

City of Fort Wayne Utilities

A Division of the
City of Fort Wayne, Indiana



Financial Statements

December 31, 2006 & 2005



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, 2006, and 2005. 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

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, 2006 and 2005, 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.

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 May 16, 2007, on our consideration of City Utilities' compliance with laws and regulations and its internal control structure.

STATE BOARD OF ACCOUNTS

May 16, 2007

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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, 2006, and 2005, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 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

May 16, 2007

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, 2006 and 2005. 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, 2006, 2005 and 2004 by \$421.1 million, \$405.1 million and \$383.9 million, respectively.
- The Utilities' net assets increased for the years ended December 31, 2006, 2005 and 2004 by \$16.0 million, \$21.2 million and \$16.0 million, respectively. Substantially all of the 2006 increase came from Utilities' operating income reinvested in Utilities' infrastructure.
- The Utilities' added new bonded debt and long-term notes payable for years ended December 31, 2006, 2005 and 2004 of \$68.4 million, \$17.9 million and \$7.1 million, respectively. The 2006 increase in debt consists primarily of three new commitments: (1) a \$31.9 million Water loan payable to the State of Indiana's Water Revolving Shared Loan Program (SRF), a \$17.0 million Stormwater revenue bond, and (3) withdrawals of \$19.5 million against the 2005 SRF loan. This is the first revenue bond ever issued from the Stormwater Utility.
- The Utilities' invested in capital assets for the years ended December 31, 2006, 2005 and 2004 approximately \$49.3 million, \$33.0 million and \$31.0 million, respectively. Significantly, in 2006:
 - Invested an additional \$19.5 million in the Primaries - phase II of a comprehensive improvement to our wastewater treatment plant. The Primaries' investment has used \$19.8 million of the total \$40 million SRF commitment.
 - In addition to the investment in the Primaries, another \$1.7 million was invested in the Combined Sewer Overflow (CSO) program. The CSO program is an extensive ongoing list of projects that will reduce the volume of discharges directly to the rivers as well as

reduce the risk of basement backups. The Primaries upgrade provides additional capacity essential to CSO solutions.

- o Over \$5.6 million was invested in water and sewer main replacement and/or rehabilitation.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Utilities' basic financial statements. The Utilities is a governmental entity classified as an enterprise fund, a subset of a proprietary fund. 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 16-37 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			2005-2006		2004-2005	
	2006	2005	2004	\$millions	%	\$millions	%
Net capital assets	474.6	433.5	405.7	41.1	9.5%	27.8	6.8%
Other assets	116.2	80.3	78.8	35.9	44.7%	1.5	1.8%
Total assets	590.8	513.8	484.5	77.0	15.0%	29.2	6.0%
Current liabilities	23.9	19.3	21.6	4.6	23.7%	(2.3)	-10.6%
Long term liabilities	145.8	89.4	79.0	56.4	63.2%	10.3	13.0%
Total liabilities	169.7	108.7	100.6	61.0	56.2%	8.0	8.0%
Total net assets	421.1	405.1	383.9	16.0	3.9%	21.2	5.5%
Invested in capital assets, net of related debt	316.8	346.3	324.8	(29.5)	-8.5%	21.6	6.6%
Restricted	96.8	46.5	45.5	50.3	108.3%	0.9	2.0%
Unrestricted	7.5	12.3	13.6	(4.8)	-39.0%	(1.3)	-9.3%
Total net assets	421.1	405.1	383.9	16.0	3.9%	21.2	5.5%

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

	(\$millions)			Variance		Variance	
	Year Ended December 31			2005-2006		2004-2005	
	2006	2005	2004	\$millions	%	\$millions	%
Operating revenues:							
Water service revenues	25.9	24.9	24.0	1.0	4.1%	0.9	3.6%
Wastewater service revenues	28.5	30.8	29.1	(2.3)	-7.5%	1.7	5.7%
Stormwater service revenues	9.4	5.8	5.2	3.6	61.6%	0.6	11.4%
Electric revenues	1.8	1.7	1.7	0.1	3.7%	0.0	2.5%
Yard Waste revenues	0.1	0.1	0.1	0.0	0.0%	(0.0)	0.0%
Total operating revenues	65.7	63.3	60.2	2.4	3.8%	3.1	5.2%
Operating expenses:							
Water operations	21.5	20.3	20.0	1.2	5.9%	0.3	1.4%
Wastewater operations	23.1	20.7	20.2	2.4	11.7%	0.5	2.3%
Stormwater operations	6.2	5.5	5.1	0.7	13.5%	0.3	6.4%
Electric operations	0.4	0.4	0.7	0.0	0.0%	(0.3)	-41.2%
Yard Waste operations	0.1	0.1	0.1	0.0	0.0%	0.0	0.0%
Total operating expenses	51.3	47.0	46.2	4.3	9.2%	0.8	1.7%
Operating Income	14.4	16.3	14.0	(1.9)	-11.9%	2.4	17.0%
Net nonoperating revenues	1.9	0.9	1.6	1.0	112.6%	(0.7)	-45.3%
Income before capital contributions and transfers out	16.3	17.2	15.6	(0.9)	-5.3%	1.6	10.5%
Capital contributions	4.8	7.6	4.2	(2.8)	-36.9%	3.4	80.1%
Transfers out	(5.1)	(3.6)	(3.8)	(1.5)	41.2%	0.2	-4.9%
Increase in net assets	16.0	21.2	16.0	(5.2)	-24.6%	5.2	32.6%
Net assets - January 1st	405.1	383.9	367.9	21.2	5.5%	16.0	4.3%
Net assets - December 31st	421.1	405.1	383.9	16.0	4.0%	21.2	5.5%

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 \$421.1 million, \$ 405.1 million and \$383.9 million as of December 31, 2006, 2005 and 2004, respectively. The largest portion (75.2%) of the Utilities' net assets in 2006 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. The increase in net assets over last year was \$16.0 million and was reinvested almost entirely in capital assets.

Another portion of the Utilities' net assets (\$96.8 million, or 23.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7.5 million, or 1.8%) may be used

to meet ongoing obligations, fund day-to-day operations or invest in additional capital assets.

The Utilities net assets increased \$16.0 million, \$21.2 million and \$16.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. Net asset growth in 2006 was less than 2005 by \$5.2 million as follows:

- Operating income in 2006 was \$1.9 million less than 2005. After a lengthy period of no rate increases since July 2001, water rates generally increased 25% effective September 1, 2006 and stormwater rates increased nearly 66% effective January 1, 2006. Although rate based revenues increased in 2006, growth related connection fees dropped from last year's surge spurred on by several new development deals. Depreciation (driven by heavy recent infrastructure investments), energy and chemicals costs pushed expenses higher than normal inflationary increases.
- Capital contributions in 2006 were \$2.9 million less than 2005. Capital contributions are principally the value of infrastructure donated to the Utilities by local area developers.
- Interest income increased in 2006 over 2005 by \$2.1 million as investible cash increased from new debt activity and interest rate markets offered bigger yields. Interest expense increased nearly \$1.1 million between 2006 and 2005 as outstanding long-term debt increased nearly \$60 million.

Capital Assets and Capital Improvement Program

The Utilities total capital assets are \$634.0 million with an accumulated depreciation of \$214.0 million for a net book value of \$420.0 million. The statement of net assets also includes \$54.5 million in construction in progress reflecting capital projects in various stages of completion. To continue to deliver high quality services and comply with EPA and other regulatory agencies, the Utilities need to invest in new capital and capital improvement programs. As noted last year, the Utilities achieved an important milestone in its completion of the replacement of the preliminary wastewater treatment facility (the Headworks; \$23 million investment). This year, the Utilities kicked off the phase II \$32 million Primaries project. The Utilities also made important investments in many other projects, particularly those that reduce the number of Combined Sewer Overflows (CSO's) and the volume of discharges directly to the rivers as well as main replacement/rehab. During 2006, approximately \$53.5 million was spent on capital projects.

The Utilities regularly conduct long-range studies to evaluate service quality and capability. Additional significant investments in capital are anticipated to continue: to replace the preliminary treatment facilities and upgrade the secondary facilities at the Water Pollution Control Plant, to implement projects to

reduce the number of CSO's and the volume of discharges directly to the rivers, to improve Combined Sewer Capacity to reduce the risk of basement backups, to replace six miles of water mains per year, to increase finished water storage capacity and to insure uninterrupted service of finished water through fail-safe security, strategic redundancy and the development of emergency electrical back-up systems for key pump stations and the treatment plants.

Debt

At December 31, 2006, the Utilities had approximately \$155.6 million in bonds and loans payable, an increase of \$59.6 million over last year. One new revenue bond was issued by the Stormwater Utility for \$17.0 million in February 2006. This issue was the first bond ever issued by the Stormwater Utility. Additionally, the Wastewater Utility increased its draw against a \$40.0 million maximum financial assistance agreement with the State of Indiana's Wastewater Revolving Loan Program (2005 SRF) by \$19.5 million, for a total withdrawal-to-date of \$19.8 million. The total proceeds withdrawn from the 2005 SRF are classified as long-term loans payable and, after principal payments, totaled \$18.4 million as of December 31, 2006.

In December 2006, the Water Utility entered into a separate, slightly different SRF agreement referred to as their "Shared Loan Program". Under the "Shared Loan Program," municipalities collectively borrow under the AAA rating of the State of Indiana's creditworthiness. The Water Utility borrowed \$31.9 million under this program at a favorable 3.95% and reduced debt issuance costs.

Economic Factors and Next Years Budget and Rates

- The Utilities identified the need to rebuild the major components of its wastewater treatment plant and increase capacity from the current 60 million gallons per day (mgd) to 85 mgd. Over the 4 years ended in 2005, proceeds from the 2002 SRF loan were used to construct the new Headworks, the first improvement project to upgrade the wastewater treatment plant. The Headworks project replaces and expands the capacity of the 1940's raw wastewater pump station and grit removal facilities. The Headworks successfully went into production in early 2005. In October of 2005, the SRF approved funding for the design and construction of the Primaries, the next improvement project to upgrade the wastewater treatment plant. This phase will rebuild the primary settling tanks (1940's and 1960's construction) at a preliminary estimated cost of \$37.5 million. Construction started this year, investing nearly \$20.4 million in the project.
- The Utilities will continue to pursue the goal to design and construct six miles of water main replacement and five miles of sewer rehabilitation work.
- The Utilities completed in 2006 the construction of a multi-year project begun in 2002 called Camp Scott. Camp Scott provides basement backup relief and CSO improvements in our eastern service area at an investment of over \$20

million. Prior to 2006, the Utilities received two federal grants totaling over \$2.8 million to help finance the Camp Scott project. CSO and basement backup relief are planned in other areas as well.

- The Utilities have entered into several local land developer financed water and wastewater main projects over that last four years ended 2006. The developers construct new wastewater and water capacity in newly developing service areas. The collection systems are turned over to the Utilities in exchange for future area sourced connections fees and surcharges (see note 8).
- As noted above, the Utilities have significantly increased its long-term debt to accomplish important and necessary improvements to its plants and its distribution, drainage and collection systems.
- Prior to 2006, the Utilities had not had a rate increase since July 2001. Effective January 1, 2006, the Stormwater Utility increased its rates nearly 66%. Effective September 1, 2006, the Water Utility generally increased its rates 25%. Subsequently, the Sewer Utility generally increased its rates 25% effective March 1, 2007. These rate increases will generate, at 2006 volumes, approximately \$16 million in new annual revenues to pay for increased debt service, inflationary increases in expenses, new regulatory compliance costs and additional infrastructure investments.

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 it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller - City Utilities, City of Fort Wayne Utilities, One Main Street, Room 280, Fort Wayne, IN 46802-1804.

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CITY OF FORT WAYNE UTILITIES

Statement of Net Assets
At December 31, 2006

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2006
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 933,421	\$ 814,104	\$ 4,224,361	\$ 247,514	\$ 147,632	\$ 6,367,032
Receivables:						
Customers, net of allowance for doubtful accounts of \$1,843,294	2,910,254	3,468,645	971,754	1,970	20,244	7,372,867
Interest	-	58,568	-	4,461	-	63,029
Due from City of Fort Wayne	222,651	-	-	-	-	222,651
Interfund Receivable	-	-	-	196,087	-	196,087
Materials and supplies	907,592	40,056	-	-	-	947,648
Prepaid expenses	76,749	56,511	566	-	-	133,826
Total current assets	<u>5,050,667</u>	<u>4,437,884</u>	<u>5,196,681</u>	<u>450,032</u>	<u>167,876</u>	<u>15,303,140</u>
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	35,689,887	17,525,676	12,793,025	12,928	-	66,021,516
Restricted investments	-	-	-	31,719,632	-	31,719,632
Advance to City, net of current portion	-	-	-	-	-	-
Prepaid net pension asset	494,677	390,637	96,187	-	-	981,501
Unamortized bond issuance costs	845,912	777,415	389,803	-	-	2,013,130
Assessments receivable	-	135,217	-	-	-	135,217
Capital assets:						
Land	2,583,730	1,101,192	199,602	110,703	-	3,995,227
Distribution and collection	106,934,697	191,834,369	83,641,509	5,949,274	-	388,359,849
Buildings and improvements	40,173,514	69,068,638	2,195,810	1,247,480	68,777	112,754,219
Equipment and other	53,295,932	70,862,043	2,538,436	2,205,427	34,840	128,936,678
Less: Accumulated depreciation	(62,260,933)	(116,882,122)	(26,016,903)	(8,773,822)	(56,241)	(213,990,021)
Plus: Construction in progress	13,696,625	34,091,883	6,742,855	-	-	54,531,363
Net capital assets	<u>154,423,565</u>	<u>250,076,003</u>	<u>69,301,309</u>	<u>739,062</u>	<u>47,376</u>	<u>474,587,315</u>
Total noncurrent assets	<u>191,454,041</u>	<u>268,904,948</u>	<u>82,580,324</u>	<u>32,471,622</u>	<u>47,376</u>	<u>575,458,311</u>
Total assets	<u>\$ 196,504,708</u>	<u>\$ 273,342,832</u>	<u>\$ 87,777,005</u>	<u>\$ 32,921,654</u>	<u>\$ 215,252</u>	<u>\$ 590,761,451</u>
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 1,598,328	\$ 1,196,760	\$ 539,154	\$ 258	\$ 460	\$ 3,334,961
Due to City of Fort Wayne	599,033	670,371	143,195	4,993	3,747	1,421,339
Compensated absences payable - current portion	523,181	342,282	86,693	1,011	758	953,925
Other current liabilities	787,545	3,223,115	26,987	5,438	220	4,043,305
Accrued interest payable	79,663	1,603,200	277,521	-	-	1,960,384
Bonds payable - current portion	1,480,000	4,705,000	845,000	-	-	7,030,000
Loans payable - current portion	1,545,000	2,408,000	-	-	-	3,953,000
Customer deposits	1,179,111	-	-	-	-	1,179,111
Total current liabilities	<u>7,791,861</u>	<u>14,148,728</u>	<u>1,918,550</u>	<u>11,700</u>	<u>5,185</u>	<u>23,876,024</u>
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	22,898,408	38,201,218	16,237,887	-	-	77,337,513
Loans payable	30,355,000	36,947,963	-	-	-	67,302,963
Compensated absences payable	678,244	308,062	49,017	1,014	761	1,037,098
Other long-term liabilities	-	91,800	-	21,813	-	113,613
Total noncurrent liabilities	<u>53,931,652</u>	<u>75,549,043</u>	<u>16,286,904</u>	<u>22,827</u>	<u>761</u>	<u>145,791,187</u>
Total liabilities	<u>61,723,513</u>	<u>89,697,771</u>	<u>18,205,454</u>	<u>34,527</u>	<u>5,946</u>	<u>169,667,211</u>
NET ASSETS						
Invested in capital assets, net of related debt	97,910,997	166,270,251	51,840,572	739,062	47,376	316,808,258
Restricted						
For debt service	322,476	7,715,967	629,604	-	-	8,668,047
For capital projects	34,188,180	9,809,709	12,163,421	-	-	56,161,310
For community trust	-	-	-	31,933,108	-	31,933,108
Unrestricted	2,359,542	(150,866)	4,937,954	214,957	161,930	7,523,517
Total net assets	<u>134,781,195</u>	<u>183,645,061</u>	<u>69,571,551</u>	<u>32,887,127</u>	<u>209,306</u>	<u>421,094,240</u>
Total liabilities and net assets	<u>\$ 196,504,708</u>	<u>\$ 273,342,832</u>	<u>\$ 87,777,005</u>	<u>\$ 32,921,654</u>	<u>\$ 215,252</u>	<u>\$ 590,761,451</u>

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Net Assets
At December 31, 2005

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2005
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 2,347,589	\$ 8,905,010	\$ 1,988,421	\$ 1,150,011	\$ 121,285	\$ 14,512,316
Receivables:						
Customers, net of allowance for doubtful accounts of \$1,498,374	2,634,229	3,676,846	618,493	1,655	19,601	6,950,824
Interest	6,775	14,818	1,258	9,332	-	32,183
Due from City of Fort Wayne	190,801	1,232	608	-	5	192,646
Interfund Receivable	-	-	-	187,559	-	187,559
Materials and supplies	972,295	69,123	-	-	-	1,041,418
Prepaid expenses	67,115	66,373	766	-	-	134,254
Total current assets	<u>6,218,804</u>	<u>12,733,402</u>	<u>2,609,546</u>	<u>1,348,557</u>	<u>140,891</u>	<u>23,051,200</u>
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	9,020,795	17,699,606	-	216,709	-	26,937,110
Restricted investments	-	-	-	27,694,020	-	27,694,020
Advance to City, net of current portion	-	-	-	196,087	-	196,087
Prepaid net pension asset	418,812	330,729	81,436	-	-	830,977
Unamortized bond issuance costs	605,692	871,664	-	-	-	1,477,356
Assessments receivable	-	110,058	-	-	-	110,058
Capital assets:						
Land	2,583,730	1,076,192	40,984	132,607	-	3,833,513
Distribution and collection	96,767,127	179,522,002	76,390,478	6,033,784	-	358,713,391
Buildings and improvements	39,434,670	73,148,474	1,979,079	1,247,907	68,777	115,878,907
Equipment and other	49,078,405	63,370,462	2,127,995	2,454,986	34,840	117,066,688
Less: Accumulated depreciation	(58,692,205)	(109,367,261)	(24,553,050)	(8,906,418)	(51,613)	(201,570,547)
Plus: Construction in progress	16,053,376	20,284,423	3,204,055	-	-	39,541,854
Net capital assets	<u>145,225,103</u>	<u>228,034,292</u>	<u>59,189,541</u>	<u>962,866</u>	<u>52,004</u>	<u>433,463,806</u>
Total noncurrent assets	<u>155,270,402</u>	<u>247,046,349</u>	<u>59,270,977</u>	<u>29,069,682</u>	<u>52,004</u>	<u>490,709,414</u>
Total assets	<u>\$ 161,489,206</u>	<u>\$ 259,779,751</u>	<u>\$ 61,880,523</u>	<u>\$ 30,418,239</u>	<u>\$ 192,895</u>	<u>\$ 513,760,614</u>
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 1,611,413	\$ 1,382,787	\$ 253,515	\$ 264	\$ 603	\$ 3,248,582
Due to City of Fort Wayne	553,300	600,624	140,502	4,432	3,324	1,302,182
Compensated absences payable - current portion	491,420	333,387	88,255	1,055	791	914,908
Other current liabilities	958,185	2,657,349	26,985	7,266	241	3,650,026
Accrued interest payable	84,824	1,191,421	-	-	-	1,276,245
Bonds payable - current portion	2,000,000	4,515,000	-	-	-	6,515,000
Loans payable - current portion	-	1,221,262	-	-	-	1,221,262
Customer deposits	1,167,920	-	-	-	-	1,167,920
Total current liabilities	<u>6,867,062</u>	<u>11,901,830</u>	<u>509,257</u>	<u>13,017</u>	<u>4,959</u>	<u>19,296,125</u>
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	24,391,400	42,969,371	-	-	-	67,360,771
Loans payable	-	20,929,970	-	-	-	20,929,970
Compensated absences payable	662,170	318,546	54,437	1,135	851	1,037,139
Other long-term liabilities	-	-	-	30,894	-	30,894
Total noncurrent liabilities	<u>25,053,570</u>	<u>64,217,887</u>	<u>54,437</u>	<u>32,029</u>	<u>851</u>	<u>89,358,774</u>
Total liabilities	<u>31,920,632</u>	<u>76,119,717</u>	<u>563,694</u>	<u>45,046</u>	<u>5,810</u>	<u>108,654,899</u>
NET ASSETS						
Invested in capital assets, net of related debt	125,752,993	160,357,219	59,189,541	962,866	52,004	346,314,623
Restricted						
For debt service	271,852	7,423,989	-	-	-	7,695,841
For capital projects	1,267,425	9,188,751	-	-	-	10,456,176
For community trust	-	-	-	28,303,701	-	28,303,701
Unrestricted	<u>2,276,304</u>	<u>6,690,075</u>	<u>2,127,288</u>	<u>1,106,626</u>	<u>135,081</u>	<u>12,335,374</u>
Total net assets	<u>129,568,574</u>	<u>183,660,034</u>	<u>61,316,829</u>	<u>30,373,193</u>	<u>187,085</u>	<u>405,105,715</u>
Total liabilities and net assets	<u>\$ 161,489,206</u>	<u>\$ 259,779,751</u>	<u>\$ 61,880,523</u>	<u>\$ 30,418,239</u>	<u>\$ 192,895</u>	<u>\$ 513,760,614</u>

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, 2006

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2006
OPERATING REVENUES:						
Charges for goods and services	\$ 25,849,920	\$ 28,495,423	\$ 9,440,089	\$ 55,930	\$ 132,850	\$ 63,974,212
Lease revenue	-	-	-	1,740,000	-	1,740,000
Total operating revenues	25,849,920	28,495,423	9,440,089	1,795,930	132,850	65,714,212
OPERATING EXPENSES:						
Personnel services	6,682,786	5,150,386	1,496,308	-	63,529	13,393,009
Contractual services	1,515,605	1,967,341	167,665	-	3,524	3,654,135
Utilities	990,765	1,185,279	-	-	-	2,176,044
Chemicals	1,771,089	345,452	-	-	-	2,116,541
Administrative services	3,820,519	4,067,663	908,820	6,984	26,470	8,830,456
Other supplies/services	2,279,857	2,077,241	2,146,864	188,908	12,478	6,705,348
Depreciation	4,501,390	8,292,300	1,471,922	201,900	4,628	14,472,140
Total operating expenses	21,562,011	23,085,662	6,191,579	397,792	110,629	51,347,673
Operating income	4,287,909	5,409,761	3,248,510	1,398,138	22,221	14,366,539
NONOPERATING REVENUES (EXPENSES):						
Investment income	415,482	1,114,398	912,344	3,400,442	-	5,842,666
Interest expense	(454,241)	(2,611,350)	(559,467)	-	-	(3,625,058)
Amortization of debt issuance costs	(81,358)	(121,878)	(39,430)	-	-	(242,666)
Other revenues (expenses)	-	-	-	(40,180)	-	(40,180)
Total nonoperating revenues (expenses)	(120,117)	(1,618,830)	313,447	3,360,262	-	1,934,762
Income before capital contributions and transfers	4,167,792	3,790,931	3,561,957	4,758,400	22,221	16,301,301
Capital contributions	2,132,276	1,802,980	876,966	-	-	4,812,222
Transfers in (out)	(1,087,447)	(5,608,884)	3,815,799	(2,244,466)	-	(5,124,998)
Change in net assets	5,212,621	(14,973)	8,254,722	2,513,934	22,221	15,988,525
Total net assets-beginning of year	129,568,574	183,660,034	61,316,829	30,373,193	187,085	405,105,715
Total net assets-end of year	\$ 134,781,195	\$ 183,645,061	\$ 69,571,551	\$ 32,887,127	\$ 209,306	\$ 421,094,240

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, 2005

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2005
OPERATING REVENUES:						
Charges for goods and services	\$ 24,840,923	\$ 30,797,618	\$ 5,842,887	\$ 820	\$ 103,396	\$ 61,585,644
Lease revenue	-	-	-	1,731,667	-	1,731,667
Total operating revenues	24,840,923	30,797,618	5,842,887	1,732,487	103,396	63,317,311
OPERATING EXPENSES:						
Personnel services	6,943,971	4,803,442	1,409,224	-	61,388	13,218,025
Contractual services	1,427,615	2,323,045	179,819	-	8,407	3,938,886
Utilities	888,999	1,165,067	-	-	-	2,054,066
Chemicals	1,521,846	148,758	-	-	-	1,670,604
Administrative services	3,595,368	3,794,651	855,249	33,214	24,911	8,303,393
Other supplies/services	1,463,019	1,630,031	1,752,747	195,776	11,829	5,053,402
Depreciation	4,528,152	6,810,666	1,258,701	201,890	6,627	12,806,036
Total operating expenses	20,368,970	20,675,660	5,455,740	430,880	113,162	47,044,412
Operating income (loss)	4,471,953	10,121,958	387,147	1,301,607	(9,766)	16,272,899
NONOPERATING REVENUES (EXPENSES):						
Investment income	479,976	945,934	102,132	2,173,395	-	3,701,437
Interest expense	(464,848)	(2,088,289)	-	-	-	(2,553,137)
Amortization of debt issuance costs	(104,115)	(133,666)	-	-	-	(237,781)
Other revenues (expenses)	-	-	-	(23,896)	-	(23,896)
Total nonoperating revenues (expenses)	(88,987)	(1,276,021)	102,132	2,149,499	-	886,623
Income (loss) before capital contributions and transfers	4,382,966	8,845,937	489,279	3,451,106	(9,766)	17,159,522
Capital contributions	2,823,088	4,189,853	644,300	-	-	7,657,241
Transfers in (out)	(966,613)	(7,165,239)	5,661,012	(1,135,000)	-	(3,605,840)
Change in net assets	6,239,441	5,870,551	6,794,591	2,316,106	(9,766)	21,210,923
Total net assets-beginning of year	123,329,133	177,789,483	54,522,238	28,057,087	196,851	383,894,792
Total net assets-end of year	\$ 129,568,574	\$ 183,660,034	\$ 61,316,829	\$ 30,373,193	\$ 187,085	\$ 405,105,715

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2006

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2006
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 25,511,963	\$ 28,383,658	\$ 9,068,638	\$ 269,949	\$ 132,212	\$ 63,366,420
Receipts from leases	-	-	-	1,740,000	-	1,740,000
Payments to suppliers	(10,442,844)	(9,404,121)	(2,664,726)	(211,427)	(42,336)	(22,765,454)
Payments to employees	(6,720,349)	(5,152,091)	(1,494,736)	5,016	(63,529)	(13,425,689)
Other receipts (payments)	9,287	275,060	4,248	-	-	288,595
Net cash provided by operating activities	8,358,057	14,102,506	4,913,424	1,803,538	26,347	29,203,872
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	(1,087,447)	(1,793,085)	-	(2,244,466)	-	(5,124,998)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(10,998,474)	(31,456,762)	(7,167,777)	-	-	(49,623,013)
Proceeds from long-term debt	31,900,000	19,566,483	17,000,000	-	-	68,466,483
Bond discount & premium addition	-	-	91,271	-	-	91,271
Interest paid on long-term debt	(1,017,891)	(2,910,626)	(292,322)	-	-	(4,220,839)
Debt issuance costs	(321,578)	-	(429,233)	-	-	(750,811)
Principal paid on long-term debt	(2,000,000)	(6,844,000)	-	-	-	(8,844,000)
Contributed capital	-	-	-	-	-	-
Net cash used by capital and related financing activities	17,562,057	(21,644,905)	9,201,939	-	-	5,119,091
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	-	-	-	(7,839,727)	-	(7,839,727)
Sale of investments	-	-	-	4,541,128	-	4,541,128
Investment income received	422,257	1,070,648	913,602	2,633,249	-	5,039,756
Net cash provided (used) by investing activities	422,257	1,070,648	913,602	(665,350)	-	1,741,157
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,254,924	(8,264,836)	15,028,965	(1,106,278)	26,347	30,939,122
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,368,384	26,604,616	1,988,421	1,366,720	121,285	41,449,426
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 36,623,308	\$ 18,339,780	\$ 17,017,386	\$ 260,442	\$ 147,632	\$ 72,388,548
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	4,287,909	5,409,761	3,248,510	1,398,138	22,221	14,366,539
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	4,501,390	8,292,300	1,471,922	201,900	4,628	14,472,140
Loss on sale of fixed assets	-	-	-	21,904	-	21,904
Provision for doubtful accounts	30,083	296,039	18,798	-	-	344,920
Changes in assets and liabilities:						
Receivables	(337,958)	(111,765)	(371,451)	192,115	(638)	(629,697)
Other assets	(20,796)	(20,979)	(14,551)	-	-	(56,326)
Accounts payable and other liabilities	(102,571)	237,150	560,196	(10,519)	136	684,392
Net cash provided by operating activities	\$ 8,358,057	\$ 14,102,506	\$ 4,913,424	\$ 1,803,538	\$ 26,347	\$ 29,203,872
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Fixed assets included in accounts payable	\$ 1,000,409	\$ 717,786	\$ 490,132	\$ -	\$ -	\$ 2,208,327
Fixed asset contributions	2,132,276	1,802,980	876,966	-	-	4,812,222
Interfund fixed asset contribution	-	(3,815,799)	3,815,799	-	-	-
Capitalized interest added to fixed assets	604,336	854,695	-	-	-	1,459,031
Unrealized gain (loss) on investments	-	-	-	727,013	-	727,013

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Statement of Cash Flows

For the Year Ended December 31, 2005

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2005
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 24,661,586	\$ 30,233,025	\$ 5,785,377	\$ 242,400	\$ 106,569	\$ 61,028,957
Receipts from leases	-	-	-	1,731,667	-	1,731,667
Payments to suppliers	(7,431,329)	(9,158,343)	(2,783,940)	(230,736)	(43,125)	(19,647,473)
Payments to employees	(6,909,274)	(4,795,060)	(1,407,652)	-	(61,388)	(13,173,374)
Other receipts (payments)	(338,067)	299,372	(93,974)	-	-	(132,669)
Net cash provided by operating activities	<u>9,982,916</u>	<u>16,578,994</u>	<u>1,499,811</u>	<u>1,743,331</u>	<u>2,056</u>	<u>29,807,108</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	<u>(966,613)</u>	<u>(1,504,227)</u>	-	<u>(1,135,000)</u>	-	<u>(3,605,840)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(14,229,461)	(15,388,474)	(3,349,880)	-	-	(32,967,815)
Proceeds from long-term debt	16,700,000	1,211,592	-	-	-	17,911,592
Bond discount & premium addition	97,779	-	-	-	-	97,779
Interest paid on long-term debt	(940,149)	(6,338,221)	-	-	-	(7,278,370)
Debt issuance costs	(417,390)	-	-	-	-	(417,390)
Principal paid on long-term debt	(2,075,000)	(5,968,499)	-	-	-	(8,043,499)
Contributed capital	117,564	1,174,320	-	-	-	1,291,884
Net cash used by capital and related financing activities	<u>(746,657)</u>	<u>(25,309,282)</u>	<u>(3,349,880)</u>	-	-	<u>(29,405,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	-	-	-	(18,736,248)	-	(18,736,248)
Sale of investments	-	-	-	14,765,265	-	14,765,265
Investment income received	473,201	931,116	100,874	1,255,156	-	2,760,347
Net cash provided (used) by investing activities	<u>473,201</u>	<u>931,116</u>	<u>100,874</u>	<u>(2,715,827)</u>	-	<u>(1,210,636)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,742,847	(9,303,399)	(1,749,195)	(2,107,496)	2,056	(4,415,187)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,625,537</u>	<u>35,908,015</u>	<u>3,737,616</u>	<u>3,474,216</u>	<u>119,229</u>	<u>45,864,613</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,368,384</u>	<u>\$ 26,604,616</u>	<u>\$ 1,988,421</u>	<u>\$ 1,366,720</u>	<u>\$ 121,285</u>	<u>\$ 41,449,426</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	4,471,953	10,121,958	387,147	1,301,607	(9,766)	16,272,899
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	4,528,152	6,810,666	1,258,701	201,890	6,627	12,806,036
Loss on sale of fixed assets	-	-	-	-	-	-
Provision for doubtful accounts	12,717	624,777	(12,416)	-	-	625,078
Changes in assets and liabilities:						
Receivables	(179,337)	(564,593)	(57,510)	241,580	3,173	(556,687)
Other assets	(350,784)	(325,405)	(81,558)	-	-	(757,747)
Accounts payable and other liabilities	1,500,215	(88,409)	5,447	(1,746)	2,022	1,417,529
Net cash provided by operating activities	<u>\$ 9,982,916</u>	<u>\$ 16,578,994</u>	<u>\$ 1,499,811</u>	<u>\$ 1,743,331</u>	<u>\$ 2,056</u>	<u>\$ 29,807,108</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Fixed assets included in accounts payable	\$ 1,024,015	\$ 1,020,334	\$ 211,288	\$ -	\$ -	\$ 2,255,637
Fixed asset contributions	2,705,523	3,015,533	644,300	-	-	6,365,356
Interfund fixed asset contribution	-	(5,661,012)	5,661,012	-	-	-
Capitalized interest added to fixed assets	499,384	1,101,803	-	-	-	1,601,187
Unrealized gain (loss) on investments	-	-	-	(1,487,409)	-	(1,487,409)

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

(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 prepares its 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

Restricted assets are assets restricted by bond indentures and other legal requirements for debt retirement, capital improvements and refunds of customer deposits.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

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

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 gain or loss.

The Water, Wastewater, Stormwater, and Electric Utility's 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 and Wastewater Utilities is capitalized as a component of the cost of construction. Net interest capitalized for the Water Utility was \$604,336 and \$499,384 in 2006 and 2005, respectively. Net interest capitalized for the Wastewater Utility was \$854,695 and \$1,101,803 in 2006 and 2005, 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
Notes to Financial Statements
December 31, 2006 and 2005

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 has classified its 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, 2006 and 2005

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. The reclassifications had no effect on the results of operations.

(2) Deposits and Investments

Deposits

The Utilities' deposits with financial institutions at year-end were entirely insured by federal depository insurance or by the Indiana Public Deposits Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments

Authorization for investment activity is stated in Indiana Code IC 5-13. The Utilities had the following investments at December 31, 2006 and 2005.

December 31, 2006	Investment Maturities (in years)	
	Market Value	Less than one
Mutual Funds	<u>\$31,719,632</u>	<u>\$31,719,632</u>

December 31, 2005	Investment Maturities (in years)	
	Market Value	Less than one
Mutual Funds	<u>\$27,694,020</u>	<u>\$27,694,020</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 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 2 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

CITY OF FORT WAYNE UTILITIES

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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 AAAM, 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 its 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 distribution of securities with credit ratings is summarized below.

<u>Morningstar Rating</u>	<u>2006</u>	<u>2005</u>
Low	\$ --	\$ 1,341,688
Below Average	8,610,946	8,384,389
Average	961,118	3,465,439
Above Average	14,199,305	5,399,325
High	2,887,765	6,080,924
Not Rated	<u>5,060,498</u>	<u>3,022,255</u>
Total	<u>\$31,719,632</u>	<u>\$27,694,020</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements
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Concentration of Credit Risk

Concentration credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Utilities do not have a policy in regards to concentration of credit risk. U.S. government and U.S. government agency securities are exempt from this policy requirement.

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 its investment or collateral securities that are in the possession of an outside party. The Utilities do not have a policy in regards to custodial credit risk.

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 its investment at December 31, 2006 in a foreign bond mutual fund with a fair value of \$1,584,021 and at December 31, 2005 in a foreign bond mutual fund with a fair value of \$1,364,347. The Utilities do not have a policy in regards 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.

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Notes to Financial Statements
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(3) Restricted Assets

Restricted assets consisted of the following at December 31, 2006:

	Water <u>Utility</u>	Wastewater <u>Utility</u>	Stormwater <u>Utility</u>	Electric <u>Utility</u>	<u>Total</u>
Cash and cash equivalents:					
Sinking fund account	\$ 322,476	\$ 7,715,967	\$ 629,604	\$ --	\$ 8,668,047
Construction account	33,831,004	--	12,163,421	--	45,994,425
Replacement account	--	6,657,609	--	--	6,657,609
Customer deposits	1,179,231	--	--	--	1,179,231
Connection fees	--	3,152,100	--	--	3,152,100
Tank painting	357,176	--	--	--	357,176
Community Trust	--	--	--	12,928	12,928
Total	<u>\$ 35,689,887</u>	<u>\$ 17,525,676</u>	<u>\$ 12,793,025</u>	<u>\$ 12,928</u>	<u>\$ 66,021,516</u>
Investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 31,719,632</u>	<u>\$ 31,719,632</u>

Restricted assets consisted of the following at December 31, 2005:

	Water <u>Utility</u>	Wastewater <u>Utility</u>	Stormwater <u>Utility</u>	Electric <u>Utility</u>	<u>Total</u>
Cash and cash equivalents:					
Sinking fund account	\$ 271,852	\$ 7,423,989	\$ --	\$ --	\$ 7,695,841
Construction account	6,313,598	1,086,866	--	--	7,400,464
Replacement account	--	6,657,609	--	--	6,657,609
Depreciation account	1,000,000	--	--	--	1,000,000
Customer deposits	1,167,920	--	--	--	1,167,920
Connection fees	--	2,531,142	--	--	2,531,142
Tank painting	267,425	--	--	--	267,425
Community Trust	--	--	--	216,709	216,709
Total	<u>\$ 9,020,795</u>	<u>\$ 17,699,606</u>	<u>\$ --</u>	<u>\$ 216,709</u>	<u>\$ 26,937,110</u>
Investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 27,694,020</u>	<u>\$ 27,694,020</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
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Sinking Fund Accounts

The Sewage Works Junior Revenue Bonds of 1998, A and B Series require monthly deposits into a sinking fund account of net revenues of the Wastewater Utility in an amount equal to at least 1/12 of the following calendar year's principal and interest payments. In addition, a 10% surplus of monthly deposits is required. An amount equal to the maximum annual principal and interest requirements is also required to be paid into this account, nominally titled the Sewage Works Reserve Account.

The Sewage Works Junior Revenue Refunding Bonds of 2002 A, B, C, 2003 and 2005 Series require monthly deposits into a sinking fund account of Wastewater Utility net revenues in an amount equal to at least 1/12 of the following calendar year's principal and interest payments. In addition, a 10% surplus of monthly deposits is required. Surety bonds purchased by the Utilities cover the Sewer Works Reserve Account requirements.

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.

Construction Account

Unspent bond issue proceeds to be used in the construction of designated capital assets.

Replacement Account

This account, required by the Environmental Protection Agency, exists to provide resources to maintain the capacity and performance of the property of the Wastewater Utility. In 1991, the Indiana Department of Environmental Management concluded that the account was underfunded. The Wastewater Utility agreed to fund the account over the remaining life of the equipment acquired under the grant. It was anticipated the desired balance of \$6,880,000 would be fully funded by December 31, 1997. However, the City Council capped the account at \$6,657,609 as of June 10, 1997.

Depreciation Account

The Water Utility is required to maintain a Depreciation Fund in an amount not less than \$1,000,000. However, in the event moneys are withdrawn from the Depreciation Fund leaving a balance of less than \$1,000,000, the deficiency shall be restored within eighteen months. On December 31, 2006, the Water Utility's Operating Fund borrowed \$1,000,000 from the Depreciation Fund, leaving no monies in the Depreciation Fund. The Water Utility restored the Depreciation Fund back to its \$1,000,000 minimum on February 28, 2007.

CITY OF FORT WAYNE UTILITIES

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Customer Deposits

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

Connection Fees

Resources from specific area connection fees to be used for future development costs in those specific areas are accumulated in this account.

Tank Painting

Resources for elevated tank painting maintenance are accumulated in this account.

(4) Assessments Receivable

Assessments receivable represent assessments due from customers for sewer connections. A significant portion of the individual assessments range from \$2,000 to \$2,500 and are due in 120 monthly principal installments plus interest on the unpaid portion at 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 7). The Community Trust receives \$270,000 annually from rents in addition to income earned on the investment of the funds. The funds are meant to enable the City to reclaim its Electric Utility by reimbursing the private utility for additions and extensions upon default of its obligations under the lease or upon termination of the lease.

Under the provisions of the ordinance, the corpus of the trust is to be free from invasion as long as the lease is in force. However, as long as certain provisions are met, including approval by the citizens of Fort Wayne, the City Council has the ability to amend this ordinance and permit invasion of the trust corpus.

CITY OF FORT WAYNE UTILITIES
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(6) Capital Assets

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

	2006					<u>Balance Dec. 31, 2006</u>
	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Adjustments</u>	
Land	\$ 3,833,513	\$ 25,000	\$ 21,904	\$ 161,005	\$ (2,387)	\$ 3,995,227
Distribution and collection	358,713,391	223,165	1,016,931	29,609,149	831,075	388,359,849
Buildings and improvement	115,878,907	69,104	3,304	1,964,253	(5,154,741)	112,754,219
Equipment and other	117,066,688	3,006,924	1,277,854	5,038,233	5,102,687	128,936,678
Construction in Progress	<u>39,541,854</u>	<u>52,243,850</u>	<u>892,762</u>	<u>(36,890,091)</u>	<u>528,512</u>	<u>54,531,363</u>
	635,034,353	55,568,043	3,212,755	(117,451)	1,305,146	688,577,336
Less accumulated Depreciation:						
Distribution and collection	95,551,101	5,395,108	1,016,932	--	--	99,929,277
Buildings and improvement	42,878,799	2,618,609	3,934	--	(116,024)	45,377,450
Equipment and other	<u>63,140,647</u>	<u>6,072,576</u>	<u>1,189,925</u>	<u>--</u>	<u>659,996</u>	<u>68,683,294</u>
	<u>201,570,547</u>	<u>14,086,293</u>	<u>2,210,791</u>	<u>--</u>	<u>543,972</u>	<u>213,990,021</u>
Net Capital Assets	<u>\$433,463,806</u>	<u>\$41,481,750</u>	<u>\$ 1,001,964</u>	<u>\$ (117,451)</u>	<u>\$ 761,174</u>	<u>\$474,587,315</u>
	2005					<u>Balance Dec. 31, 2005</u>
	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Adjustments</u>	
Land	\$ 3,178,734	\$ 654,779	\$ --	\$ --	\$ --	\$ 3,833,513
Distribution and collection	338,290,570	20,520,171	97,350	--	--	358,713,391
Buildings and improvement	88,537,171	27,341,736	--	--	--	115,878,907
Equipment and other	106,832,662	11,629,797	1,395,771	--	--	117,066,688
Construction in progress	<u>58,709,455</u>	<u>30,291,329</u>	<u>49,458,930</u>	<u>--</u>	<u>--</u>	<u>39,541,854</u>
	595,548,592	90,437,812	50,952,051	--	--	635,034,353
Less accumulated Depreciation:						
Distribution and collection	90,560,820	5,087,631	97,350	--	--	95,551,101
Buildings and improvement	40,666,111	2,212,688	--	--	--	42,878,799
Equipment and other	<u>58,632,877</u>	<u>5,505,717</u>	<u>1,395,769</u>	<u>--</u>	<u>397,822</u>	<u>63,140,647</u>
	<u>189,859,808</u>	<u>12,806,036</u>	<u>1,493,119</u>	<u>--</u>	<u>397,822</u>	<u>201,570,547</u>
Net Capital Assets	<u>\$405,688,784</u>	<u>\$77,631,776</u>	<u>\$49,458,932</u>	<u>\$ --</u>	<u>\$ 397,822</u>	<u>\$433,463,806</u>

CITY OF FORT WAYNE UTILITIES

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(7) Lease of Electric Utility

The Electric Utility has 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 expires 35 years later in February 2010. There is a 15-year renewal option at that time. Lease payments of \$1,740,000 and \$1,731,667 were received for the years ended December 31, 2006 and 2005, respectively. The following table shows rental income on the noncancelable lease for the term of the lease:

Annual Amount	Five –Year Period	Five –Year Totals	Received	Future Rentals
\$1,440,000	3/1/75 to 2/29/80	\$ 7,200,000	\$ 7,200,000	\$ --
1,490,000	3/1/80 to 2/28/85	7,450,000	7,450,000	--
1,540,000	3/1/85 to 2/28/90	7,700,000	7,700,000	--
1,590,000	3/1/90 to 2/28/95	7,950,000	7,950,000	--
1,640,000	3/1/95 to 2/28/00	8,200,000	8,200,000	--
1,690,000	3/1/00 to 2/28/05	8,450,000	8,450,000	--
1,740,000	3/1/05 to 2/25/10	<u>8,700,000</u>	<u>3,190,000</u>	<u>5,510,000</u>
	Totals	<u>\$55,650,000</u>	<u>\$50,140,000</u>	<u>\$ 5,510,000</u>

Under the terms of the agreement, the lessee may make improvements and retire assets in the system as long as such improvements and retirements do not exceed 5% of the original cost of the leased property in any one given year. The City of Fort Wayne Common Council must approve amounts in excess of 5% in any year. Depreciation expense for the leased assets was \$201,900 and \$201,890 for 2006 and 2005, respectively. Upon termination of the lease, the Electric Utility has the first option to purchase those improvements at a cost of approximately net book value.

A historical cost summary of the Electric Utility Plant at December 31, 2006:

	Utility Plant on Operating Lease	Other	Total
Land	\$ 69,102	\$ 41,601	\$ 110,703
Buildings and improvements	211,208	1,036,272	1,247,480
Equipment	2,049,452	155,975	2,205,427
Distribution and collection	<u>5,949,274</u>	--	<u>5,949,274</u>
Gross fixed assets	8,279,036	1,233,848	9,512,884
Less:			
Accumulated depreciation	<u>(7,648,051)</u>	<u>(1,125,771)</u>	<u>(8,773,822)</u>
Net fixed assets	<u>\$ 630,985</u>	<u>\$ 108,077</u>	<u>\$ 739,062</u>

CITY OF FORT WAYNE UTILITIES
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A historical cost summary of the Electric Utility Plant at December 31, 2005:

	<u>Utility Plant on Operating Lease</u>	<u>Other</u>	<u>Total</u>
Land	\$ 91,006	\$ 41,601	\$ 132,607
Buildings and improvements	211,635	1,036,272	1,247,907
Equipment	2,072,896	382,090	2,454,986
Distribution and collection	<u>6,033,784</u>	<u>--</u>	<u>6,033,784</u>
Gross fixed assets	8,409,321	1,459,963	9,869,284
Less:			
Accumulated depreciation	<u>(7,569,129)</u>	<u>(1,337,289)</u>	<u>(8,906,418)</u>
Net fixed assets	<u>\$ 840,192</u>	<u>\$ 122,674</u>	<u>\$ 962,866</u>

(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 \$326,231 and \$729,129 in 2006 and 2005, respectively. Developer notes payable were \$3,705,853 and \$3,008,798 for 2006 and 2005, respectively. The debt accrues interest at prime, currently at 7.25%, plus 1%. Developer notes payable are included in current liabilities.

(9) Long-Term Debt

Bonds Payable:

Details of all Utilities' bonds payable at December 31, 2006 are as follows:

Water Works Revenue Bonds of 1997 – original issue of \$7,100,000 – interest rates range from 4.50% to 4.75% and mature serially in amounts ranging from \$545,000 in 2007 to \$680,000 in 2011, redeemable at 100% beginning in 2005, less unamortized bond discount of \$14,022. \$ 3,040,978

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 \$340,000 in 2007 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$24,446. 4,559,446

CITY OF FORT WAYNE UTILITIES
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Water Works Revenue Bonds of 2005 – original issue of \$16,700,000 – interest rates range from 2.70% to 4.40% and mature serially in amounts ranging from \$595,000 in 2007 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$77,984.	16,777,984
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 mature serially in amounts ascending from \$760,000 in 2007 to \$975,000 in 2012, redeemable at 100% beginning in 2007, less unamortized bond discount of \$4,481.	5,165,519
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 mature serially in amounts ascending from \$1,235,000 in 2007 to \$1,535,000 in 2012, redeemable at 100% beginning in 2007, less unamortized bond discount of \$4,303.	8,260,697
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 \$1,660,000 in 2007 to \$1,100,000 in 2017, redeemable at 100% beginning in 2013, plus unamortized bond premium of \$302,086.	14,672,086
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 \$335,000 in 2007 to \$500,000 in 2017, redeemable at 100% beginning in 2014.	4,495,000
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 \$715,000 in 2007 to \$1,045,000 in 2018, plus unamortized bond premium of \$32,916.	10,312,916
Stormwater Management District Revenue Bonds of 2006 – original issue of \$17,000,000 – interest rates range from 3.75% to 4.00% mature serially in amounts from \$845,000 in 2007 to \$1,500,000 in 2021, plus unamortized bond premium of \$82,887.	<u>17,082,887</u>
Total	84,367,513
Less: Current portion	<u>(7,030,000)</u>
Noncurrent Bonds payable, net	<u>\$ 77,337,513</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
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Total bond debt service requirements to maturity as of December 31, 2006 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,030,000	\$ 3,430,364	\$ 10,460,364
2008	7,325,000	3,149,169	10,474,169
2009	7,625,000	2,862,193	10,487,193
2010	7,355,000	2,559,603	9,914,603
2011	7,265,000	2,258,272	9,523,272
2012 to 2016	29,985,000	7,204,343	37,189,343
2017 to 2021	<u>17,285,000</u>	<u>1,607,711</u>	<u>18,892,711</u>
Total	<u>\$83,870,000</u>	<u>\$23,071,655</u>	<u>\$106,941,655</u>

Loans Payable

During 2005 and 2002, the Utilities entered into a finance assistance agreement with the State of Indiana's Wastewater Revolving Loan program that allows for a maximum of \$40,000,000 and \$23,500,000 in 2005 and 2002, respectively, for improvements at the Wastewater treatment facility. At December 31, 2006, \$19,840,612 and \$23,454,351 had been drawn against the 2005 and 2002 agreements, respectively, and in 2005, \$367,262 and \$23,393,970 had been drawn against the 2005 and 2002 agreements, respectively. The Utilities do not intend to draw any more funds against the 2002 agreement.

During 2006, the Utilities participated in a shared loan arrangement through State of Indiana's State Revolving Fund Pooled Loan program. This program allows Indiana municipalities to collectively borrow funds under the AAA rating of the State of Indiana's creditworthiness as well as receive other financial benefits. Under this program the Utilities received \$31,900,000 to invest in improvements to the Water Utility's infrastructure. The interest rate is 3.95% and the principal matures serially in amounts ranging from \$1,545,000 in 2007 to \$2,755,000 in 2021.

The total anticipated loan debt service requirements to maturity as of December 31, 2006 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,953,000	\$ 3,253,763	\$ 7,206,763
2008	4,153,000	3,152,098	7,305,098
2009	4,305,000	3,000,895	7,305,895
2010	4,464,000	2,844,095	7,308,095
2011	4,623,000	2,681,420	7,304,420
2012 to 2016	25,784,000	10,749,959	36,533,959
2017 to 2021	30,852,000	5,681,619	36,533,619
2022 to 2025	<u>13,281,351</u>	<u>989,205</u>	<u>14,270,556</u>
	<u>\$ 91,415,351</u>	<u>\$ 32,353,054</u>	<u>\$ 123,768,405</u>

CITY OF FORT WAYNE UTILITIES
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Changes in Long-Term Liabilities

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2006.

	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2006</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 73,875,771	\$ 17,091,271	\$ 6,599,529	\$ 84,367,513	\$ 7,030,000
Loan payable	<u>22,151,232</u>	<u>51,433,731</u>	<u>2,329,000</u>	<u>71,255,963</u>	<u>3,953,000</u>
Total bonds and loans	<u>96,027,003</u>	<u>68,525,002</u>	<u>8,928,529</u>	<u>155,623,476</u>	<u>10,983,000</u>
Other noncurrent liabilities					
Accrued compensated absences	1,952,047	38,976	-	1,991,023	953,925
Other long-term liabilities	<u>37,838</u>	<u>91,800</u>	<u>10,880</u>	<u>118,758</u>	<u>5,145</u>
Total other noncurrent liabilities	<u>1,989,885</u>	<u>130,776</u>	<u>10,880</u>	<u>2,109,791</u>	<u>959,070</u>
	<u>\$ 98,016,888</u>	<u>\$ 68,655,778</u>	<u>\$ 8,939,409</u>	<u>\$ 157,733,257</u>	<u>\$ 11,942,070</u>

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2005.

	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2005</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 64,390,903	\$ 16,797,780	\$ 7,312,912	\$ 73,875,771	\$ 6,515,000
Loan payable	<u>21,648,558</u>	<u>1,323,674</u>	<u>821,000</u>	<u>22,151,232</u>	<u>1,221,262</u>
Total bonds and loans	<u>86,039,461</u>	<u>18,121,454</u>	<u>8,133,912</u>	<u>96,027,003</u>	<u>7,736,262</u>
Other noncurrent liabilities					
Accrued compensated absences	1,814,756	137,291	-	1,952,047	914,908
Other long-term liabilities	<u>39,763</u>	<u>5,020</u>	<u>6,945</u>	<u>37,838</u>	<u>6,944</u>
Total other noncurrent liabilities	<u>1,854,519</u>	<u>142,311</u>	<u>6,945</u>	<u>1,989,885</u>	<u>921,852</u>
	<u>\$ 87,893,980</u>	<u>\$ 18,263,765</u>	<u>\$ 8,140,857</u>	<u>\$ 98,016,888</u>	<u>\$ 8,658,114</u>

(10) 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 \$2,291,934 and \$2,068,656 in 2006 and 2005, respectively. The Utilities also received \$359,007 and \$375,940 in 2006 and 2005, respectively from the City for other water, sewer and stormwater services.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
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The City received the following from the Utilities in 2006:

	Water <u>Utility</u>	Wastewater <u>Utility</u>	Stormwater <u>Utility</u>	Electric <u>Utility</u>	<u>Totals</u>
Self Insurance	\$ 1,859,556	\$ 1,568,772	\$ 345,936	\$ --	\$ 3,774,264
Garage Services	504,204	478,753	178,482	--	1,161,439
Overhead Charges	864,697	912,295	206,258	--	1,983,250
Office and Technical Services	<u>229,571</u>	<u>246,209</u>	<u>51,966</u>	--	<u>527,746</u>
	3,458,028	3,206,029	782,642	--	7,446,699
Transfers out to the redevelopment commission	--	--	--	2,244,466	2,244,466
Transfers out in Lieu of Taxes	<u>1,087,447</u>	<u>1,793,085</u>	--	--	<u>2,880,532</u>
Totals	<u>\$ 4,545,475</u>	<u>\$ 4,999,114</u>	<u>\$ 782,642</u>	<u>\$ 2,244,466</u>	<u>\$ 12,571,697</u>

The City received the following from the Utilities in 2005:

	Water <u>Utility</u>	Wastewater <u>Utility</u>	Stormwater <u>Utility</u>	Electric <u>Utility</u>	<u>Totals</u>
Self Insurance	\$1,736,507	\$ 1,454,538	\$ 372,286	\$ --	\$3,563,331
Garage Services	515,372	476,048	206,301	--	1,197,721
Overhead Charges	767,133	809,360	182,986	--	1,759,479
Office and Technical Services	<u>189,407</u>	<u>201,923</u>	<u>46,945</u>	--	<u>438,274</u>
	3,208,419	2,941,868	808,518	--	6,958,805
Transfers out to the redevelopment commission	--	--	--	1,135,000	1,135,000
Transfers out in Lieu of Taxes	<u>966,613</u>	<u>1,504,227</u>	--	--	<u>2,470,840</u>
Totals	<u>\$4,175,032</u>	<u>\$ 4,446,095</u>	<u>\$ 808,518</u>	<u>\$ 1,135,000</u>	<u>\$10,564,645</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2006 and 2005

11) Interfund Assets and Liabilities

As of December 31, 2006 and 2005, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2006</u>	<u>2005</u>
Due from City:			
Water	City's General	\$ 222,651	\$ 190,801
Wastewater		-	1,232
Stormwater		-	608
Electric		-	6
Yard Waste		-	5
Total Due from City		<u>\$ 222,651</u>	<u>\$ 192,652</u>
Due to City:			
City's General	Water	\$ 60,424	\$ 77,803
	Wastewater	101,908	98,772
	Storm	15,073	27,393
	Electric	17	39
	Yard	15	30
City's Solid Waste	Water	538,609	475,497
	Wastewater	568,463	501,852
	Storm	128,122	113,109
	Electric	4,976	4,393
	Yard	<u>3,732</u>	<u>3,294</u>
Total Due to City		<u>\$1,421,339</u>	<u>\$1,302,182</u>

Interfund Receivables/Payables and Advances From/To Other Funds

In 1992 the Community Trust Fund loaned the City of Fort Wayne General Fund \$2.2 million to be used as a loan to Allen County to cover a portion of the costs of construction of a minor league baseball stadium. The City is repaying the loan at the interest rate of 4.55% per year in equal annual installments through July 2007. The balance due to the Utilities at December 31, 2006 and 2005 was \$196,087 and \$383,640, respectively. In 2002, The Community Trust Fiduciary Fund was closed and activity was transferred to the Electric Fund.

CITY OF FORT WAYNE UTILITIES
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The principal is reported as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable Fund</u>	<u>2006</u>	<u>2005</u>
Electric	City's General	<u>\$ 196,087</u>	<u>\$ 187,553</u>
 <u>Advance To City - Noncurrent</u>	 <u>Advance From (Payable) Fund</u>	 <u>2006</u>	 <u>2005</u>
Electric	City's General	 <u>\$ --</u>	 <u>\$ 196,087</u>

(12) Equity Transfers

The 10-year sewer capacity improvement program includes storm sewer construction funded through the Wastewater 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 to the Stormwater Utility. The transfer amounts for 2006 and 2005 were \$3,815,799 and \$5,661,012, respectively.

(13) 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 \$150,000 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 \$300,000 per person and incident. Liabilities are the responsibility of the City's internal service funds.

(14) Deferred Compensation Plan

The City (including the Utilities) offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The contracted administrators of the deferred compensation plans adopted the provisions of Internal Revenue Code Section 457, Subsection (g), prior to January 1, 1999. In accordance with GASB Statement 32, the City no longer exercises fiduciary responsibility in relation to this plan and has no legal claim on the assets of the plan.

CITY OF FORT WAYNE UTILITIES
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(15) Pension Plans

A. 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 Employees' Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204 or by calling (317) 233-4162.

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 PERF Board of Trustees establishes contribution requirements for plan members. The Utilities' annual pension cost for years ended 2006 and 2005, and related information as provided by the actuary, is presented in this note.

CITY OF FORT WAYNE UTILITIES
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Tables of Required Information

	<u>2006</u>	<u>2005</u>
Annual Required Contribution (ARC)	\$ 889,942	\$ 741,283
Interest on Net Pension Obligation (NPO)	(60,246)	(45,039)
Adjustment to ARC	<u>68,655</u>	<u>51,326</u>
Annual Pension Cost	898,351	747,570
Contributions Made	<u>(1,048,875)</u>	<u>(957,318)</u>
Decrease in NPO	(150,524)	(209,748)
NPO, Beginning of Year	<u>(830,977)</u>	<u>(621,229)</u>
NPO, End of Year	<u>\$ (981,501)</u>	<u>\$ (830,977)</u>

Contribution Rates:

City Utilities	7.0%
Plan Members	3%
Actuarial Valuation Date	07/01/06
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percentage of Projected Payroll, Closed
Amortization period	40 years
Amortization Period (from date)	07/01/97

Actuarial Assumptions:

Investment Rate of Return	7.25%
Projected Future Salary Increases:	
Total	5%
Attributed to Inflation	4%
Attributed to Merit/Seniority	1%
Cost-of-Living Adjustments	2%

Asset Valuation Method: 75% of Expected Actuarial Value Plus 25% of Market Value

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>
06/30/04	837,487	117%	(621,229)
06/30/05	747,570	128%	(830,977)
06/30/06	898,351	140%	(981,501)

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)
07/01/04	17,150,282	18,105,104	(954,822)	95%	14,258,216	7%
07/01/05	17,905,828	20,004,153	(2,098,325)	90%	14,740,390	14%
07/01/06	18,491,130	22,710,146	(4,219,016)	81%	15,967,747	26%

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements
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B. Municipal Pension Plan

The Utilities also have a defined benefit pension plan (funded on a pay-as-you-go basis) covering employees who started receiving retirement or disability benefits before July 1976. For each of the years ended December 31, 2006 and 2005, the Utilities paid annual benefits of \$5,145 and \$6,945 to four and six former employees or survivors, respectively. The accrued pension cost for this plan is \$26,958 and \$37,838 at December 31, 2006 and 2005, respectively.

(16) Commitments and Contingencies

The Utilities has been informed by the Environmental Protection Agency (EPA) that the combined storm and sanitary sewer system does not comply with federal regulations and has been ordered to develop a corrective plan for approval by the EPA. In July 2001, the Utilities submitted the final draft of its long-term control plan. This plan is still in the review and discussion phase. If approved, the plan will require an expenditure of an estimated \$216 million over the next 20 years in wastewater projects. Failure to submit an acceptable plan can result in fines, penalties or other damages. At this time, the Utilities is unable to form a conclusion as to whether the assertion of action by the EPA is either probable or remote, nor as to the amount of damages if assessed, nor to the possible costs of the agreed corrective action.

Effective March 1, 2007, the Utilities increased their wastewater rates by 25% for most wastewater services.

By ordinance, light lease revenues (see note 7) in excess of operating expenses and the contribution to the Community Trust (see note 5) are required to be transferred to the City's Cumulative Capital Fund. As of December 31, the Electric Utility maintained operating cash balances of \$247,514 and \$1,150,011 for 2006 and 2005, respectively. Such amounts are withheld from the City to cover near term operating expenses and, if unspent, will be summarily remitted to the City.

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>2006</u>	<u>2005</u>
Water	\$ 610,131	\$ 2,311,414
Wastewater	21,493,636	2,078,862
Stormwater	703,353	612,651
	<u>\$ 22,807,120</u>	<u>\$ 5,002,927</u>

CITY OF FORT WAYNE UTILITIES
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Major contracts awarded subsequent to December 31, 2006:

<u>Major Contract Project Description</u>	<u>Amount</u>
Water Plant's North Pump Building and Electrical Building	\$ 13,587,100
General Cured-in-Place Pipe rehabilitation	1,392,084
Saint Joe Pump Station Electrical Upgrade	6,594,000
South McMillan Park Stormwater Collection System	2,011,459