
City of Fort Wayne Utilities

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



Financial Statements

December 31, 2010 & 2009

FILED

08/11/2011

CITY OF FORT WAYNE UTILITIES
Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
FINANCIAL STATEMENTS:	
Statement of Net Assets 2010.....	10
Statement of Net Assets 2009.....	11
Statement of Revenues, Expenses, and Changes in Net Assets 2010.....	12
Statement of Revenues, Expenses, and Changes in Net Assets 2009.....	13
Statement of Cash Flows 2010.....	14
Statement of Cash Flows 2009.....	15
Notes to Financial Statements	16-40

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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, 2010, and 2009. 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 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 reporting. 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.

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, 2010 and 2009, 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 June 8, 2011, on our consideration of City Utilities' compliance with laws and regulations and its internal control structure.

STATE BOARD OF ACCOUNTS

June 8, 2011

State Board of Accounts

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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, 2010, and 2009, and have issued our report thereon dated June 8, 2011. 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.

June 8, 2011

STATE BOARD OF ACCOUNTS

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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, 2010 and 2009. 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, 2010, 2009 and 2008 by \$481.6 million, \$465.4 million and \$448.9 million, respectively.
- The Utilities' net assets increased for the years ended December 31, 2010, 2009 and 2008 by \$16.2 million, \$16.5 million and \$6.1 million, respectively.
- The Utilities' added new bonded debt and long-term notes payable for years ended December 31, 2010, 2009 and 2008 of \$44.2 million, \$31.4 million and \$23.3 million, respectively. The 2010 increase in debt consists of a one new Wastewater Revenue Bond and additional withdrawals against existing SRF loans.
- The Utilities' investment in capital assets for the years ended December 31, 2010, 2009 and 2008 increased approximately \$40.3 million, \$34.0 million and \$76.7 million, respectively. Significantly, the Utilities met all 2008-2010 capital investment milestones required by the 2008 Federal Consent Decree.
- The 35 year Electric Light lease expired in February 2010. In October of 2010, the City entered into an agreement with the former lessee to transfer the remaining assets of the Electric Utility in exchange for a multi-year compensation package in excess of \$39 million over 15 years.

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			2009-2010		2008-2009	
	2010	2009	2008	\$millions	%	\$millions	%
Net capital assets	\$ 616.1	\$ 590.6	\$ 572.0	\$ 25.5	4.3%	\$ 18.6	3.3%
Other assets	132.2	111.4	88.8	20.8	18.7%	22.6	25.5%
Total assets	748.3	702.0	660.8	46.3	6.6%	41.2	6.2%
Current liabilities	53.7	53.7	47.6	0.0	0.0%	6.1	12.8%
Long term liabilities	213.0	182.9	164.3	30.1	16.5%	18.6	11.3%
Total liabilities	266.7	236.6	211.9	30.1	12.7%	24.7	11.7%
Total net assets	\$ 481.6	\$ 465.4	\$ 448.9	\$ 16.2	3.5%	\$ 16.5	3.7%
Invested in capital assets, net of related debt	\$ 408.2	\$ 411.2	\$ 397.8	(3.0)	-0.7%	13.4	3.4%
Restricted	56.2	51.5	43.1	4.7	9.1%	8.4	19.5%
Unrestricted	17.2	2.7	8.0	14.5	537.0%	(5.3)	-66.3%
Total net assets	\$ 481.6	\$ 465.4	\$ 448.9	\$ 16.2	3.5%	\$ 16.5	3.7%

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

	(\$millions)			Variance		Variance	
	Year Ended December 31			2009-2010		2008-2009	
	2010	2009	2008	\$millions	%	\$millions	%
Operating revenues:							
Water service revenues	\$ 33.5	\$ 31.3	\$ 31.6	\$ 2.2	7.0%	\$ (0.3)	-0.9%
Wastewater service revenues	42.5	36.1	34.1	6.4	17.7%	2.0	5.9%
Stormwater service revenues	9.7	9.8	9.6	(0.1)	-1.0%	0.2	2.1%
Electric revenues	1.7	1.7	1.7	0.0	0.0%	0.0	0.0%
Yard Waste revenues	0.2	0.2	0.1	0.0	0.0%	0.1	100.0%
Total operating revenues	87.6	79.1	77.1	8.5	10.7%	2.0	2.6%
Operating expenses:							
Water operations	26.7	25.2	24.2	1.5	6.0%	1.0	4.1%
Wastewater operations	28.7	26.4	23.8	2.3	8.7%	2.6	10.9%
Stormwater operations	6.4	8.5	9.1	(2.1)	-24.7%	(0.6)	-6.6%
Electric operations	1.1	0.6	0.6	0.5	83.3%	0.0	0.0%
Yard Waste operations	0.1	0.2	0.1	(0.1)	-50.0%	0.1	100.0%
Total operating expenses	63.0	60.9	57.8	2.1	3.4%	3.1	5.4%
Operating Income	24.6	18.2	19.3	6.4	35.2%	(1.1)	-5.7%
Net nonoperating revenues (expenses)	(2.4)	1.4	(12.6)	(3.8)	-271.4%	14.0	-111.1%
Income before capital contributions and transfers out	22.2	19.6	6.7	2.6	13.3%	12.9	192.5%
Capital contributions	1.1	2.0	4.0	(0.9)	-45.0%	(2.0)	-50.0%
Transfers out	(7.1)	(5.1)	(4.6)	(2.0)	39.2%	(0.5)	10.9%
Increase in net assets	16.2	16.5	6.1	(0.3)	-1.8%	10.4	170.5%
Net assets - January 1st	465.4	448.9	442.8	16.5	3.7%	6.1	1.4%
Net assets - December 31st	\$ 481.6	\$ 465.4	\$ 448.9	\$ 16.2	3.5%	\$ 16.5	3.7%

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 \$481.6 million, \$ 465.4 million and \$448.9 million as of December 31, 2010, 2009 and 2008, respectively. The largest portion (88.4%) of the Utilities' net assets in 2010 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 (\$56.2 million, or 11.7%) represents resources that are subject to external restrictions on how they may be used.

The Utilities net assets increased \$16.2 million, \$16.5 million and \$6.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. Net asset growth in 2010 was slightly less than 2009 by \$0.3 million as follows:

- Operating income in 2010 was \$6.4 million more than 2009. Overall revenues increased \$8.5 million or 10.7%. Wastewater rates increased 15% effective July 1, 2010. Expenses increased \$2.1 million or 3.4%. 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.
- Capital contributions in 2010 were \$0.9 million less than 2009. Capital contributions are principally the value of infrastructure donated to the Utilities by local area developers. Local real estate markets have yet to recover from the 2008 recession.
- Investment income decreased in 2010 from 2009 by \$3.0 million. Community Trust funds invest in marketable securities, and even though the Trust had investment income of \$4.2 million in 2010, investment income dropped \$2.9 million compared to 2009's robust rebound from 2008 recession. Net interest expense increased nearly \$0.7 million between 2010 and 2009 as a result of increased debt.

Capital Assets and Capital Improvement Program

The Utilities total capital assets in service are \$849.5 million with an accumulated depreciation of \$270.9 million for a net book value of \$578.6 million. The statement of net assets also includes \$37.5 million in construction in progress reflecting capital projects in various stages of completion. During 2010, approximately \$44.5 million was spent on capital investments.

Debt

At December 31, 2010, the Utilities had approximately \$243.6 million in bonds and loans payable, an increase of \$31.3 million over last year.

In 2010, the Utilities issued an open market wastewater revenue bond for \$41.0 million payable over 20 years at 4.55%. The proceeds of the bond will be used for long-term control capital projects.

In February 2010, the Utilities issued a Bond Anticipation Note (BAN3) of \$17.8 million payable within a year with interest at 0.60%. The proceeds were used to retire a Bond Anticipation Note previously issued February 2009. Subsequently, BAN3 was refinanced by another Bond Anticipation Note for \$17.8 million, payable on or before February 11, 2012 with interest at 0.65%.

Economic Factors and Next Year's Budget and Rates

- On December 28, 2007, the Utilities tentatively 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 \$75.1 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 six combined sewer separation projects. The Utilities also constructed a backflow process that fully treats nearly 1 billion gallons of wastewater that previously entered the Maumee River only partially treated. Additionally, untreated wastewater storage capacity was increased by nearly 100 million gallons through several CSO pond enhancement projects.

- The Utilities will continue to pursue the goal to design and construct six miles of water main replacement and ten miles of sewer rehabilitation work annually.

- 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 Electric Utility assets to another electric utility (transferee). In exchange, the transferee will pay in excess of \$39 million over the next 15 years. The agreement has been approved by both the transferee and Fort Wayne City Council. The Indiana Utility Regulatory Commission (IURC) must first approve the agreement, with only mutually acceptable variation, before the transfer can occur.
- In April 2011, the Fort Wayne City Council has given the Water Utility the authority to issue bonds up to \$30 million. The bulk of the proceeds from the bond will fund enhanced disinfection solutions required by the federal Environmental Protection Agency. The Utility has petitioned the IURC for approval to incur additional debt.

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.

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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	<u>9,198,077</u>	<u>11,907,533</u>	<u>1,826,341</u>	<u>121,807</u>	<u>290,134</u>	<u>23,343,892</u>
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	<u>203,806,130</u>	<u>321,556,611</u>	<u>90,500,746</u>	<u>166,595</u>	<u>34,688</u>	<u>616,064,770</u>
Total noncurrent assets	<u>208,540,093</u>	<u>387,734,584</u>	<u>91,423,931</u>	<u>37,235,309</u>	<u>34,688</u>	<u>724,968,605</u>
Total assets	<u>\$ 217,738,170</u>	<u>\$ 399,642,117</u>	<u>\$ 93,250,272</u>	<u>\$ 37,357,116</u>	<u>\$ 324,822</u>	<u>\$ 748,312,497</u>
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	-	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	<u>26,971,891</u>	<u>24,142,528</u>	<u>2,065,217</u>	<u>456,457</u>	<u>34,935</u>	<u>53,671,028</u>
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	<u>40,547,234</u>	<u>159,899,253</u>	<u>12,561,260</u>	<u>12,389</u>	<u>860</u>	<u>213,020,996</u>
Total liabilities	<u>67,519,125</u>	<u>184,041,781</u>	<u>14,626,477</u>	<u>468,846</u>	<u>35,795</u>	<u>266,692,024</u>
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	<u>150,219,045</u>	<u>215,600,336</u>	<u>78,623,795</u>	<u>36,888,270</u>	<u>289,027</u>	<u>481,620,473</u>
Total liabilities and net assets	<u>\$ 217,738,170</u>	<u>\$ 399,642,117</u>	<u>\$ 93,250,272</u>	<u>\$ 37,357,116</u>	<u>\$ 324,822</u>	<u>\$ 748,312,497</u>

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Statement of Net Assets
At December 31, 2009

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2009
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 2,288,483	\$ 3,339,053	\$ 1,368,777	\$ 464,490	\$ 226,486	\$ 7,687,289
Receivables:						
Customers, net of allowance for doubtful accounts of \$297,108	3,057,003	4,661,867	1,062,879	-	36,540	8,818,289
Interest	-	-	-	-	-	-
Due from City of Fort Wayne	259,283	22,671	10,362	-	138	292,454
Interfund receivable	1,407,780	-	-	-	-	1,407,780
Materials and supplies	1,015,967	46,540	-	-	-	1,062,507
Prepaid expenses	88,559	75,159	6,675	-	86	170,479
Total current assets	8,117,075	8,145,290	2,448,693	464,490	263,250	19,438,798
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	9,100,484	46,712,986	630,177	443,915	-	56,887,562
Restricted investments	-	-	-	32,490,225	-	32,490,225
Net pension asset	206,224	298,449	135,775	-	-	640,448
Unamortized bond issuance costs	701,903	881,721	261,040	-	-	1,844,664
Assessments receivable	-	135,667	-	-	-	135,667
Capital assets:						
Land	3,346,930	1,228,037	1,059,385	110,703	-	5,745,055
Distribution and collection	129,113,657	220,282,159	105,076,596	5,870,453	-	460,342,865
Buildings and improvements	68,971,466	109,969,958	2,475,845	1,194,836	68,777	182,680,882
Equipment and other	75,763,266	80,283,305	4,653,866	1,288,752	56,321	162,045,510
Less: Accumulated depreciation	(82,194,006)	(133,886,095)	(31,670,918)	(8,237,704)	(85,222)	(256,073,945)
Plus: Construction in progress	6,343,889	21,845,031	7,678,316	-	168	35,867,404
Net capital assets	201,345,202	299,722,395	89,273,090	227,040	40,044	590,607,771
Total noncurrent assets	211,353,813	347,751,218	90,300,082	33,161,180	40,044	682,606,337
Total assets	\$ 219,470,888	\$ 355,896,508	\$ 92,748,775	\$ 33,625,670	\$ 303,294	\$ 702,045,135
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 1,378,275	\$ 3,928,969	\$ 619,783	\$ 132,339	\$ 24,843	\$ 6,084,209
Due to City of Fort Wayne	2,040,568	2,507,264	1,281,340	429	6,270	5,835,871
Interfund payable	-	1,407,780	-	-	-	1,407,780
Compensated absences payable - current portion	559,019	391,820	132,408	-	865	1,084,112
Other current liabilities	860,866	3,462,930	182,096	150,145	1,024	4,657,061
Accrued interest payable	849,111	1,739,531	236,427	-	-	2,825,069
Bonds payable - current portion	1,645,000	5,625,000	945,000	-	-	8,215,000
Loans payable - current portion	1,800,000	2,875,776	-	-	-	4,675,776
Notes payable - current portion	17,840,000	-	-	-	-	17,840,000
Customer deposits	1,112,921	-	-	-	-	1,112,921
Total current liabilities	28,085,760	21,939,070	3,397,054	282,913	33,002	53,737,799
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	18,112,676	44,964,900	13,480,507	-	-	76,558,083
Loans payable	25,160,000	79,871,709	-	-	-	105,031,709
Compensated absences payable	801,173	413,423	86,699	-	890	1,302,185
Other long-term liabilities	-	-	-	17,877	-	17,877
Total noncurrent liabilities	44,073,849	125,250,032	13,567,206	17,877	890	182,909,854
Total liabilities	72,159,609	147,189,102	16,964,260	300,790	33,892	236,647,653
NET ASSETS						
Invested in capital assets, net of related debt	142,011,717	194,062,215	74,847,584	227,040	40,044	411,188,600
Restricted						
For debt service	287,085	16,087,236	393,750	-	-	16,768,071
For capital projects	627,176	1,209,013	-	-	-	1,836,189
For community trust	-	-	-	32,934,140	-	32,934,140
Unrestricted	4,385,301	(2,651,058)	543,181	163,700	229,358	2,670,482
Total net assets	147,311,279	208,707,406	75,784,515	33,324,880	269,402	465,397,483
Total liabilities and net assets	\$ 219,470,888	\$ 355,896,508	\$ 92,748,775	\$ 33,625,670	\$ 303,294	\$ 702,045,135

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 Revenues, Expenses, and
Changes in Net Assets
For the Year Ended December 31, 2009

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2009
OPERATING REVENUES:						
Charges for goods and services	\$ 31,275,117	\$ 36,112,762	\$ 9,838,056	\$ -	\$ 163,148	\$ 77,389,083
Lease revenue	-	-	-	1,740,000	-	1,740,000
Total operating revenues	31,275,117	36,112,762	9,838,056	1,740,000	163,148	79,129,083
OPERATING EXPENSES:						
Personnel services	7,637,884	5,741,596	1,554,286	-	11	14,933,777
Contractual services	1,281,341	2,370,781	204,728	-	93,212	3,950,062
Utilities	1,418,451	1,648,602	-	-	-	3,067,053
Chemicals	2,519,880	739,307	-	-	-	3,259,187
Administrative services	3,369,151	4,880,546	2,214,613	-	31,488	10,495,798
Other supplies/services	2,813,392	2,269,498	2,664,856	511,253	5,238	8,264,237
Depreciation	6,196,518	8,791,779	1,894,465	108,260	5,633	16,996,655
Total operating expenses	25,236,617	26,442,109	8,532,948	619,513	135,582	60,966,769
Operating income	6,038,500	9,670,653	1,305,108	1,120,487	27,566	18,162,314
NONOPERATING REVENUES (EXPENSES):						
Investment income	91,765	196,690	23,973	7,053,360	-	7,365,788
Interest expense	(1,478,106)	(3,193,701)	(240,277)	-	-	(4,912,084)
Amortization of debt issuance costs	(97,538)	(112,334)	(40,640)	-	-	(250,512)
Other revenues (expenses)	-	-	-	(37,140)	-	(37,140)
Loss on disposal of assets	(303,169)	(407,002)	(1,006)	-	(14)	(711,191)
Total nonoperating revenues (expenses)	(1,787,048)	(3,516,347)	(257,950)	7,016,220	(14)	1,454,861
Income before capital contributions and transfers	4,251,452	6,154,306	1,047,158	8,136,707	27,552	19,617,175
Capital contributions	392,815	1,373,053	285,507	-	-	2,051,375
Transfers in	-	-	952,401	-	-	952,401
Transfers out	(1,383,247)	(3,147,675)	(668,479)	(900,000)	-	(6,099,401)
Change in net assets	3,261,020	4,379,684	1,616,587	7,236,707	27,552	16,521,550
Total net assets-beginning of year	144,050,259	204,327,722	74,167,928	26,088,173	241,850	448,875,932
Total net assets-end of year	\$ 147,311,279	\$ 208,707,406	\$ 75,784,515	\$ 33,324,880	\$ 269,402	\$ 465,397,482

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	\$ -	\$ 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)	(65,460)	(73,786)	51,732	2,992	78	(84,444)
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	18,104	106,749	1,709	1,047,819	-	1,174,381
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	(75,415)	2,683,664	(1,605,093)	168,056	1,903	1,173,115
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
Statement of Cash Flows
For the Year Ended December 31, 2009

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2009
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 31,127,002	\$ 35,585,608	\$ 9,832,271	\$ -	\$ 158,113	\$ 76,702,994
Receipts from leases	-	-	-	1,740,000	-	1,740,000
Payments to suppliers	(9,289,500)	(7,933,900)	(4,478,321)	(316,263)	(108,615)	(22,126,599)
Payments to employees	(7,994,784)	(5,969,220)	(1,554,286)	(3,770)	(11)	(15,522,071)
Other receipts (payments)	(51,550)	(42,457)	42,997	-	44	(50,966)
Net cash provided by operating activities	<u>13,791,168</u>	<u>21,640,031</u>	<u>3,842,661</u>	<u>1,419,967</u>	<u>49,531</u>	<u>40,743,358</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	(1,383,247)	(2,195,274)	(668,479)	(900,000)	-	(5,147,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(8,898,403)	(18,507,328)	(4,606,894)	-	(2,279)	(32,014,904)
Proceeds from long-term debt	17,840,000	31,381,391	-	-	-	49,221,391
Interest paid on long-term debt	(2,299,918)	(4,483,495)	(656,642)	-	-	(7,440,055)
Debt issuance costs	(104,961)	(197,684)	-	-	-	(302,645)
Principal paid on long-term debt	(21,155,000)	(8,588,000)	(854,909)	-	-	(30,597,909)
Net cash used by capital and related financing activities	<u>(14,618,282)</u>	<u>(395,116)</u>	<u>(6,118,445)</u>	<u>-</u>	<u>(2,279)</u>	<u>(21,134,122)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	-	-	-	(3,706,785)	-	(3,706,785)
Sale of investments	-	-	-	2,973,059	-	2,973,059
Investment income received	91,765	226,507	23,973	870,159	-	1,212,404
Net cash provided by investing activities	<u>91,765</u>	<u>226,507</u>	<u>23,973</u>	<u>136,433</u>	<u>-</u>	<u>478,678</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,118,596)	19,276,148	(2,920,290)	656,400	47,252	14,940,914
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,507,563</u>	<u>30,775,891</u>	<u>4,919,244</u>	<u>252,005</u>	<u>179,234</u>	<u>49,633,937</u>
CASH AND CASH EQUIVALENTS, END 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>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	6,038,500	9,670,653	1,305,108	1,120,487	27,566	18,162,314
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	6,196,518	8,791,779	1,894,465	108,260	5,633	16,996,655
Provision for doubtful accounts	(29,590)	(46,380)	(3,755)	-	-	(79,725)
Changes in assets and liabilities:						
Receivables	(148,115)	(527,154)	(5,785)	-	(5,035)	(686,089)
Other assets	(21,960)	3,923	46,752	-	44	28,759
Accounts payable and other liabilities	1,755,815	3,747,210	605,876	191,220	21,323	6,321,444
Net cash provided by operating activities	<u>\$ 13,791,168</u>	<u>\$ 21,640,031</u>	<u>\$ 3,842,661</u>	<u>\$ 1,419,967</u>	<u>\$ 49,531</u>	<u>\$ 40,743,358</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Fixed assets included in accounts payable	\$ 646,617	\$ 2,594,525	\$ 404,694	\$ -	\$ -	\$ 3,645,836
Fixed asset contributions	392,815	1,373,053	285,507	-	-	2,051,375
Interfund fixed asset contribution	-	(952,401)	952,401	-	-	-
Capitalized interest added to fixed assets	1,203,801	1,193,701	338,413	-	-	2,735,915
Unrealized gain on investments	-	-	-	7,694,212	-	7,694,212

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

(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

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, 2010 and 2009

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.

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:

	Water <u>Utility</u>	Wastewater <u>Utility</u>	Stormwater <u>Utility</u>	Electric <u>Utility</u>	Yard Waste <u>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 \$217,511 and \$1,203,801 in 2010 and 2009, respectively. Net interest capitalized for the Wastewater Utility was \$2,946,045 and \$1,193,701 in 2010 and 2009, respectively. Net interest capitalized for the Stormwater Utility was \$241,788 and \$338,413 in 2010 and 2009, 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, 2010 and 2009

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, 2010 and 2009

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the results of the 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, 2010 and 2009.

December 31, 2010	Fair Value	Investment Maturities (in years) Less than one
Mutual Funds	<u>\$37,034,676</u>	<u>\$37,034,676</u>
December 31, 2009	Fair Value	Investment Maturities (in years) Less than one
Mutual Funds	<u>\$32,490,225</u>	<u>\$32,490,225</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 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

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements
December 31, 2010 and 2009

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.

<u>Morningstar Rating</u>	<u>2010</u>	<u>2009</u>
Below Average	\$ 9,938,595	\$ 10,286,169
Average	15,350,851	11,873,148
Above Average	9,523,579	8,581,873
Not Rated	<u>2,221,651</u>	<u>1,749,035</u>
Total	<u>\$37,034,676</u>	<u>\$32,490,225</u>

Concentration of Credit Risk

Concentration of 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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

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.

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, 2010 in foreign mutual funds with a fair value of \$9,077,556 and at December 31, 2009 in foreign mutual funds with a fair value of \$8,787,276. 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, 2010, the Community Trust had net investment income of \$4,194,485. The Trust incurred realized gains of \$274,066, unrealized gain of \$2,813,236 and cash net income of \$1,107,183. For the year ending December 31, 2009, the Community Trust had a net investment gain of \$7,053,360. The Trust incurred realized losses of \$1,548,151, unrealized gain of \$7,694,213 and cash net income of \$907,298.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

(3) Restricted Assets

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

	<u>Water</u> <u>Utility</u>	<u>Wastewater</u> <u>Utility</u>	<u>Stormwater</u> <u>Utility</u>	<u>Electric</u> <u>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	--	--	45,726,618
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	--	--	--	34,038	34,038
Total	<u>\$ 3,724,573</u>	<u>\$ 64,900,480</u>	<u>\$ 632,079</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>

Restricted assets consisted of the following at December 31, 2009:

	<u>Water</u> <u>Utility</u>	<u>Wastewater</u> <u>Utility</u>	<u>Stormwater</u> <u>Utility</u>	<u>Electric</u> <u>Utility</u>	<u>Total</u>
Cash and cash equivalents:					
Sinking fund	\$ 1,136,196	\$ 5,588,249	\$ 630,177	\$ --	\$ 7,354,622
Debt service reserve	--	12,238,518	--	--	12,238,518
Construction	5,224,191	27,677,206	--	--	32,901,397
Replacement	--	204,000	--	--	204,000
Depreciation	1,000,000	--	--	--	1,000,000
Customer deposits	1,112,921	--	--	--	1,112,921
Connection fees	--	1,005,013	--	--	1,005,013
Tank painting	627,176	--	--	--	627,176
Community Trust	--	--	--	443,915	443,915
Total	<u>\$ 9,100,484</u>	<u>\$ 46,712,986</u>	<u>\$ 630,177</u>	<u>\$ 443,915</u>	<u>\$ 56,887,562</u>
Investments					
Community Trust	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,490,225</u>	<u>\$ 32,490,225</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

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 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 in 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. Sewage Works Junior Revenue Bonds of 1998A, 1998B, 2002C and 2003 and Sewage Works Revenue Bonds of 2002, 2005, 2007 and 2009A and 2009B have all been cash funded as required.

Surety bond insurers' for Waterworks Revenue Bonds of 1997, 2003, 2005 and 2006 have failed to maintain the required AAA/Aaa ratings. The appropriate disclosures have been made to the bondholders and no other action has been taken.

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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

Construction

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

Replacement Account

Funds previously held in the replacement account were reappropriated to cover debt service requirements as outlined in the debt service reserve accounts footnote. The Utilities' bond ordinances define the funding sequence from net revenues as follows: first fund the bond sinking account, then the debt service reserve account, and then net revenues set aside to fund the operations and maintenance fund. Net revenues available after satisfying the aforementioned funds may be set aside and paid into a special utility fund which is designated as the "replacement account". The replacement account balances were zero and \$204,000 as of December 31, 2010 and 2009, respectively.

Depreciation

The Water Utility is required to maintain a Depreciation Account in an amount not less than \$1 million. However, in the event monies are withdrawn from the Depreciation Account leaving a balance of less than \$1 million, the deficiency shall be restored within eighteen months. In August 2010, the Water Utility borrowed the \$1 million for capital investment. The Depreciation account balances were zero and \$1 million as of December 31, 2010 and 2009, respectively.

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. The Airport Expressway restricted balances were \$500,000 and zero as of December 31, 2010 and 2009, respectively.

Customer Deposits

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

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements
December 31, 2010 and 2009

Connection Fees

Certain area connection fees are designated for repayment of certain development costs as well as 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 (see note 16). As part of the agreement, regular monthly installment payments have been received. Until the transfer agreement has received all required regulatory approvals, the payments have forfeiture conditions and as such, are set aside and reported as restricted assets. The contingent balance as of December 31, 2010 was \$1,040,549. This amount is being held in the Wastewater Utility since the Electric Utility used it to partially repay a prior interfund loan from Wastewater (see note 12).

Tank Painting

The Water Utility discontinued the practice of setting aside funds for tank painting. Tank Painting will be funded from normal budgetary and capital planning.

(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 are meant to enable the City to reclaim its Electric Utility by reimbursing the private utility for additions and extensions upon either default of its obligations under the lease or upon termination of the lease.

Under the provisions of the 1975 authorizing 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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

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.

(6) 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 expired on February 28, 2010. Lease payments of \$290,000 and \$1,740,000 were received for the years ended December 31, 2010 and 2009, respectively. The following table shows rental income on the noncancelable lease for the entire life of the lease:

<u>Annual Amount</u>	<u>Five –Year Period</u>	<u>Five –Year Totals</u>	<u>Received</u>
\$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	8,700,000	8,700,000
	Totals	<u>\$55,650,000</u>	<u>\$55,650,000</u>

Under the terms of the agreement, the lessee willfully made improvements and retired assets in the system as long as such improvements and retirements did not exceed 5% of the original cost of the leased property in any one given year. When appropriate, the City approved amounts in excess of 5%. Depreciation expense for the leased assets was \$45,848 and \$93,663 for 2010 and 2009, respectively.

On October 28, 2010, the City agreed to transfer the remaining assets of the Electric Utility to the previous lessee (see Note 16). The transfer agreement has been approved by the Common Council and requires approval by the Indiana Utility Regulatory Commission (IURC). In the event the IURC fails to ratify the agreement, the Electric Utility has, under the terms of the expired lease agreement, the first option to purchase those improvements made by the lessee at a cost approximating net book value or extend the lease an additional 15 years at unspecified rental amounts.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

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

	<u>Utility Plant on 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>--</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>

A historical cost summary of the Electric Utility Plant at December 31, 2009:

	<u>Utility Plant on 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	1,132,777	155,975	1,288,752
Distribution and collection	<u>5,870,453</u>	<u>--</u>	<u>5,870,453</u>
Gross capital assets	7,230,896	1,233,848	8,464,744
Less:			
Accumulated depreciation	<u>(7,068,142)</u>	<u>(1,169,562)</u>	<u>(8,237,704)</u>
Net capital assets	<u>\$ 162,754</u>	<u>\$ 64,286</u>	<u>\$ 227,040</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

(7) Capital Assets

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

<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>270,920,363</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>
<u>2009</u>	Balance <u>Jan. 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	Adjustments/ <u>Transfers</u>	Balance <u>Dec. 31, 2009</u>
Land	\$ 5,682,920	\$ --	\$ --	\$ 62,135	\$ 5,745,055
Distribution and collection	439,981,672	154,699	918,898	21,125,392	460,342,865
Buildings and improvement	156,796,854	34,397	--	25,849,631	182,680,882
Equipment and other	154,624,552	2,047,797	1,565,655	6,938,816	162,045,510
Construction in progress	<u>55,613,460</u>	<u>33,492,685</u>	<u>--</u>	<u>(53,238,741)</u>	<u>35,867,404</u>
	812,699,458	35,729,578	2,484,553	737,233	846,681,716
Less accumulated depreciation:					
Distribution and collection	112,288,368	6,678,427	855,739	--	118,111,056
Buildings and improvement	50,254,988	3,529,889	--	--	53,784,877
Equipment and other	<u>78,177,898</u>	<u>6,788,339</u>	<u>943,556</u>	<u>155,331</u>	<u>84,178,012</u>
	<u>240,721,254</u>	<u>16,996,655</u>	<u>1,799,295</u>	<u>155,331</u>	<u>256,073,945</u>
Net Capital Assets	<u>\$571,978,204</u>	<u>\$18,732,923</u>	<u>\$ 685,258</u>	<u>\$ 581,902</u>	<u>\$590,607,771</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements
December 31, 2010 and 2009

(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 \$296,725 and \$267,909 in 2010 and 2009, respectively. Developer notes payable were \$2,387,620 and \$2,802,570 for 2010 and 2009, respectively. The debt accrues interest at prime, which as of the end of 2010, was at 4.25%, 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 had an interest rate of 1.81% and was payable on or before February 11, 2009. BAN1 was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2009 (BAN2). BAN2 was 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 has an interest rate of 0.60% and is payable on February 11, 2011.

(10) Long-Term Debt

Bonds Payable:

Details of all Utilities' bonds payable at December 31, 2010 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 amount of \$680,000 in 2011, redeemable at 100% beginning in 2005, less unamortized bond discount of \$945.	\$ 679,055
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 \$390,000 in 2011 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$10,851.	3,115,851

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

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 \$635,000 in 2011 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$43,432.	14,308,432
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 \$925,000 in 2011 to \$975,000 in 2012, redeemable at 100% beginning in 2007, less unamortized bond discount of \$570.	1,899,430
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 \$1,465,000 in 2011 to \$1,535,000 in 2012, redeemable at 100% beginning in 2007, less unamortized bond discount of \$547.	2,999,453
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 \$1,000,000 in 2011 to \$1,100,000 in 2017, redeemable at 100% beginning in 2013, plus unamortized bond premium of \$122,502.	7,882,502
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 \$385,000 in 2011 to \$500,000 in 2017, redeemable at 100% beginning in 2014.	3,085,000
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 \$800,000 in 2011 to \$1,045,000 in 2018, plus unamortized bond premium of \$16,181.	7,331,181
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 \$895,000 in 2011 to \$1,775,000 in 2027, redeemable at 100% beginning in 2017, less unamortized bond discount of \$23,069.	21,731,931
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 \$256,953.	40,788,047

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

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 \$985,000 in 2011 to \$1,500,000 in 2021, plus unamortized bond premium of \$47,375.	<u>13,472,375</u>
Total	117,293,257
Less: Current portion	<u>(8,160,000)</u>
Noncurrent Bonds payable, net	<u>\$109,133,257</u>

Total bond debt service requirements to maturity as of December 31, 2010 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 8,160,000	\$ 5,077,985	\$ 13,237,985
2012	8,505,000	4,738,542	13,243,542
2013	7,975,000	4,390,630	12,365,630
2014	8,260,000	4,060,588	12,320,588
2015	8,580,000	3,716,705	12,296,705
2016 to 2020	37,355,000	13,117,683	50,472,683
2021 to 2025	20,635,000	6,833,753	27,468,753
2026 to 2030	<u>17,865,000</u>	<u>2,248,268</u>	<u>20,113,268</u>
Total	<u>\$117,335,000</u>	<u>\$44,184,154</u>	<u>\$161,519,154</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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

Details of all Utilities' State Revolving Fund (SRF) loans payable at December 31, 2010 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 \$1,038,000 in 2011 to \$1,663,000 in 2023, redeemable prior to maturity for bonds maturing after 2013.	\$ 17,220,351
Sewage Works SRF Revenue Bonds of 2005 – Final Draw - \$40,000,000 – the interest rate is 3.1% and mature serially in amounts ranging from \$1,715,000 in 2011 to \$2,635,000 in 2025, redeemable prior to maturity for bonds maturing after 2017.	32,160,000
Sewage Works SRF Revenue Bonds of 2009 – Draw up to \$5,000,000 – As of December 31, 2010, total draw is \$4,104,498 – the interest rate is 0.16% and mature serially in amounts ranging from \$241,111 in 2011 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020	4,104,498

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 \$1,870,000 in 2011 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017.	25,160,000
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 \$960,818 in 2011 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020.	29,091,005

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 \$110,000 in 2011 to \$120,000 in 2016, redeemable prior to maturity for all outstanding bonds.	<u>692,000</u>
Total SRF Loans Payable	108,427,854
Less: Current Portion	<u>(5,934,929)</u>
Noncurrent SRF Loans Payable, net	<u>\$102,492,925</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

The total anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2010 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,934,929	\$ 3,913,280	\$ 9,848,209
2012	6,148,285	3,702,174	9,850,459
2013	6,367,304	3,483,037	9,850,341
2014	6,593,057	3,255,701	9,848,758
2015	6,832,612	3,019,854	9,852,466
2016 to 2020	37,502,997	11,252,427	48,755,424
2021 to 2025	29,025,640	4,697,338	33,722,978
2026 to 2030	<u>10,860,405</u>	<u>1,239,337</u>	<u>12,099,742</u>
Total	<u>\$ 109,265,229</u>	<u>\$ 34,563,148</u>	<u>\$ 143,828,377</u>

Changes in Long-Term Liabilities

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>

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2009:

	<u>Balance Jan. 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2009</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 93,287,032	\$ --	\$ 8,513,949	\$ 84,773,083	\$ 8,215,000
Loans payable	<u>82,684,094</u>	<u>31,381,391</u>	<u>4,358,000</u>	<u>109,707,485</u>	<u>4,675,776</u>
Total bonds and loans	175,971,126	31,381,391	12,871,949	194,480,568	12,890,776
Other noncurrent liabilities					
Accrued compensated absences	2,186,341	2,186,351	1,986,395	2,386,297	1,084,112
Other long-term liabilities	<u>24,397</u>	<u>3,770</u>	<u>5,145</u>	<u>23,022</u>	<u>5,145</u>
Total other noncurrent liabilities	<u>2,210,738</u>	<u>2,190,121</u>	<u>1,991,540</u>	<u>2,409,319</u>	<u>1,089,257</u>
	<u>\$ 178,181,864</u>	<u>\$ 33,571,512</u>	<u>\$ 14,863,489</u>	<u>\$ 196,889,887</u>	<u>\$ 13,980,033</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

(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 \$2,934,478 and \$2,911,185 in 2010 and 2009, respectively. The Utilities also received \$683,777 and \$554,532 in 2010 and 2009, respectively from the City for other water, sewer and stormwater services.

The City received the following from the Utilities in 2010:

	Water Utility	Wastewater Utility	Stormwater Utility	Yard Utility	Electric Utility	Totals
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>--</u>	<u>--</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>

The City received the following from the Utilities in 2009:

	Water Utility	Wastewater Utility	Stormwater Utility	Yard Utility	Electric Utility	Totals
Self insurance	\$2,229,900	\$ 2,164,700	\$ 606,762	\$ 3,891	\$ --	\$5,005,253
Garage services	548,939	534,679	187,456	100	--	1,271,174
Overhead charges	449,509	651,158	295,472	4,201	--	1,400,340
Office and technical services	<u>36,349</u>	<u>111,602</u>	<u>90,300</u>	<u>196</u>	<u>5,145</u>	<u>243,592</u>
	3,264,697	3,462,139	1,179,990	8,388	5,145	7,920,359
Transfers out to the Redevelopment Commission	--	--	--	--	900,000	900,000
Transfers out in lieu of taxes	<u>1,383,247</u>	<u>2,195,274</u>	<u>668,479</u>	<u>--</u>	<u>--</u>	<u>4,247,000</u>
Totals	<u>\$4,647,944</u>	<u>\$ 5,657,413</u>	<u>\$ 1,848,469</u>	<u>\$ 8,388</u>	<u>\$ 900,145</u>	<u>\$13,067,359</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

(12) Interfund Assets and Liabilities

As of December 31, 2010 and 2009, 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>2010</u>	<u>2009</u>
Due from City:			
Water	City's General	\$ 8,172	\$ 259,283
Wastewater		11,185	22,671
Stormwater		4,555	10,362
Electric		2,794	--
Yard Waste		66	138
Total Due from City		<u>\$ 26,772</u>	<u>\$ 292,454</u>
Due to City:			
City's General	Water	\$ 118,404	\$1,533,070
	Wastewater	106,516	1,772,104
	Stormwater	22,658	947,751
	Electric	626	429
	Yard Waste	35	1,527
City's Solid Waste	Water	528,564	507,498
	Wastewater	706,270	735,160
	Stormwater	279,470	333,589
	Yard Waste	4,557	4,743
Total Due to City		<u>\$ 1,767,100</u>	<u>\$ 5,835,871</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.

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 and will be fully satisfied in early 2011. The outstanding balance as of December 31, 2010 was \$144,151 and was reported as an interfund receivable / payable.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

(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 \$492,052 and \$952,401 in 2010 and 2009, 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.

(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

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements
December 31, 2010 and 2009

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 2010 and 2009, and related information as provided by the actuary, is presented in this note.

Tables of Required Information

	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 1,573,811	\$ 1,308,667
Interest on net pension obligation (NPO)	(46,432)	(50,904)
Adjustment to ARC	<u>52,913</u>	<u>58,009</u>
Annual pension cost	1,580,292	1,315,772
Contributions made	<u>(1,309,068)</u>	<u>(1,254,096)</u>
Increase in NPO	271,224	61,676
NPO, beginning of year	<u>(640,448)</u>	<u>(702,124)</u>
NPO, end of year	<u>\$ (369,224)</u>	<u>\$ (640,448)</u>

Contribution rates:

City Utilities	8.0%
Plan members	3%
Actuarial valuation date	07/01/10
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar, Closed
Amortization period	30 years
Amortization period (from date)	07/01/10

Actuarial assumptions:

Investment rate of return	7.00%
Projected future salary increases:	
Total	4.0%
Cost-of-living adjustments	1.0%

Asset Valuation Method: 4-year phase in of realized and unrealized capital

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

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>
06/30/08	1,176,630	91%	(702,124)
06/30/09	1,315,772	95%	(604,448)
06/30/10	1,580,292	83%	(369,224)

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Unfunded AAL As a Percentage Of Covered Payroll ((a-b)/c)</u>
07/01/08	22,374,520	27,085,752	(4,711,232)	83%	16,358,332	29%
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%

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. The Utilities paid annual benefits of \$3,882 to three former employees or survivors in for the year ending December 31, 2010 and \$5,145 to four former employees or survivors for the year ending December 31, 2009. The accrued pension cost for this plan is \$16,148 and \$23,022 at December 31, 2010 and 2009, respectively.

(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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2010 and 2009

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 three 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 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.

Electric Utility Transfer of Assets Agreement:

On October 28, 2010, the City entered into an agreement to transfer the remaining Electric Utility assets to a private electric utility (Transferee), which previously leased the assets for 35 years under a lease agreement that expired on February 28, 2010. In exchange for the remaining assets, the transferee will pay the City \$5,000,000 within thirty days of the effective date of the transfer. The effective date of the transfer will be the date of the final order from the Indiana Utility Regulatory Commission (IURC), the approval by IURC of asset transfers is required on regulated utilities. The Transferee will also pay annual amounts through February 28, 2025 as per the following table:

<u>Annual Amount</u>	<u>Period</u>	<u>Period Totals</u>	<u>Amount Received</u>	<u>Future Payments</u>
\$1,740,000	3/1/10 to 2/28/13	\$ 5,220,000	\$1,595,000	\$ 3,625,000
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>\$1,595,000</u>	<u>\$32,625,000</u>

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2010 and 2009

The transfer agreement also provides for the payment of \$555,000 from the City to the Transferee for products and services provided previously to the City by the Transferee.

In the event that the IURC does not approve the Transfer Agreement to the satisfaction of either the City or the Transferee, all payments made by the Transferee must either be escrowed in a separate bank account by the City or remanded to the Court for escrow until subsequently resolved or dissolved.

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>2010</u>	<u>2009</u>
Water	\$ 171,891	\$ 2,113,786
Wastewater	1,116,963	5,106,225
Stormwater	9,404	613,841
	<u>\$ 1,298,258</u>	<u>\$ 7,833,852</u>

Major contracts awarded subsequent to December 31, 2010:

<u>Major Contract Project Description</u>	<u>Amount</u>
CIPP 2010 Small Diameter Package #3	\$ 1,017,443
Beckett's Run Relief Interceptor	5,918,973
Pontiac Street Sewer Separation	752,100

(17) Subsequent Events

Bank Anticipation Notes – Refinanced:

The Waterworks Utility Revenue Bond Anticipation Notes, Series 2010 (BAN3) (see note 9) was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2011 (BAN4). BAN4 was issued on February 11, 2011 in the amount of \$17,840,000. BAN4 has an interest rate of 0.65% and the principle and interest is payable on February 10, 2012.

Water Utility Bond Authorized:

On April 26, 2011, the Common Council of Fort Wayne authorized the issuance of Water Revenue Bond in an amount not to exceed \$30 million with a rate not to exceed 8% and a term of less than 30 years. On May 5, 2011, the Water Utility filed a petition with the IURC seeking permission to issue bonds in an amount not to exceed \$30 million.