
2015	11,185,000	4,711,265	15,896,265
2016	11,430,000	4,270,132	15,700,132
2017 to 2021	47,575,000	14,993,986	62,568,986
2022 to 2026	36,235,000	7,294,799	43,529,799
2027 to 2030	<u>13,530,000</u>	<u>1,435,667</u>	<u>14,965,667</u>
Total	<u>\$147,275,000</u>	<u>\$47,921,172</u>	<u>\$195,196,172</u>

Loans Payable:

Indiana State Revolving Fund Loan Program (SRF) is a program that provides wastewater and drinking water loans, often at reduced interest rates and reduced issuance costs, to Indiana cities and towns. SRF “draw-down” loans are awarded as a “not-to-exceed” loan amount and the amount is later fixed at the amount actually borrowed to complete the pre-established wastewater or drinking water projects. The interest rate is fixed at the time of the award and the duration is established shortly thereafter. For shared pool loans, SRF coordinates the financing activities for several Indiana communities and issues bonds on the open market to provide the funding for each community’s projects. The loan amount, interest rate and duration are fixed at the time of the consolidated loan’s issuance. Occasionally, SRF will make traditional loans with fixed rate, amount and duration.

With the exception of the SRF Revenue Bonds of 2008, SRF loans payable are issued on a parity basis with revenue bonds and are collateralized identically by the net revenues of the issuing Utility.

Details of all Utilities’ State Revolving Fund (SRF) loans payable at December 31, 2011 are as follows:

SRF Draw-down loans:

Sewage Works SRF Junior Revenue Bonds of 2002, Series A – Final Draw – \$23,454,351 –the interest rate is 4.0% and mature serially in amounts ranging from \$1,077,000 in 2012 to \$1,663,000 in 2023, redeemable prior to maturity for bonds maturing after 2013.

\$ 16,184,351

Sewage Works SRF Revenue Bonds of 2005 – Final Draw -

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

\$40,000,000 – the interest rate is 3.1% and mature serially in amounts ranging from \$1,770,000 in 2012 to \$2,635,000 in 2025, redeemable prior to maturity for bonds maturing after 2017.	30,445,000
Sewage Works SRF Revenue Bonds of 2009 – Draw up to \$5,000,000 – As of December 31, 2011, total draw is \$4,661,307 – the interest rate is 0.54% and mature serially in amounts ranging from \$241,497 in 2012 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020	4,316,420
Sewage Works SRF Revenue Bonds of 2011, Series B – Draw up to \$33,576,000 – as of December 31, 2011, total draw is \$861,291 – the interest rate is 2.29% and matures serially in amounts ranging from \$1,200,000 in 2012 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2023.	861,291
SRF Shared Pool loans:	
Waterworks SRF Revenue Bonds of 2006 – final pool share - \$31,900,000 – the interest rate is 3.95% and mature serially in amounts ranging from \$1,945,000 in 2012 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017.	23,290,000
Waterworks SRF Revenue Bonds of 2011, Series B – original pool share issue \$26,906,000 – the interest rate is 2.967% and matures serially in amounts ranging from \$1,000 in 2013 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2021.	26,906,000
Sewage Works SRF Revenue Bonds of 2009, Series B – final pool share - \$29,091,005 – the interest rate is 4.16% and mature serially in amounts ranging from \$1,000,788 in 2012 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020.	28,130,187
SRF Traditional loan:	
Sewage Works SRF Revenue Bonds of 2008 - original issue of \$906,000 – the interest rates is 2.0% and mature serially in amounts from \$111,000 in 2012 to \$120,000 in 2016, redeemable prior to maturity for all outstanding bonds.	582,000
Waterworks SRF Revenue Bonds of 2011, Series A (taxable) – original issue \$3,094,000 – the interest rate is 3.746% and matures serially in amounts ranging from \$502,000 in 2012 to \$1,320,000 in 2014.	<u>3,094,000</u>
Total SRF Loans Payable	133,809,249
Less: Current Portion	<u>(7,508,576)</u>
Noncurrent SRF Loans Payable, net	<u>\$ 126,300,673</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

The total anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2011 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	7,847,285	4,999,409	12,846,694
2013	9,016,304	5,118,219	14,134,523
2014	9,322,057	4,811,744	14,133,801
2015	9,444,612	4,494,229	13,938,841
2016	9,760,399	4,181,668	13,942,067
2017 to 2021	53,390,224	15,838,662	69,228,886
2022 to 2026	37,026,071	7,524,716	44,550,787
2027 to 2031	<u>28,420,699</u>	<u>2,409,092</u>	<u>30,829,791</u>
Total	<u>\$ 164,227,651</u>	<u>\$ 49,377,739</u>	<u>\$ 213,605,390</u>

Changes in Long-Term Liabilities

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2011:

	<u>Balance Jan. 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2011</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 117,293,257	\$ 38,100,000	\$ 8,187,165	\$ 147,206,091	\$ 8,505,000
Loans payable	<u>108,427,854</u>	<u>31,314,324</u>	<u>5,932,929</u>	<u>133,809,249</u>	<u>7,508,576</u>
Total bonds and loans	225,721,111	69,414,324	14,120,094	281,015,340	16,013,576
Other noncurrent liabilities					
Accrued compensated absences	2,508,418	1,079,819	1,084,112	2,504,125	1,126,200
Other long-term liabilities	<u>16,148</u>	<u>--</u>	<u>807</u>	<u>15,341</u>	<u>3,759</u>
Total other noncurrent liabilities	<u>2,524,566</u>	<u>1,079,819</u>	<u>1,084,112</u>	<u>2,519,466</u>	<u>1,129,959</u>
	<u>\$ 228,245,677</u>	<u>\$ 70,494,143</u>	<u>\$ 15,204,206</u>	<u>\$ 283,534,806</u>	<u>\$ 17,143,535</u>

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2010:

	<u>Balance Jan. 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2010</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 84,773,083	\$ 40,773,427	\$ 8,253,253	\$ 117,293,257	\$ 8,160,000
Loans payable	<u>109,707,485</u>	<u>3,396,145</u>	<u>4,675,776</u>	<u>108,427,854</u>	<u>5,934,929</u>
Total bonds and loans	194,480,568	44,169,572	12,929,029	225,721,111	14,094,929
Other noncurrent liabilities					
Accrued compensated absences	2,386,297	2,055,578	1,933,457	2,508,418	1,125,993
Other long-term liabilities	<u>23,022</u>	<u>--</u>	<u>6,874</u>	<u>16,148</u>	<u>3,759</u>
Total other noncurrent liabilities	<u>2,409,319</u>	<u>2,055,578</u>	<u>1,940,331</u>	<u>2,524,566</u>	<u>1,129,752</u>
	<u>\$ 196,889,887</u>	<u>\$ 46,225,150</u>	<u>\$ 14,869,360</u>	<u>\$ 228,245,677</u>	<u>\$ 15,224,681</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

(11) Related Party Transactions

During the course of operations, numerous transactions occurred between the Utilities and City for goods and services rendered. The Water Utility received hydrant rental revenue from the City of \$2,935,910 and \$2,934,478 in 2011 and 2010, respectively. The Utilities also received \$665,224 and \$683,777 in 2011 and 2010, respectively from the City for other water, sewer and stormwater services.

The City received the following from the Utilities in 2011:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Yard Utility</u>	<u>Electric Utility</u>	<u>Totals</u>
Self insurance				\$		
	\$2,172,171	\$ 2,131,072	\$ 518,232	3,775	\$ --	\$4,825,250
Garage services	616,009	621,271	202,770	149	--	1,440,199
Overhead charges	487,318	670,763	238,058	4,201	--	1,400,340
Office and technical services						
	<u>41,559</u>	<u>144,444</u>	<u>37,308</u>	<u>203</u>	<u>3,759</u>	<u>227,273</u>
	3,317,057	3,567,550	996,368	8,328	3,759	7,893,062
Transfers out to the Redevelopment Commission	--	--	--	--	--	--
Transfers out in lieu of taxes	<u>2,386,426</u>	<u>3,400,663</u>	<u>998,557</u>	--	--	<u>6,785,646</u>
Totals				\$		
	<u>\$5,703,483</u>	<u>\$ 6,968,213</u>	<u>\$ 1,994,925</u>	<u>8,007</u>	<u>\$ 3,759</u>	<u>\$14,678,708</u>

The City received the following from the Utilities in 2010:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Yard Utility</u>	<u>Electric Utility</u>	<u>Totals</u>
Self insurance				\$		
	\$2,072,186	\$ 2,000,614	\$ 519,481	3,511	\$ --	\$4,595,792
Garage services	561,343	510,480	190,665	128	--	1,262,616
Overhead charges	487,318	651,158	257,663	4,201	--	1,400,340
Office and technical services						
	<u>35,883</u>	<u>196,303</u>	<u>37,654</u>	<u>167</u>	<u>3,882</u>	<u>273,889</u>
	3,156,730	3,358,555	1,005,463	8,007	3,882	7,532,637
Transfers out to the Redevelopment Commission	--	--	--	--	1,185,000	1,185,000
Transfers out in lieu of taxes	<u>1,921,873</u>	<u>3,157,483</u>	<u>874,644</u>	--	--	<u>5,954,000</u>
Totals				\$		
	<u>\$5,078,603</u>	<u>\$ 6,516,038</u>	<u>\$ 1,880,107</u>	<u>8,007</u>	<u>\$1,188,882</u>	<u>\$14,671,637</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

(12) Interfund Assets and Liabilities

As of December 31, 2011 and 2010, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

Due from City:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2011</u>	<u>2010</u>
Water	General	\$ 7,261	\$ 7,416
	Lease	347,244	--
	Benefits	87	--
	Garage	<u>3,949</u>	<u>756</u>
Sub-total Water		<u>358,541</u>	<u>8,172</u>
Wastewater	General	8,025	10,176
	Lease	189,980	--
	Benefits	120	--
	Garage	<u>2,213</u>	<u>1,009</u>
Sub-total Wastewater		<u>200,338</u>	<u>11,185</u>
Stormwater	General	3,628	4,156
	Lease	105,049	--
	Benefits	1,131	--
	Garage	<u>913</u>	<u>399</u>
Sub-total Stormwater		<u>110,721</u>	<u>4,555</u>
Electric	General	<u>--</u>	<u>2,749</u>
Yard Waste	General	50	59
	Benefits	<u>1</u>	<u>7</u>
Sub-total Yard Waste		<u>51</u>	<u>66</u>
Total Due from City		<u>\$ 669,651</u>	<u>\$ 26,772</u>

Due to City:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2011</u>	<u>2010</u>
General	Water	\$ 58,089	\$ 29,718
Solid Waste		460,583	528,564
Park		389	212
MVH		12,613	--
Lease		64,295	--
Garage		57,338	54,844
CEDIT		--	33,630
CSQ Parking		<u>1,264</u>	<u>--</u>
Sub-Total Water		<u>654,571</u>	<u>646,968</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

General	Wastewater	\$ 93,153	\$ 46,918
Solid Waste		633,964	706,270
MVH		19,513	6,192
Fed Revolving		107,740	--
Lease		46,886	--
Garage		73,469	53,406
CSQ Parking		1,861	--
Sub-total Wastewater		<u>976,586</u>	<u>812,786</u>
General	Stormwater	18,139	2,971
Solid Waste		224,998	279,470
MVH		--	2,758
Lease		28,923	--
Garage		19,631	16,929
CSQ Parking		665	--
Sub-total Stormwater		<u>292,356</u>	<u>302,128</u>
General	Electric	<u>627</u>	<u>2,794</u>
General	Yard Waste	234	25
Solid Waste		3,971	4,557
Lease		33	--
Garage		12	10
CSQ Parking		10	--
Sub-total Yard Waste		<u>4,260</u>	<u>4,592</u>
Total Due to City		<u>\$ 1,928,400</u>	<u>\$ 1,737,100</u>

Interfund Receivables / Payables

In 2008, the Water Utility financed the acquisition of the Aqua Indiana assets with Waterworks Utility Revenue Bond Anticipation Notes, Series 2007. Included in this acquisition were Wastewater Utility assets valued at approximately \$1,407,780. An inter-fund receivable was set up on the Water Utility and an interfund payable was set up on the Wastewater Utility for the same amount. The Wastewater Utility repaid half of the outstanding balance during 2011. The interfund payable/receivable was \$703,890 and \$1,407,780 as of December 31, 2011 and 2010, respectively.

In 2010, the Wastewater Utility advanced funds to the Electric Utility to satisfy the Electric Utility's obligation to the City's Cumulative Capital Improvement Fund. The short-term loan has been substantially reduced in 2010 and was fully satisfied in early 2011. The outstanding balance was \$144,151 as of December 31, 2010 and was reported as an interfund receivable / payable.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

In 2011, the Utilities participated in the City's Commercial Master Lease wherein the Utilities financed the purchase of rolling stock at a not to exceed value of \$1,322,000. The Utilities will repay the City with interest over the 5 year term of the lease. The Utilities acquires the rolling stock and then seeks reimbursement from the Lessor with the City acting as the fiduciary intermediary. As of December 31, 2011, the City is holding \$642,273 of the Utilities cash reimbursement which is reported as Due From City (noted above). Additionally, the first payment with interest of \$140,137 is due and owing to the City and is reported as Due to City (noted above). Lastly, the Utilities has used approximately 76% of its commitment and has set up interfund payables to the City for its share of the Commercial Master Lease as follows:

Interfund Payable	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
Water	\$ 117,426	\$ 330,836	\$ 448,262
Wastewater	85,629	228,978	314,607
Stormwater	52,825	66,331	119,156
Yard Waste	61	211	272
Total	<u>\$ 255,941</u>	<u>\$ 626,356</u>	<u>\$ 882,297</u>

(13) Equity Transfers

The 10-year sewer capacity improvement program includes storm sewer construction funded through the Wastewater Utility or Stormwater Utility. New storm sewers allow old combined sewers to be converted to sanitary-only lines. As projects are completed, the new storm sewers are transferred from the Wastewater Utility to the Stormwater Utility and new sanitary sewers are transferred from Stormwater Utility to Wastewater Utility. The amount transferred from Wastewater Utility to Stormwater Utility was \$3,925,240 and \$492,052 in 2011 and 2010, respectively. The amount transferred from Stormwater Utility to Wastewater Utility was \$77,905 in 2010.

(14) Risk Management

The City, including the Utilities, retains the risk of loss for claims related to employee health, on-the-job injury, auto, and general liabilities, while continuing to buy premium insurance for a number of other risks. The City has established internal service funds to finance these risks. Interfund premiums are billed monthly on a cost allocation basis most appropriate to the type of risk involved. An excess policy covers individual health insurance claims in excess of \$250,000 per year and the insurance company assumes the risk when total monthly claims exceed an amount based upon an aggregate monthly factor. An excess policy for workers compensation covers individual claims in excess of \$150,000 per employee per injury. The general and auto liability is limited by Indiana government tort liability limits of \$700,000 per person and incident. Liabilities are the responsibility of the City's internal service funds.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2011 and 2010

(15) Pension Plans

Public Employees' Retirement Fund

Plan Description

The Utilities contribute to the Public Employees' Retirement Fund (PERF), a defined-benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined-benefit plan.

State statutes (IC 5-10.2 and 5-10.3) govern most requirements of the system and give the Utilities authority to contribute to the plan. PERF retirement benefits consist of employer provided contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Indiana Public Retirement System (INPRS), One North Capitol Street, Suite 001, Indianapolis, IN 46204 or by calling (888) 526-1687.

Retirement benefits vest after 10 years of service. Normal retirement is defined as the earliest of: (1) age 65 with 10 years of creditable service; (2) age 60 with 15 years of creditable service; or (3) the sum of age and creditable service equal to 85, but not earlier than age 55. A reduced benefit will be received if an employee takes early retirement between the ages of 50 and 65 and has had 15 or more years of creditable service. Employees may elect to either receive a lump-sum distribution of their annuity savings account balance upon retirement or receive an annuity amount as a monthly supplement to the retirement benefits described above. PERF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and ordinance.

Funding Policy and Annual Pension Cost

The INPRS Board of Trustees establishes contribution requirements for plan members. The Utilities' annual pension cost for years ended 2011 and 2010, and related information as provided by the actuary, is presented in this note.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

Tables of Required Information

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 2,035,147	\$ 1,573,811
Interest on net pension obligation (NPO)	(25,846)	(46,432)
Adjustment to ARC	<u>29,755</u>	<u>52,913</u>
Annual pension cost	2,039,056	1,580,292
Contributions made	<u>(1,472,158)</u>	<u>(1,309,068)</u>
Increase in NPO	566,898	271,224
NPO, beginning of year	<u>(369,224)</u>	<u>(640,448)</u>
NPO, end of year	<u>\$ 197,674</u>	<u>\$ (369,224)</u>

Contribution rates:

City Utilities	10.25%
Plan members	3%
Actuarial valuation date	06/30/11
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar, Closed
Amortization period	30 years
Amortization period (from date)	07/01/11

Actuarial assumptions:

Investment rate of return	7.00%
Projected future salary increases:	
Total	3.25-4.5%
Cost-of-living adjustments	1.0%

Asset Valuation Method: 4-year smoothing of gains/losses on market value with a 20% corridor

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/09	\$ 1,315,772	95%	\$ (604,448)
06/30/10	1,580,292	83%	(369,224)
06/30/11	2,039,056	72%	197,674

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL As a Percentage Of Covered Payroll ((a-b)/c)
07/01/09	\$ 20,424,192	\$ 27,583,771	\$ (7,159,579)	74%	\$17,626,408	41%
07/01/10	18,044,893	29,812,731	(11,767,838)	61%	17,768,493	66%
07/01/11	14,974,245	30,722,830	(15,748,584)	49%	18,732,050	84%

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

(16) Commitments and Contingencies

Consent Decree:

The Utilities' combined storm and sanitary sewer system does not comply with federal Clean Water regulations. After several years of negotiations with the Environmental Protection Agency (EPA) and Indiana Department of Environmental Management (IDEM), the EPA lodged a Consent Decree with the federal court on December 28, 2007. The Consent Decree became effective April 1, 2008. Under the terms and conditions of the Consent Decree, the Utilities committed to reduce the number of combined sewer overflow (CSO) days in a typical year to one day on the St. Joseph River and four days on the St. Mary's and Maumee Rivers. The infrastructure cost to reduce the number of CSO events is approximately \$240 million, to be spent over the next 18 years, concluding in 2025. The Utilities also agreed to eliminate three known sanitary sewer overflows at an estimated combined cost of \$31 million by specific dates noted in the Consent Decree. Additionally, the Utilities committed to maintain the entire sewer system to performance standards prescribed in the Utilities' Long-Term Control Plan incorporated by reference into the Consent Decree.

The EPA assessed penalties of \$842,109 for violations of the Clean Water Act committed prior to December 28, 2007. In lieu of cash payment, the Utilities committed to spend \$540,000 on specific environmentally beneficial projects over the next seven years. A cash penalty payment of \$297,636 including accrued interest of \$1,527 was made April 30, 2008. The Consent Decree further provides for stipulated penalties for failure to achieve specified construction milestones, reporting deadlines or maintenance objectives. The Utilities are in full compliance with the Consent Decree's terms and conditions.

Condemnation of Aqua Indiana's North Assets:

In June, 2002, the Utilities initiated condemnation of Aqua Indiana's North Assets. On February 12, 2008, the Utilities paid Aqua Indiana \$16,910,500 and took possession of those condemned assets. The acquisition was financed by Waterworks Utility Revenue Bond Anticipation Notes, Series 2007 (BAN) issued February 5, 2008 for \$17,840,000, including the purchase price and estimated issuance and integration costs. The BAN has been subsequently refinanced four times the last of which is detailed in the subsequent events footnote (see Note 17). The North Assets are now fully integrated with the Utilities' water and sewer systems and generating revenues for the respective Utilities at standard system-wide tariffs.

The purchase price was established through condemnation proceedings by Fort Wayne Board of Public Works and is currently being contested by Aqua Indiana in Wells County Circuit Court. At this time, the Utilities are unable to form a conclusion as to whether the assertion of further action by Aqua Indiana is either probable or remote, nor as to the amount of damages if assessed, nor to the possible costs of the corrective action, if any.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2011 and 2010

Other:

The Utilities have entered into many contracts for various construction projects. Remaining contract payments as of year-end for each utility are as follows:

	<u>2011</u>	<u>2010</u>	
Water	\$ 86,740	\$ 171,891	
Wastewater	3,198,206	1,116,963	
Stormwater	<u>8,925</u>	<u>9,404</u>	
	<u>\$ 3,293,871</u>	<u>\$ 1,298,258</u>	

Major contracts awarded subsequent to December 31, 2011:

<u>Major Contract Project Description</u>	<u>Amount</u>
St. Joseph/Beckett Run Equalization Facility	\$ 9,973,861
Northwest Pressure Zone Pump Station 1 & 2 Improvements	683,900

(17) Subsequent Events

Bank Anticipation Notes – Refinanced:

The Waterworks Utility Revenue Bond Anticipation Notes, Series 2011 (BAN4) (see note 9) was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2012 (BAN5). BAN5 was issued on February 7, 2012 in the amount of \$17,840,000. BAN5 has an interest rate of 0.48% and the principal and interest is payable on or before February 5, 2013.

Water Utility Rates:

On February 21, 2012, the Common Council of Fort Wayne (Council) approved an across the board water rate increase that will be introduced in three phases: the first phase being 22.31% to be effective on or about January 1, 2013, the second phase being 8.76% twelve months later and the third phase being 5.02% twelve months after that. Concurrent with the rate increase approval, Council approved the issuance of a Waterworks Revenue Bonds in an amount not to exceed \$40 million with a rate not to exceed 8% and a term of less than 30 years. On February 27, 2012, the Water Utility filed a petition with the Indiana Utility Regulatory Commission seeking authority to adjust its rates and charges and issue long-term indebtedness as approved by Council.