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# *City of Fort Wayne Utilities*

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



*Financial Statements*

FILED

09/09/2013

*December 31, 2012 & 2011*

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**CITY OF FORT WAYNE UTILITIES**  
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## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of each major enterprise fund of the City of Fort Wayne Utilities (City Utilities), as of and for the years ended December 31, 2012, and 2011, and the related notes to the financial statements, which collectively comprise the City Utilities' basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City Utilities' internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinions.

**INDEPENDENT AUDITOR'S REPORT  
(Continued)**

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the City Utilities as of December 31, 2012, and 2011, and the respective changes in financial position and cash flows, thereof and for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Bruce Hartman - State Examiner  
State Board of Accounts

June 27, 2013

## **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, 2012 and 2011. 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**

- In August 2011, the Indiana Utility Regulatory Commission ratified an agreement to transfer (sell) all Electric Utility operating assets in exchange for a multi-year compensation package in excess of \$39 million over 15 years. The Utilities recognized a gain of \$24.6 million from the transfer. With the exception of a few non-operating capital assets, the Electric Utility transferred its net position valued at \$61.4 million to the City's Community Legacy Fund.
- The assets of the Utilities exceeded its liabilities (net position) as of December 31, 2012, 2011 and 2010 by \$481.6 million, \$525.3 million and \$481.6 million, respectively. The reduction in net position in 2012 reflects the transfer of \$61.4 million to the City.
- The Utilities' net position increased (decreased) for the years ended December 31, 2012, 2011 and 2010 by (\$43.7) million, \$43.7 million and \$16.2 million, respectively. Excluding the transfer of \$61.4 million to the City, the Utilities' net position increased in 2012 by \$17.7 million.
- The Utilities' added new bonded debt and long-term notes payable for years ended December 31, 2012, 2011 and 2010 of \$100.0 million, \$69.4 million and \$44.2 million, respectively. The 2012 increase in debt consists of one new Water Revenue Bond, one new Wastewater Revenue Bond, one new Wastewater SRF loan and additional withdrawals against existing SRF loans.

The Utilities were able to take advantage of the recent low interest rate financial markets and acquire new long term debt in 2012 at rates ranging from 1.78% to 3.0%. Additionally, refunding bonds issued in late 2012 and early 2013 at rates ranging from 1% to 3% were issued to retire bonds with interest rates ranging from 4% to 5.5%.

- The Utilities' net investment in capital assets for the years ended December 31, 2012, 2011 and 2010 increased approximately \$57.7

million, \$27.2 million and \$40.3 million, respectively. Significantly, the Utilities continue to meet all 2009-2012 capital investment milestones required by the 2008 Federal Consent Decree.

## 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 position, 2) statement of revenues, expenses and changes in net position 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 16-41 of this report.

The Utilities provide water, wastewater, stormwater, and yard waste services. The Utilities' financial statements have been prepared to reflect the activity of each of these services. The Electric Utility's generation and distribution systems (operating system) were leased to a private firm in 1975 and the entire operating system was purchased by that private firm in 2011. Since 1975 portions of the lease payments were accumulated in a Community Trust Fund and that Trust Fund coupled with the assets generated from the sale of the Electric Utility's operating assets were transferred to the City Community Legacy Fund in 2012.

### City of Fort Wayne Utilities Condensed Statement of Net Position

|                                | (\$millions)    |                 |                 | Variance         |              | Variance        |              |
|--------------------------------|-----------------|-----------------|-----------------|------------------|--------------|-----------------|--------------|
|                                | December 31     |                 |                 | 2011-2012        |              | 2010-2011       |              |
|                                | 2012            | 2011            | 2010            | \$millions       | %            | \$millions      | %            |
| Net capital assets             | \$ 701.0        | \$ 643.3        | \$ 616.1        | \$ 57.7          | 9.0%         | \$ 27.2         | 4.4%         |
| Other assets                   | 150.7           | 215.1           | 132.2           | (64.4)           | -29.9%       | 82.9            | 62.7%        |
| <b>Total assets</b>            | <b>\$ 851.7</b> | <b>\$ 858.4</b> | <b>\$ 748.3</b> | <b>\$ (6.7)</b>  | <b>-0.8%</b> | <b>\$ 110.1</b> | <b>14.7%</b> |
| Current liabilities            | 40.9            | 55.0            | 53.7            | (14.1)           | -25.6%       | 1.3             | 2.4%         |
| Long term liabilities          | 329.2           | 278.1           | 213.0           | 51.1             | 18.4%        | 65.1            | 30.6%        |
| <b>Total liabilities</b>       | <b>370.1</b>    | <b>333.1</b>    | <b>266.7</b>    | <b>37.0</b>      | <b>11.1%</b> | <b>66.4</b>     | <b>24.9%</b> |
| <b>Total net assets</b>        | <b>\$ 481.6</b> | <b>\$ 525.3</b> | <b>\$ 481.6</b> | <b>\$ (43.7)</b> | <b>-8.3%</b> | <b>\$ 43.7</b>  | <b>9.1%</b>  |
| Net invested in capital assets | \$ 424.2        | \$ 412.6        | \$ 408.2        | 11.6             | 2.8%         | 4.4             | 1.1%         |
| Restricted                     | 35.7            | 68.5            | 56.2            | (32.8)           | -47.9%       | 12.3            | 21.9%        |
| Unrestricted                   | 21.7            | 44.2            | 17.2            | (22.5)           | -50.9%       | 27.0            | 157.0%       |
| <b>Total net position</b>      | <b>\$ 481.6</b> | <b>\$ 525.3</b> | <b>\$ 481.6</b> | <b>\$ (43.7)</b> | <b>-8.3%</b> | <b>\$ 43.7</b>  | <b>9.1%</b>  |

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

|                                                              | (\$millions)           |                 |                 | Variance         |                | Variance       |               |
|--------------------------------------------------------------|------------------------|-----------------|-----------------|------------------|----------------|----------------|---------------|
|                                                              | Year Ended December 31 |                 |                 | 2011-2012        |                | 2010-2011      |               |
|                                                              | 2012                   | 2011            | 2010            | \$millions       | %              | \$millions     | %             |
| <b>Operating revenues:</b>                                   |                        |                 |                 |                  |                |                |               |
| Water service revenues                                       | \$ 33.5                | \$ 33.3         | \$ 33.5         | \$ 0.2           | 0.6%           | \$ (0.2)       | -0.6%         |
| Wastewater service revenues                                  | 52.7                   | 51.1            | 42.5            | 1.6              | 3.1%           | 8.6            | 20.2%         |
| Stormwater service revenues                                  | 9.8                    | 10.8            | 9.7             | (1.0)            | -9.3%          | 1.1            | 11.3%         |
| Electric revenues                                            | 0.0                    | 0.0             | 1.7             | 0.0              | 0.0%           | (1.7)          | -100.0%       |
| Yard Waste revenues                                          | 0.2                    | 0.1             | 0.2             | 0.1              | 100.0%         | (0.1)          | -50.0%        |
| <b>Total operating revenues</b>                              | <b>96.2</b>            | <b>95.3</b>     | <b>87.6</b>     | <b>0.9</b>       | <b>0.9%</b>    | <b>7.7</b>     | <b>8.8%</b>   |
| <b>Operating expenses:</b>                                   |                        |                 |                 |                  |                |                |               |
| Water operations                                             | 28.8                   | 28.0            | 26.7            | 0.8              | 2.9%           | 1.3            | 4.9%          |
| Wastewater operations                                        | 33.3                   | 30.1            | 28.7            | 3.2              | 10.6%          | 1.4            | 4.9%          |
| Stormwater operations                                        | 6.1                    | 6.2             | 6.4             | (0.1)            | -1.6%          | (0.2)          | -3.1%         |
| Electric operations                                          | 0.0                    | 0.1             | 1.1             | (0.1)            | -100.0%        | (1.0)          | -90.9%        |
| Yard Waste operations                                        | 0.1                    | 0.1             | 0.1             | 0.0              | 0.0%           | 0.0            | 0.0%          |
| <b>Total operating expenses</b>                              | <b>68.3</b>            | <b>64.5</b>     | <b>63.0</b>     | <b>3.8</b>       | <b>5.9%</b>    | <b>1.5</b>     | <b>2.4%</b>   |
| <b>Operating Income</b>                                      | <b>27.9</b>            | <b>30.8</b>     | <b>24.6</b>     | <b>(2.9)</b>     | <b>-9.4%</b>   | <b>6.2</b>     | <b>25.2%</b>  |
| Net nonoperating revenues (expenses)                         | (5.7)                  | 16.9            | (2.4)           | (22.6)           | -133.7%        | 19.3           | -804.2%       |
| <b>Income before capital contributions and transfers out</b> | <b>22.2</b>            | <b>47.7</b>     | <b>22.2</b>     | <b>(25.5)</b>    | <b>-53.5%</b>  | <b>25.5</b>    | <b>114.9%</b> |
| Capital contributions                                        | 2.5                    | 2.8             | 1.1             | (0.3)            | -10.7%         | 1.7            | 154.5%        |
| Net transfers out                                            | (68.4)                 | (6.8)           | (7.1)           | (61.6)           | 905.9%         | 0.3            | -4.2%         |
| <b>Increase in net assets</b>                                | <b>(43.7)</b>          | <b>43.7</b>     | <b>16.2</b>     | <b>(87.4)</b>    | <b>-200.0%</b> | <b>27.5</b>    | <b>169.8%</b> |
| Net position - January 1st                                   | 525.3                  | 481.6           | 465.4           | 43.7             | 9.1%           | 16.2           | 3.5%          |
| <b>Net position - December 31st</b>                          | <b>\$ 481.6</b>        | <b>\$ 525.3</b> | <b>\$ 481.6</b> | <b>\$ (43.7)</b> | <b>-8.3%</b>   | <b>\$ 43.7</b> | <b>9.1%</b>   |

## Financial Analysis

As noted earlier, net position 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, \$ 525.3 million and \$481.6 million as of December 31, 2012, 2011 and 2010, respectively. The largest portion (88.1%) of the Utilities' net assets in 2012 reflects its net 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 position (\$35.7 million, or 7.4%) represents resources that are subject to external restrictions on how they may be used.

The Utilities net position increased/(decreased) (\$43.7) million, \$43.7 million and \$16.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. The change in net assets were significantly impacted by the sale of the Electric Utility's operating assets in 2011 and the subsequent transfer to the

City of the assets generated from the sale coupled with the Community Trust Fund assets.

- In 2011, the Electric Utility sold its operating assets in exchange for a multi-year compensation package in excess of \$39 million over 15 years. The Utilities recognized a gain of \$24.6 million from the sale. In 2012 and with the exception of a few non-operating capital assets, the Electric Utility transferred its net assets valued at \$61.4 million to the City's Community Legacy Fund. Excluding the impact of the sale of the Electric Utility's operating assets and the ultimate transfer of assets generated from the sale coupled with the Community Trust Fund assets, net position from continuing operations increased \$17.7 million, \$19.1 million and \$16.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

### **Capital Assets and Capital Improvement Program**

The Utilities total capital assets in service are \$893.9 million with an accumulated depreciation of \$282.6 million for a net book value of \$611.3 million. The statement of net assets also includes \$89.7 million in construction in progress reflecting capital projects in various stages of completion. During 2012, approximately \$77.3 million was invested in capital projects.

### **Debt**

At December 31, 2012, the Utilities had approximately \$343.8 million in bonds and loans payable, an increase of \$62.8 million over last year.

The Utilities closed on three new long-term bond/loan issues in 2012. Other than \$17.8 million to permanently finance the Water BAN (see Note 9), the bonds' proceeds were used to fund significant capital expenditures. The new bond/loan issues in 2012 were:

- An open market water revenue bond for \$40.0 million payable over 20 years at 3.4%.
- A traditional SRF wastewater loan for up to \$10.4 million @ 1.78% payable over 20 years.
- An open market wastewater revenue bond for \$15.5 million over 15 years at 2.50%.

In December 2012, the Utilities issued \$19.7 million in refunding revenue bonds payable over 10 years at 1.45% to advance refund \$20.8 million in 2002A and 2002B Wastewater bonds and loans. In doing this, the Utility in effect lowered its aggregate debt service payment by \$4.4 million and realized an economic gain of \$2.4 million (see Note 10).

In February 2012, the Utilities issued a Bond Anticipation Note (BAN5) of \$17.8 million payable within a year with interest at 0.48%. The proceeds were used to retire a Bond Anticipation Note previously issued February 2011. Subsequently, BAN5 was permanently financed with proceeds from 2012 Water revenue bond.

The Utilities paid principal (including the refunding transaction) of \$55.1 million and \$31.9 million in 2012 and 2011, respectively.

### **Economic Factors and Next Year's Budget and Rates**

- On December 28, 2007, the Utilities agreed to a Long-Term Control Plan (LTCP), in the form of a federal Consent Decree, which will ultimately bring the Utilities' combined storm and sanitary sewer system into compliance with the federal Clean Water Act. The Consent Decree became effective April 1, 2008. The Utilities committed to combined sewer overflow reductions that require an approximate investment of \$240.0 million (denominated in 2005 dollars) in infrastructure solutions over the next 18 years. The Utilities also agreed to:
  - o Eliminate three sanitary sewer overflows at an estimated cost of \$31.0 million.
  - o Maintain the entire storm and sewer systems to performance standards prescribed in the LTCP.
  - o 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 \$265 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. As of December 31, 2012, the Utilities have issued \$172.8 million debt associated with the \$265 million Council authorization. Subsequently, the Utilities issued \$75.2 million on March 13, 2013 bringing the total draw against the \$265 million authorization to \$248 million.

The Utilities are in full compliance with the terms and conditions of the Consent Decree. Significantly, the Utilities completed: the upgrade to the wastewater plant primaries, completed the pilot testing for the capture and

disposal of floatables and completed eight combined sewer separation projects. The Utilities also constructed a backflow process that fully treats nearly 1 billion gallons of wastewater per year that previously entered the Maumee River only partially treated. Untreated wastewater storage capacity was increased by nearly 100 million gallons through several CSO pond enhancement projects.

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

Lining wastewater pipelines significantly extends the life of the pipeline, improves overall system flow and reduces reactive maintenance. Since 2008, the Utilities have invested \$17.2 million to line approximately 76 miles of pipe. The replacement rate over the previous five years is right at our annual goal of 1% per year.

- In June 2002, the Utilities initiated a condemnation action of Aqua Indiana's North Assets. On February 12, 2008, the Utilities paid Aqua Indiana \$16.9 million, the appraised value, and took possession of those assets. The North Assets were quickly integrated with the Utilities' water and sewer system and began generating revenues at existing rates from 8,600 new retail water customers and 1,600 new retail sewer customers. Aqua Indiana asserts that the purchase price is inadequate and has sued for unspecified damages.
- The Water Utility successfully acquired SRF funding in 2011 for a ultra-violet disinfection system (UV system) valued at nearly \$20 million. The UV system was selected as the optimal incremental disinfection methodology to comply with an EPA mandate; the Long Term 2 Enhanced Surface Water Treatment Rule. This UV solution is on schedule for completion before the enforcement date of April 2014.
- In 2012, the Indiana Utility Regulatory Commission and Fort Wayne City Council approved a three year water rate plan increasing water revenues by 33.9%. The water rate increase will be implemented in three annual increments starting in January 2013. The increased revenues will provide funding for many repair and replacement projects but, significantly, up to 9 miles of water main replacement each year. As our infrastructure has aged, funding for our water main replacement program has not kept pace with the increase in our water main breaks. The new revenues will allow us to approach our goal to replace 1%, or ten miles, of our water main pipelines per year

### **Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show

accountability for the money they receive. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy Director of Business Services - City Utilities, City of Fort Wayne Utilities, 200 E Berry Street, Suite 270, Fort Wayne, IN 46802.

**CITY OF FORT WAYNE UTILITIES**

Statement of Net Position  
At December 31, 2012

|                                                               | Water                 | Wastewater            | Stormwater            | Electric         | Yard<br>Waste     | Total<br>2012         |
|---------------------------------------------------------------|-----------------------|-----------------------|-----------------------|------------------|-------------------|-----------------------|
| <b>ASSETS</b>                                                 |                       |                       |                       |                  |                   |                       |
| <b>CURRENT ASSETS:</b>                                        |                       |                       |                       |                  |                   |                       |
| Cash and cash equivalents                                     | \$ 5,486,682          | \$ 4,920,027          | \$ 3,569,208          | \$ -             | \$ 315,710        | \$ 14,291,627         |
| Investments                                                   | -                     | 10,000,000            | -                     | -                | -                 | 10,000,000            |
| Receivables:                                                  |                       |                       |                       |                  |                   |                       |
| Customers, net of allowance for doubtful accounts of \$42,404 | 2,891,689             | 5,817,508             | 1,455,301             | -                | 68,114            | 10,232,612            |
| Miscellaneous                                                 | -                     | -                     | -                     | -                | -                 | -                     |
| Installment receivable - current portion                      | -                     | -                     | -                     | -                | -                 | -                     |
| Interest                                                      | 497                   | 1,816                 | -                     | -                | -                 | 2,313                 |
| Due from City of Fort Wayne                                   | 562,395               | 273,785               | 16,229                | -                | 5                 | 852,414               |
| Interfund receivable                                          | -                     | -                     | -                     | -                | -                 | -                     |
| Materials and supplies                                        | 1,019,552             | 75,640                | -                     | -                | -                 | 1,095,192             |
| Prepaid expenses                                              | 88,408                | 1,340,947             | 2,095                 | -                | 24                | 1,431,474             |
| <b>Total current assets</b>                                   | <b>10,049,223</b>     | <b>22,429,723</b>     | <b>5,042,833</b>      | <b>-</b>         | <b>383,853</b>    | <b>37,905,632</b>     |
| <b>NONCURRENT ASSETS:</b>                                     |                       |                       |                       |                  |                   |                       |
| Restricted cash and cash equivalents                          | 35,150,320            | 62,009,234            | 634,083               | -                | -                 | 97,793,637            |
| Restricted investments                                        | 5,042,750             | 5,042,750             | -                     | -                | -                 | 10,085,500            |
| Unamortized bond issuance costs                               | 2,441,032             | 1,170,662             | 153,901               | -                | -                 | 3,765,595             |
| Installment receivable                                        | -                     | -                     | -                     | -                | -                 | -                     |
| Assessments receivable                                        | -                     | 1,140,538             | -                     | -                | -                 | 1,140,538             |
| Capital assets:                                               |                       |                       |                       |                  |                   |                       |
| Land                                                          | 4,687,507             | 1,429,003             | 2,511,161             | 75,732           | -                 | 8,703,403             |
| Distribution and collection                                   | 143,334,553           | 270,856,744           | 118,173,570           | -                | -                 | 532,364,867           |
| Buildings and improvements                                    | 60,497,567            | 118,654,612           | 2,811,065             | 1,121,198        | 68,777            | 183,153,219           |
| Equipment and other                                           | 89,220,676            | 75,691,634            | 4,373,590             | 342,787          | 52,565            | 169,681,252           |
| Less: Accumulated depreciation                                | (99,938,633)          | (144,480,566)         | (36,651,311)          | (1,444,970)      | (95,172)          | (282,610,652)         |
| Plus: Construction in progress                                | 19,475,794            | 63,222,521            | 7,010,572             | -                | 1,938             | 89,710,825            |
| Net capital assets                                            | 217,277,464           | 385,373,948           | 98,228,647            | 94,747           | 28,108            | 701,002,914           |
| <b>Total noncurrent assets</b>                                | <b>259,911,566</b>    | <b>454,737,132</b>    | <b>99,016,631</b>     | <b>94,747</b>    | <b>28,108</b>     | <b>813,788,184</b>    |
| <b>Total assets</b>                                           | <b>\$ 269,960,789</b> | <b>\$ 477,166,855</b> | <b>\$ 104,059,464</b> | <b>\$ 94,747</b> | <b>\$ 411,961</b> | <b>\$ 851,693,816</b> |
| <b>LIABILITIES</b>                                            |                       |                       |                       |                  |                   |                       |
| <b>CURRENT LIABILITIES:</b>                                   |                       |                       |                       |                  |                   |                       |
| Accounts payable                                              | \$ 3,443,080          | \$ 7,096,835          | \$ 129,519            | \$ -             | \$ 18,210         | \$ 10,687,644         |
| Due to City of Fort Wayne                                     | 1,701,494             | 822,221               | 262,380               | -                | 4,231             | 2,790,326             |
| Interfund payable - current portion                           | 119,527               | 87,874                | 54,007                | -                | 62                | 261,470               |
| Compensated absences payable - current portion                | 546,364               | 428,296               | 103,784               | -                | 859               | 1,079,303             |
| Unearned revenue - current portion                            | -                     | -                     | -                     | -                | -                 | -                     |
| Other current liabilities                                     | 748,583               | 2,590,739             | 160,273               | -                | 981               | 3,500,576             |
| Accrued interest payable                                      | 878,502               | 2,773,479             | 190,333               | -                | -                 | 3,842,314             |
| Bonds payable - current portion                               | 2,435,000             | 5,465,000             | 1,065,000             | -                | -                 | 8,965,000             |
| Loans payable - current portion                               | 3,293,000             | 5,056,304             | -                     | -                | -                 | 8,349,304             |
| Notes payable - current portion                               | -                     | -                     | -                     | -                | -                 | -                     |
| Customer deposits                                             | 1,371,631             | -                     | -                     | -                | -                 | 1,371,631             |
| <b>Total current liabilities</b>                              | <b>14,537,181</b>     | <b>24,320,748</b>     | <b>1,965,296</b>      | <b>-</b>         | <b>24,343</b>     | <b>40,847,568</b>     |
| <b>NONCURRENT LIABILITIES:</b>                                |                       |                       |                       |                  |                   |                       |
| Bonds payable, net of unamortized bond discount/premium       | 52,733,440            | 137,029,894           | 10,387,725            | -                | -                 | 200,151,059           |
| Loans payable                                                 | 47,550,000            | 78,777,879            | -                     | -                | -                 | 126,327,879           |
| Interfund payable                                             | 317,131               | 188,984               | 147,798               | -                | 149               | 654,062               |
| Compensated absences payable                                  | 885,879               | 498,696               | 80,651                | -                | 902               | 1,466,128             |
| Unearned revenue                                              | -                     | -                     | -                     | -                | -                 | -                     |
| Net pension obligation                                        | 202,809               | 308,542               | 106,970               | -                | -                 | 618,321               |
| Other long-term liabilities                                   | -                     | -                     | -                     | -                | -                 | -                     |
| <b>Total noncurrent liabilities</b>                           | <b>101,689,259</b>    | <b>216,803,995</b>    | <b>10,723,144</b>     | <b>-</b>         | <b>1,051</b>      | <b>329,217,449</b>    |
| <b>Total liabilities</b>                                      | <b>116,226,440</b>    | <b>241,124,743</b>    | <b>12,688,440</b>     | <b>-</b>         | <b>25,394</b>     | <b>370,065,017</b>    |
| <b>NET POSITION</b>                                           |                       |                       |                       |                  |                   |                       |
| Net investment in capital assets                              | 139,518,218           | 197,741,552           | 86,775,922            | 94,747           | 28,108            | 424,158,547           |
| Restricted                                                    |                       |                       |                       |                  |                   |                       |
| For debt service                                              | 9,377,496             | 24,369,837            | 443,750               | -                | -                 | 34,191,083            |
| For capital projects                                          | 313,247               | 1,211,988             | -                     | -                | -                 | 1,525,235             |
| For community trust                                           | -                     | -                     | -                     | -                | -                 | -                     |
| Unrestricted                                                  | 4,525,388             | 12,718,735            | 4,151,352             | -                | 358,459           | 21,753,934            |
| <b>Total net position</b>                                     | <b>153,734,349</b>    | <b>236,042,112</b>    | <b>91,371,024</b>     | <b>94,747</b>    | <b>386,567</b>    | <b>481,628,799</b>    |
| <b>Total liabilities and net position</b>                     | <b>\$ 269,960,789</b> | <b>\$ 477,166,855</b> | <b>\$ 104,059,464</b> | <b>\$ 94,747</b> | <b>\$ 411,961</b> | <b>\$ 851,693,816</b> |

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**

Statement of Net Position  
At December 31, 2011

|                                                               | Water          | Wastewater     | Stormwater    | Electric      | Yard<br>Waste | Total<br>2011  |
|---------------------------------------------------------------|----------------|----------------|---------------|---------------|---------------|----------------|
| <b>ASSETS</b>                                                 |                |                |               |               |               |                |
| <b>CURRENT ASSETS:</b>                                        |                |                |               |               |               |                |
| Cash and cash equivalents                                     | \$ 4,394,647   | \$ 9,217,439   | \$ 2,472,252  | \$ 6,500,846  | \$ 267,187    | \$ 22,852,371  |
| Receivables:                                                  |                |                |               |               |               |                |
| Customers, net of allowance for doubtful accounts of \$56,792 | 3,164,170      | 6,723,098      | 1,516,840     | -             | 36,920        | 11,441,028     |
| Miscellaneous                                                 | -              | -              | -             | 786,270       | -             | 786,270        |
| Installment receivable - current portion                      | -              | -              | -             | 1,740,000     | -             | 1,740,000      |
| Interest                                                      | 2,071          | 43,717         | -             | -             | -             | 45,788         |
| Due from City of Fort Wayne                                   | 358,541        | 200,338        | 110,721       | -             | 51            | 669,651        |
| Interfund receivable                                          | 703,890        | -              | -             | -             | -             | 703,890        |
| Materials and supplies                                        | 1,051,633      | 76,629         | -             | -             | -             | 1,128,262      |
| Prepaid expenses                                              | 88,246         | 1,061,750      | 2,343         | -             | 29            | 1,152,368      |
| Total current assets                                          | 9,763,198      | 17,322,971     | 4,102,156     | 9,027,116     | 304,187       | 40,519,628     |
| <b>NONCURRENT ASSETS:</b>                                     |                |                |               |               |               |                |
| Restricted cash and cash equivalents                          | 27,643,929     | 37,775,013     | 631,271       | 3,547,674     | -             | 69,597,887     |
| Restricted investments                                        | 5,000,000      | 35,000,000     | -             | 32,125,512    | -             | 72,125,512     |
| Unamortized bond issuance costs                               | 1,315,205      | 1,026,367      | 187,053       | -             | -             | 2,528,625      |
| Installment receivable                                        | -              | -              | -             | 29,145,000    | -             | 29,145,000     |
| Assessments receivable                                        | -              | 1,263,570      | -             | -             | -             | 1,263,570      |
| Capital assets:                                               |                |                |               |               |               |                |
| Land                                                          | 4,685,407      | 1,424,823      | 2,327,000     | 75,732        | -             | 8,512,962      |
| Distribution and collection                                   | 138,511,758    | 256,477,324    | 114,358,815   | -             | -             | 509,347,897    |
| Buildings and improvements                                    | 58,331,697     | 118,041,945    | 2,475,845     | 1,121,198     | 68,777        | 180,039,462    |
| Equipment and other                                           | 88,146,952     | 72,374,791     | 3,928,889     | 342,787       | 52,419        | 164,845,838    |
| Less: Accumulated depreciation                                | (93,118,895)   | (134,738,036)  | (34,725,998)  | (1,444,149)   | (91,187)      | (264,118,265)  |
| Plus: Construction in progress                                | 6,208,995      | 31,894,835     | 6,566,143     | -             | 1,514         | 44,671,487     |
| Net capital assets                                            | 202,765,914    | 345,475,682    | 94,930,694    | 95,568        | 31,523        | 643,299,381    |
| Total noncurrent assets                                       | 236,725,048    | 420,540,632    | 95,749,018    | 64,913,754    | 31,523        | 817,959,975    |
| Total assets                                                  | \$ 246,488,246 | \$ 437,863,603 | \$ 99,851,174 | \$ 73,940,870 | \$ 335,710    | \$ 858,479,603 |
| <b>LIABILITIES</b>                                            |                |                |               |               |               |                |
| <b>CURRENT LIABILITIES:</b>                                   |                |                |               |               |               |                |
| Accounts payable                                              | \$ 1,399,241   | \$ 4,802,565   | \$ 367,417    | \$ 22,704     | \$ 16,169     | \$ 6,608,096   |
| Due to City of Fort Wayne                                     | 654,571        | 976,586        | 292,356       | 627           | 4,260         | 1,928,400      |
| Interfund payable - current portion                           | 117,426        | 789,519        | 52,825        | -             | 61            | 959,831        |
| Compensated absences payable - current portion                | 564,305        | 435,285        | 125,694       | -             | 917           | 1,126,201      |
| Unearned revenue - current portion                            | -              | -              | -             | 1,490,589     | -             | 1,490,589      |
| Other current liabilities                                     | 842,576        | 2,973,473      | 208,897       | 3,759         | 1,148         | 4,029,853      |
| Accrued interest payable                                      | 617,893        | 2,950,033      | 206,271       | -             | -             | 3,774,197      |
| Bonds payable - current portion                               | 1,775,000      | 5,710,000      | 1,020,000     | -             | -             | 8,505,000      |
| Loans payable - current portion                               | 2,447,000      | 5,061,576      | -             | -             | -             | 7,508,576      |
| Notes payable - current portion                               | 17,840,000     | -              | -             | -             | -             | 17,840,000     |
| Customer deposits                                             | 1,205,857      | -              | -             | -             | -             | 1,205,857      |
| Total current liabilities                                     | 27,463,869     | 23,699,037     | 2,273,460     | 1,517,679     | 22,555        | 54,976,600     |
| <b>NONCURRENT LIABILITIES:</b>                                |                |                |               |               |               |                |
| Bonds payable, net of unamortized bond discount/premium       | 14,613,623     | 112,627,694    | 11,459,775    | -             | -             | 138,701,092    |
| Loans payable                                                 | 50,843,000     | 75,457,673     | -             | -             | -             | 126,300,673    |
| Interfund payable                                             | 330,836        | 228,978        | 66,331        | -             | 211           | 626,356        |
| Compensated absences payable                                  | 830,485        | 472,992        | 73,581        | -             | 867           | 1,377,925      |
| Unearned revenue                                              | -              | -              | -             | 10,947,341    | -             | 10,947,341     |
| Net pension obligation                                        | 68,988         | 94,884         | 33,802        | -             | -             | 197,674        |
| Other long-term liabilities                                   | -              | -              | -             | 11,582        | -             | 11,582         |
| Total noncurrent liabilities                                  | 66,686,932     | 188,882,221    | 11,633,489    | 10,958,923    | 1,078         | 278,162,643    |
| Total liabilities                                             | 94,150,801     | 212,581,258    | 13,906,949    | 12,476,602    | 23,633        | 333,139,243    |
| <b>NET POSITION</b>                                           |                |                |               |               |               |                |
| Net investment in capital assets                              | 137,855,402    | 192,207,525    | 82,450,919    | 95,568        | 31,523        | 412,640,937    |
| Restricted                                                    |                |                |               |               |               |                |
| For debt service                                              | 6,212,068      | 24,091,241     | 425,000       | -             | -             | 30,728,309     |
| For capital projects                                          | 2,000,000      | 144,952        | -             | -             | -             | 2,144,952      |
| For community trust                                           | -              | -              | -             | 35,673,185    | -             | 35,673,185     |
| Unrestricted                                                  | 6,269,975      | 8,838,627      | 3,068,306     | 25,695,515    | 280,554       | 44,152,977     |
| Total net position                                            | 152,337,445    | 225,282,345    | 85,944,225    | 61,464,268    | 312,077       | 525,340,360    |
| Total liabilities and net position                            | \$ 246,488,246 | \$ 437,863,603 | \$ 99,851,174 | \$ 73,940,870 | \$ 335,710    | \$ 858,479,603 |

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Year Ended December 31, 2012

|                                                      | Water          | Wastewater     | Stormwater    | Electric     | Yard<br>Waste | Total<br>2012  |
|------------------------------------------------------|----------------|----------------|---------------|--------------|---------------|----------------|
| <b>OPERATING REVENUES:</b>                           |                |                |               |              |               |                |
| Charges for goods and services                       | \$ 33,483,078  | \$ 52,708,121  | \$ 9,765,631  | \$ -         | \$ 208,686    | \$ 96,165,516  |
| <b>OPERATING EXPENSES:</b>                           |                |                |               |              |               |                |
| Personnel services                                   | 8,979,520      | 7,880,922      | 1,655,697     | -            | 11            | 18,516,150     |
| Contractual services                                 | 1,495,372      | 4,430,162      | 189,813       | -            | 91,860        | 6,207,207      |
| Utilities                                            | 1,333,092      | 1,424,113      | -             | -            | -             | 2,757,205      |
| Chemicals                                            | 2,236,755      | 790,530        | -             | -            | -             | 3,027,285      |
| Administrative services                              | 3,563,046      | 5,426,290      | 1,874,140     | -            | 32,689        | 10,896,165     |
| Other supplies/services                              | 3,851,304      | 3,362,336      | 276,819       | -            | 5,616         | 7,496,075      |
| Depreciation                                         | 7,385,260      | 9,954,503      | 2,065,014     | 821          | 4,014         | 19,409,612     |
| Total operating expenses                             | 28,844,349     | 33,268,856     | 6,061,483     | 821          | 134,190       | 68,309,699     |
| Operating income (loss)                              | 4,638,729      | 19,439,265     | 3,704,148     | (821)        | 74,496        | 27,855,817     |
| <b>NONOPERATING REVENUES (EXPENSES):</b>             |                |                |               |              |               |                |
| Investment income                                    | 68,859         | 111,271        | 2,912         | -            | -             | 183,042        |
| Installment interest income                          | -              | -              | -             | -            | -             | -              |
| Interest expense                                     | (1,683,199)    | (3,316,300)    | (245,608)     | -            | (6)           | (5,245,113)    |
| Amortization of debt issuance costs                  | (141,176)      | (131,546)      | (33,152)      | -            | -             | (305,874)      |
| Other revenues/(expenses)                            | -              | -              | -             | -            | -             | -              |
| Loss on disposal of assets                           | (192,861)      | (144,966)      | -             | -            | -             | (337,827)      |
| Gain on installment sale                             | -              | -              | -             | -            | -             | -              |
| Total nonoperating revenues (expenses)               | (1,948,377)    | (3,481,541)    | (275,848)     | -            | (6)           | (5,705,772)    |
| Income before capital contributions<br>and transfers | 2,690,352      | 15,957,724     | 3,428,300     | (821)        | 74,490        | 22,150,045     |
| Capital contributions                                | 1,014,237      | 1,416,323      | 123,236       | -            | -             | 2,553,796      |
| Transfers in                                         | -              | -              | 2,992,637     | -            | -             | 2,992,637      |
| Transfers out                                        | (2,307,685)    | (6,614,280)    | (1,117,374)   | (61,368,700) | -             | (71,408,039)   |
| Change in net position                               | 1,396,904      | 10,759,767     | 5,426,799     | (61,369,521) | 74,490        | (43,711,561)   |
| Total net position-beginning of year                 | 152,337,445    | 225,282,345    | 85,944,225    | 61,464,268   | 312,077       | 525,340,360    |
| Total net position-end of year                       | \$ 153,734,349 | \$ 236,042,112 | \$ 91,371,024 | \$ 94,747    | \$ 386,567    | \$ 481,628,799 |

See accompanying notes to the financial statements.

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

|                                                      | Water          | Wastewater     | Stormwater    | Electric      | Yard<br>Waste | Total<br>2011  |
|------------------------------------------------------|----------------|----------------|---------------|---------------|---------------|----------------|
| <b>OPERATING REVENUES:</b>                           |                |                |               |               |               |                |
| Charges for goods and services                       | \$ 33,299,143  | \$ 51,105,546  | \$ 10,866,155 | \$ -          | \$ 153,582    | \$ 95,424,426  |
| <b>OPERATING EXPENSES:</b>                           |                |                |               |               |               |                |
| Personnel services                                   | 8,425,363      | 7,736,693      | 1,754,531     | -             | 11            | 17,916,598     |
| Contractual services                                 | 1,157,242      | 2,284,012      | 234,182       | -             | 90,360        | 3,765,796      |
| Utilities                                            | 1,356,920      | 1,482,828      | -             | -             | -             | 2,839,748      |
| Chemicals                                            | 2,462,612      | 618,977        | -             | -             | -             | 3,081,589      |
| Administrative services                              | 3,613,178      | 4,973,312      | 1,765,058     | 2,952         | 31,148        | 10,385,648     |
| Other supplies/services                              | 3,717,369      | 3,442,245      | 479,848       | 68,616        | 4,407         | 7,712,485      |
| Depreciation                                         | 7,275,176      | 9,593,765      | 2,012,134     | 857           | 4,361         | 18,886,293     |
| Total operating expenses                             | 28,007,860     | 30,131,832     | 6,245,753     | 72,425        | 130,287       | 64,588,157     |
| Operating income (loss)                              | 5,291,283      | 20,973,714     | 4,620,402     | (72,425)      | 23,295        | 30,836,269     |
| <b>NONOPERATING REVENUES (EXPENSES):</b>             |                |                |               |               |               |                |
| Investment income                                    | 11,002         | 89,205         | 1,555         | (1,329,996)   | -             | (1,228,234)    |
| Installment interest income                          | -              | -              | -             | 1,511,890     | -             | 1,511,890      |
| Interest expense                                     | (1,652,894)    | (3,631,447)    | (344,428)     | -             | (3)           | (5,628,772)    |
| Amortization of debt issuance costs                  | (93,791)       | (132,087)      | (35,746)      | -             | -             | (261,624)      |
| Other revenues/(expenses)                            | -              | -              | -             | (84,136)      | -             | (84,136)       |
| Loss on disposal of assets                           | (418,116)      | (1,546,844)    | (18,819)      | (78,535)      | (242)         | (2,062,556)    |
| Gain on installment sale                             | -              | -              | -             | 24,629,200    | -             | 24,629,200     |
| Total nonoperating revenues (expenses)               | (2,153,799)    | (5,221,173)    | (397,438)     | 24,648,423    | (245)         | 16,875,768     |
| Income before capital contributions<br>and transfers | 3,137,484      | 15,752,541     | 4,222,964     | 24,575,998    | 23,050        | 47,712,037     |
| Capital contributions                                | 1,367,342      | 1,255,371      | 170,783       | -             | -             | 2,793,496      |
| Transfers in                                         | -              | -              | 3,925,240     | -             | -             | 3,925,240      |
| Transfers out                                        | (2,386,426)    | (7,325,903)    | (998,557)     | -             | -             | (10,710,886)   |
| Change in net position                               | 2,118,400      | 9,682,009      | 7,320,430     | 24,575,998    | 23,050        | 43,719,887     |
| Total net position-beginning of year                 | 150,219,045    | 215,600,336    | 78,623,795    | 36,888,270    | 289,027       | 481,620,473    |
| Total net position-end of year                       | \$ 152,337,445 | \$ 225,282,345 | \$ 85,944,225 | \$ 61,464,268 | \$ 312,077    | \$ 525,340,360 |

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**  
Statement of Cash Flows  
For the Year Ended December 31, 2012

|                                                                                                       | Water                | Wastewater           | Stormwater          | Electric            | Yard Waste        | Total<br>2012         |
|-------------------------------------------------------------------------------------------------------|----------------------|----------------------|---------------------|---------------------|-------------------|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                          |                      |                      |                     |                     |                   |                       |
| Receipts from customers                                                                               | \$ 34,261,100        | \$ 53,671,318        | \$ 9,921,662        | \$ -                | \$ 177,538        | \$ 98,031,618         |
| Payments to suppliers                                                                                 | (8,630,387)          | (15,105,640)         | (2,835,673)         | -                   | (128,404)         | (26,700,104)          |
| Payments to employees                                                                                 | (8,553,963)          | (7,479,614)          | (1,646,782)         | -                   | (11)              | (17,680,370)          |
| Other receipts (payments)                                                                             | 160,235              | (124,256)            | 73,416              | -                   | 5                 | 109,400               |
| Net cash provided (used) by operating activities                                                      | 17,236,985           | 30,961,808           | 5,512,623           | -                   | 49,128            | 53,760,544            |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                                               |                      |                      |                     |                     |                   |                       |
| Transfers out                                                                                         | (2,307,685)          | (3,621,643)          | (1,117,374)         | (10,048,520)        | -                 | (17,095,222)          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                                      |                      |                      |                     |                     |                   |                       |
| Acquisition and construction of capital assets                                                        | (20,913,727)         | (46,659,409)         | (1,778,317)         | -                   | (605)             | (69,352,058)          |
| Proceeds from installment sale                                                                        | -                    | -                    | -                   | -                   | -                 | -                     |
| Proceeds from long-term debt                                                                          | 40,580,326           | 59,775,356           | -                   | -                   | -                 | 100,355,682           |
| Purchase of debt refunding securities                                                                 | -                    | (21,489,072)         | -                   | -                   | -                 | (21,489,072)          |
| Interest paid on long-term debt                                                                       | (2,696,154)          | (7,781,892)          | (500,076)           | -                   | -                 | (10,978,122)          |
| Debt issuance costs                                                                                   | (1,267,003)          | (275,841)            | -                   | -                   | -                 | (1,542,844)           |
| Principal paid on long-term debt                                                                      | (22,061,999)         | (11,082,920)         | (1,020,000)         | -                   | -                 | (34,164,919)          |
| Net cash provided (used) by capital and related financing activities                                  | (6,358,557)          | (27,513,778)         | (3,298,393)         | -                   | (605)             | (37,171,333)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                          |                      |                      |                     |                     |                   |                       |
| Purchase of investments                                                                               | (5,042,750)          | (15,042,750)         | -                   | -                   | -                 | (20,085,500)          |
| Sale of investments                                                                                   | 5,000,000            | 35,000,000           | -                   | -                   | -                 | 40,000,000            |
| Investment income received                                                                            | 70,433               | 153,172              | 2,912               | -                   | -                 | 226,517               |
| Net cash provided by investing activities                                                             | 27,683               | 20,110,422           | 2,912               | -                   | -                 | 20,141,017            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                           | <b>8,598,426</b>     | <b>19,936,809</b>    | <b>1,099,768</b>    | <b>(10,048,520)</b> | <b>48,523</b>     | <b>19,635,006</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                                   | <b>32,038,576</b>    | <b>46,992,452</b>    | <b>3,103,523</b>    | <b>10,048,520</b>   | <b>267,187</b>    | <b>92,450,258</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                                         | <b>\$ 40,637,002</b> | <b>\$ 66,929,261</b> | <b>\$ 4,203,291</b> | <b>\$ -</b>         | <b>\$ 315,710</b> | <b>\$ 112,085,264</b> |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>         |                      |                      |                     |                     |                   |                       |
| Operating income (loss)                                                                               | 4,638,729            | 19,439,265           | 3,704,148           | (821)               | 74,496            | 27,855,817            |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                      |                      |                     |                     |                   |                       |
| Depreciation                                                                                          | 7,385,260            | 9,954,503            | 2,065,014           | 821                 | 4,014             | 19,409,612            |
| Provision for doubtful accounts                                                                       | (5,505)              | (8,022)              | -                   | -                   | -                 | (13,527)              |
| Changes in assets and liabilities:                                                                    |                      |                      |                     |                     |                   |                       |
| Receivables                                                                                           | 778,022              | 963,197              | 156,031             | -                   | (31,148)          | 1,866,102             |
| Other assets                                                                                          | 165,740              | (116,234)            | 73,416              | -                   | 5                 | 122,927               |
| Accounts payable and other liabilities                                                                | 4,274,739            | 729,099              | (485,986)           | -                   | 1,761             | 4,519,613             |
| Net cash provided by operating activities                                                             | \$ 17,236,985        | \$ 30,961,808        | \$ 5,512,623        | \$ -                | \$ 49,128         | \$ 53,760,544         |
| <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>                                          |                      |                      |                     |                     |                   |                       |
| Fixed assets included in accounts payable                                                             | \$ 1,720,126         | \$ 3,468,875         | \$ 46,615           | \$ -                | \$ -              | \$ 5,235,616          |
| Fixed asset contributions                                                                             | 1,014,237            | 1,416,323            | 123,236             | -                   | -                 | 2,553,796             |
| Interfund fixed asset contribution                                                                    | -                    | (2,992,637)          | 2,992,637           | -                   | -                 | -                     |
| Capitalized interest added to fixed assets                                                            | 1,248,054            | 4,274,272            | 231,480             | -                   | -                 | 5,753,806             |
| Unrealized gain on investments                                                                        | -                    | -                    | -                   | -                   | -                 | -                     |
| Residual transfer to City Community Legacy Fund                                                       | -                    | -                    | -                   | 51,320,180          | -                 | 51,320,180            |

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**

Statement of Cash Flows  
For the Year Ended December 31, 2011

|                                                                                                       | Water                | Wastewater           | Stormwater          | Electric            | Yard Waste        | Total<br>2011        |
|-------------------------------------------------------------------------------------------------------|----------------------|----------------------|---------------------|---------------------|-------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                          |                      |                      |                     |                     |                   |                      |
| Receipts from customers                                                                               | \$ 33,534,018        | \$ 48,295,760        | \$ 10,349,642       | \$ 2,794            | \$ 134,663        | \$ 92,316,877        |
| Payments to suppliers                                                                                 | (12,671,509)         | (12,935,540)         | (2,108,060)         | (498,790)           | (138,077)         | (28,351,976)         |
| Payments to employees                                                                                 | (8,806,123)          | (10,539,481)         | (1,756,473)         | (2,952)             | (11)              | (21,105,040)         |
| Other receipts (payments)                                                                             | 207,511              | (674,180)            | 100,910             | -                   | (21)              | (365,780)            |
| Net cash provided (used) by operating activities                                                      | 12,263,897           | 24,146,559           | 6,586,019           | (498,948)           | (3,446)           | 42,494,081           |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                                               |                      |                      |                     |                     |                   |                      |
| Transfers out                                                                                         | (2,386,426)          | (3,400,663)          | (998,557)           | -                   | -                 | (6,785,646)          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                                      |                      |                      |                     |                     |                   |                      |
| Acquisition and construction of capital assets                                                        | (4,138,163)          | (33,028,654)         | (2,311,855)         | -                   | (1,441)           | (39,480,113)         |
| Proceeds from installment sale                                                                        | -                    | -                    | -                   | 6,885,000           | -                 | 6,885,000            |
| Proceeds from long-term debt                                                                          | 47,840,000           | 39,414,324           | -                   | -                   | -                 | 87,254,324           |
| Interest paid on long-term debt                                                                       | (1,917,829)          | (6,832,190)          | (534,868)           | -                   | -                 | (9,284,887)          |
| Debt issuance costs                                                                                   | (528,465)            | (153,813)            | -                   | -                   | -                 | (682,278)            |
| Principal paid on long-term debt                                                                      | (21,415,000)         | (9,532,929)          | (984,999)           | -                   | -                 | (31,932,928)         |
| Net cash provided (used) by capital and related financing activities                                  | 19,840,543           | (10,133,262)         | (3,831,722)         | 6,885,000           | (1,441)           | 12,759,118           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                          |                      |                      |                     |                     |                   |                      |
| Purchase of investments                                                                               | (5,000,000)          | (35,000,000)         | -                   | (31,792,394)        | -                 | (71,792,394)         |
| Sale of investments                                                                                   | -                    | -                    | -                   | 34,317,895          | -                 | 34,317,895           |
| Investment income received                                                                            | 8,931                | 51,710               | 1,555               | 983,916             | -                 | 1,046,112            |
| Net cash provided (used) by investing activities                                                      | (4,991,069)          | (34,948,290)         | 1,555               | 3,509,417           | -                 | (36,428,387)         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                           | <b>24,726,945</b>    | <b>(24,335,656)</b>  | <b>1,757,295</b>    | <b>9,895,469</b>    | <b>(4,887)</b>    | <b>12,039,166</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                                   | <b>7,311,631</b>     | <b>71,328,108</b>    | <b>1,346,228</b>    | <b>153,051</b>      | <b>272,074</b>    | <b>80,411,092</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                                         | <b>\$ 32,038,576</b> | <b>\$ 46,992,452</b> | <b>\$ 3,103,523</b> | <b>\$10,048,520</b> | <b>\$ 267,187</b> | <b>\$ 92,450,258</b> |
| <b>RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>         |                      |                      |                     |                     |                   |                      |
| Operating income (loss)                                                                               | 5,291,283            | 20,973,714           | 4,620,402           | (72,425)            | 23,295            | 30,836,269           |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |                      |                      |                     |                     |                   |                      |
| Depreciation                                                                                          | 7,275,176            | 9,593,765            | 2,012,134           | 857                 | 4,361             | 18,886,293           |
| Provision for doubtful accounts                                                                       | 2,374                | 6,583                | -                   | -                   | -                 | 8,957                |
| Changes in assets and liabilities:                                                                    |                      |                      |                     |                     |                   |                      |
| Receivables                                                                                           | 234,875              | (2,809,786)          | (516,513)           | 2,794               | (18,919)          | (3,107,549)          |
| Other assets                                                                                          | 205,137              | (680,763)            | 100,910             | -                   | (21)              | (374,737)            |
| Accounts payable and other liabilities                                                                | (744,948)            | (2,936,954)          | 369,086             | (430,174)           | (12,162)          | (3,755,152)          |
| Net cash provided (used) by operating activities                                                      | \$ 12,263,897        | \$ 24,146,559        | \$ 6,586,019        | \$ (498,948)        | \$ (3,446)        | \$ 42,494,081        |
| <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>                                          |                      |                      |                     |                     |                   |                      |
| Fixed assets included in accounts payable                                                             | \$ 633,779           | \$ 3,774,023         | \$ 283,912          | \$ -                | \$ -              | \$ 4,691,714         |
| Fixed asset contributions                                                                             | 1,367,342            | 1,255,371            | 170,783             | -                   | -                 | 2,793,496            |
| Interfund fixed asset contribution                                                                    | -                    | (3,925,240)          | 3,925,240           | -                   | -                 | -                    |
| Capitalized interest added to fixed assets                                                            | 632,292              | 3,338,138            | 167,449             | -                   | -                 | 4,137,879            |
| Unrealized loss on investments                                                                        | -                    | -                    | -                   | (4,716,198)         | -                 | (4,716,198)          |
| Installment receivable included in unearned revenue                                                   | -                    | -                    | -                   | 12,437,930          | -                 | 12,437,930           |
| Unrealized gain on installment sale                                                                   | -                    | -                    | -                   | 19,233,339          | -                 | 19,233,339           |

See accompanying notes to the financial statements.

## **CITY OF FORT WAYNE UTILITIES**

### **Notes to Financial Statements**

**December 31, 2012 and 2011**

#### **(1) Nature of Operations and Significant Accounting Policies**

##### **Financial Reporting Entity**

The City of Fort Wayne Utilities (the Utilities) are collectively, a division of the City of Fort Wayne, Indiana. 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 sold to a private firm in 2010 (see Note 6).

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

##### **Cash Equivalents**

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

##### **Investments**

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

##### **Restricted Assets/Net Position**

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

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

#### Capital Assets

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

Water, Wastewater, Stormwater and Yard Waste Utilities' assets are depreciated by individual asset. Electric Utility assets are depreciated using the group method.

Estimated useful lives, in years, are as follows:

|                             | Water<br><u>Utility</u> | Wastewater<br><u>Utility</u> | Stormwater<br><u>Utility</u> | Electric<br><u>Utility</u> | Yard<br>Waste<br><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 \$1,248,054 and \$632,292 in 2012 and 2011, respectively. Net interest capitalized for the Wastewater Utility was \$4,274,272 and \$3,338,138 in 2012 and 2011, respectively. Net interest capitalized for the Stormwater Utility was \$231,480 and \$167,499 in 2012 and 2011, 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, 2012 and 2011**

#### **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, 2012 and 2011

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the results of the operations.

Restatement

City Utilities is restating its Statement of Net Position and Change in Net Position for the Electric Utility for the period ending December 31, 2011. The restatement relates to understatement of gain on installment sale of \$18,614,820, understatement of nonoperating expense of \$22,750 and overstatement of unearned revenue by \$18,592,070. This restatement increased the change in net position for 2011 by \$18,592,070.

**(2) Deposits and Investments**

Deposits

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

Investments

Authorization for investment activity is stated in Indiana Code IC 5-13. The Utilities had the following investments at December 31, 2012 and 2011.

| December 31, 2012       | Investment Maturities<br>(in years) |                     |
|-------------------------|-------------------------------------|---------------------|
|                         | Fair Value                          | Less than one       |
| Certificates of Deposit | <u>\$20,085,500</u>                 | <u>\$20,085,500</u> |
|                         |                                     |                     |
| December 31, 2011       | Investment Maturities<br>(in years) |                     |
|                         | Fair Value                          | Less than one       |
| Certificates of Deposit | \$40,000,000                        | \$40,000,000        |
| Mutual Funds            | <u>\$32,125,512</u>                 | <u>\$32,125,512</u> |
| Total                   | <u>\$72,125,512</u>                 | <u>\$72,125,512</u> |

## **CITY OF FORT WAYNE UTILITIES**

### **Notes to Financial Statements**

**December 31, 2012 and 2011**

#### 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 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 on following page.

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

| <u>Investment Type</u>  | <u>Morningstar Rating</u> | <u>2012</u>         | <u>2011</u>         |
|-------------------------|---------------------------|---------------------|---------------------|
| Certificates of Deposit | Not Rated                 | \$20,085,500        | \$40,000,000        |
| Mutual Funds            | Below Average             | --                  | 6,679,179           |
|                         | Average                   | --                  | 23,927,909          |
|                         | Above Average             | --                  | --                  |
|                         | High                      | --                  | 1,518,424           |
|                         | Not Rated                 | --                  | --                  |
|                         | Total                     | <u>\$20,085,500</u> | <u>\$72,125,512</u> |

### Custodial Credit Risk

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

### Foreign Currency Risk

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

### Other

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

For the year ending December 31, 2011, the Community Trust had net investment loss of \$1,334,143. The Trust incurred realized gains of \$2,332,535, unrealized losses of \$4,716,198 and cash net income of \$1,049,521.

**CITY OF FORT WAYNE UTILITIES**  
Notes to Financial Statements  
December 31, 2012 and 2011

**(3) Restricted Assets**

Restricted assets consisted of the following at December 31, 2012:

|                            | <u>Water<br/>Utility</u> | <u>Wastewater<br/>Utility</u> | <u>Stormwater<br/>Utility</u> | <u>Electric<br/>Utility</u> | <u>Total</u>         |
|----------------------------|--------------------------|-------------------------------|-------------------------------|-----------------------------|----------------------|
| Cash and cash equivalents: |                          |                               |                               |                             |                      |
| Sinking fund               | \$ 748,415               | \$ 6,693,100                  | \$ 634,083                    | \$ --                       | \$ 8,075,598         |
| Debt service reserve       | 4,464,834                | 15,407,465                    | --                            | --                          | 19,872,299           |
| Construction               | 28,252,193               | 38,696,681                    | --                            | --                          | 66,948,874           |
| Airport expressway         | 313,247                  | --                            | --                            | --                          | 313,247              |
| Customer deposits          | 1,371,631                | --                            | --                            | --                          | 1,371,631            |
| Connection fees            | --                       | 115,270                       | --                            | --                          | 115,270              |
| Septic elimination program | --                       | 1,096,718                     | --                            | --                          | 1,096,718            |
| Total                      | <u>\$35,150,320</u>      | <u>\$ 62,009,234</u>          | <u>\$ 634,083</u>             | <u>\$ --</u>                | <u>\$ 97,793,637</u> |
| Investments:               |                          |                               |                               |                             |                      |
| Debt service reserve       | <u>\$ 5,042,750</u>      | <u>\$ 5,042,750</u>           | <u>\$ --</u>                  | <u>\$ --</u>                | <u>\$ 10,085,500</u> |

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

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

**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.

## **CITY OF FORT WAYNE UTILITIES**

### **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

#### Debt Service Reserve

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

Prior to 2009, all Utility revenue bonds' debt service reserves were funded through surety bond insurance except the Sewage Works Junior Revenue Bonds of 1998 A and 1998 B which were cash funded. As a result of the financial crisis that occurred in late 2008 – early 2009 and up to and including 2010, the surety bond insurers failed to maintain their AAA/Aaa rating. While still insured, this failure to maintain AAA/Aaa ratings required the Utilities to cash fund the debt service reserve accounts for the affected revenue bonds. As of December 31, 2012, all surety bond insurance for Waterworks and Sewage Works Revenue Bonds have been replaced with cash funded debt service reserves as required by bond ordinance.

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

#### Construction

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

#### 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.

## **CITY OF FORT WAYNE UTILITIES**

### Notes to Financial Statements

December 31, 2012 and 2011

#### Customer Deposits

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

#### Connection Fees

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

#### Septic Elimination Program

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

#### **(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 60, 120 or 180 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. On January 1, 2012 the Community Trust was transferred from the Electric Utility to the Community Legacy Fund, a special revenue fund on the City's financial statements.

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

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

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

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

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

For accounting purposes, the asset transfer is being treated as an installment sale. As of December 31, 2011, total future payments are \$30,885,000 of which \$1,740,000 is reported as Installment receivable – current portion. Using an 8.13% discount rate, the 2011 gain from installment sale was \$24,629,200 and the imputed interest from installment sale was \$1,511,290.

On January 1, 2012 Electric Utility balances, with the exception of the net capital assets not previously leased, were transferred to the City's Community Legacy Fund. The amount of the transfer was \$61,368,700.

# CITY OF FORT WAYNE UTILITIES

## Notes to Financial Statements

December 31, 2012 and 2011

### **(7) Capital Assets**

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

| <b><u>2012</u></b>             | Balance<br><u>Jan. 1, 2012</u> | <u>Additions</u>     | <u>Disposals</u>    | Adjustments/<br><u>Transfers</u> | Balance<br><u>Dec. 31, 2012</u> |
|--------------------------------|--------------------------------|----------------------|---------------------|----------------------------------|---------------------------------|
| Land                           | \$ 8,512,962                   | \$ --                | \$ --               | \$ 190,441                       | \$ 8,703,403                    |
| Distribution and collection    | 509,347,897                    | --                   | 460,998             | 23,477,968                       | 532,364,867                     |
| Buildings and improvement      | 180,039,462                    | --                   | 37,120              | 3,150,877                        | 183,153,219                     |
| Equipment and other            | 164,845,838                    | 2,297,102            | 747,179             | 3,285,491                        | 169,681,252                     |
| Construction in progress       | <u>44,671,487</u>              | <u>74,954,166</u>    | <u>--</u>           | <u>(29,914,828)</u>              | <u>89,710,825</u>               |
|                                | 907,417,646                    | 77,251,268           | 1,245,297           | 189,949                          | 983,613,566                     |
| Less accumulated depreciation: |                                |                      |                     |                                  |                                 |
| Distribution and collection    | 125,673,891                    | 7,751,097            | 417,972             | --                               | 133,077,016                     |
| Buildings and improvement      | 59,338,943                     | 3,995,572            | 16,255              | --                               | 63,318,260                      |
| Equipment and other            | <u>79,105,431</u>              | <u>7,662,943</u>     | <u>482,998</u>      | <u>--</u>                        | <u>86,285,376</u>               |
|                                | <u>264,118,265</u>             | <u>19,409,612</u>    | <u>917,225</u>      | <u>--</u>                        | <u>282,610,652</u>              |
| Net Capital Assets             | <u>\$643,299,381</u>           | <u>\$ 57,841,656</u> | <u>\$ 328,072</u>   | <u>\$ 189,949</u>                | <u>\$701,002,914</u>            |
| <b><u>2011</u></b>             | Balance<br><u>Jan. 1, 2011</u> | <u>Additions</u>     | <u>Disposals</u>    | Adjustments/<br><u>Transfers</u> | Balance<br><u>Dec. 31, 2011</u> |
| Land                           | \$ 8,428,945                   | \$ --                | \$ 34,971           | \$ 118,988                       | \$ 8,512,962                    |
| Distribution and collection    | 481,427,642                    | --                   | 6,628,793           | 34,549,048                       | 509,347,897                     |
| Buildings and improvement      | 182,054,592                    | --                   | 3,368,710           | 1,353,580                        | 180,039,462                     |
| Equipment and other            | 177,562,761                    | 1,699,924            | 16,798,019          | 2,381,172                        | 164,845,838                     |
| Construction in progress       | <u>37,511,193</u>              | <u>45,990,216</u>    | <u>--</u>           | <u>(38,829,922)</u>              | <u>44,671,487</u>               |
|                                | 886,985,133                    | 47,690,140           | 26,830,493          | (427,134)                        | 907,417,646                     |
| Less accumulated depreciation: |                                |                      |                     |                                  |                                 |
| Distribution and collection    | 124,564,806                    | 7,283,791            | 6,746,859           | 572,153                          | 125,673,891                     |
| Buildings and improvement      | 57,493,095                     | 4,030,911            | 2,176,699           | (8,364)                          | 59,338,943                      |
| Equipment and other            | <u>88,862,462</u>              | <u>7,571,591</u>     | <u>25,680,030</u>   | <u>(572,150)</u>                 | <u>79,105,431</u>               |
|                                | <u>270,920,363</u>             | <u>18,886,293</u>    | <u>25,680,030</u>   | <u>(8,361)</u>                   | <u>264,118,265</u>              |
| Net Capital Assets             | <u>\$616,064,770</u>           | <u>\$ 28,803,847</u> | <u>\$ 1,150,463</u> | <u>\$ (418,773)</u>              | <u>\$643,299,381</u>            |

## **CITY OF FORT WAYNE UTILITIES**

### **Notes to Financial Statements**

December 31, 2012 and 2011

#### **(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 \$290,157 and \$301,455 in 2012 and 2011, respectively. Developer notes payable were \$2,013,303 and \$2,201,994 for 2012 and 2011, respectively. The debt accrues interest at prime, which as of the end of 2012 was at 3.25%, plus 1%. Developer notes payable are included in current liabilities.

#### **(9) Bond Anticipation Note**

In 2008, the Water Utility financed the acquisition of Aqua Indiana asset with Waterworks Utility Revenue Bond Anticipation Notes, Series 2008 (BAN1) issued February 5, 2008 for \$17,840,000. BAN1 was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2009 (BAN2 ) issued on February 11, 2009 in the amount of \$17,840,000. BAN2 had an interest rate of 4.25% and was payable on February 11, 2010. BAN2 was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2010 (BAN3). BAN3 was issued on February 11, 2010 in the amount of \$17,840,000. BAN3 had an interest rate of 0.60% and was payable on or before February 10, 2011. BAN3 was retired by the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2011 (BAN4). BAN4 was issued on February 9, 2011 in the amount of \$17,840,000 with an interest rate of 0.65% and is payable on February 8, 2012. BAN4 was retired by the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2012 (BAN5). BAN5 was issued on February 7, 2012 in the amount of \$17,840,000 with an interest rate of 0.48% and is payable on February 5, 2013. On December 27, 2012 proceeds from the Waterworks Utility Revenue Bond Series A were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments for BAN5. As a result, the BAN5 liability has been removed from the Statement of Net Position.

#### **(10) Long-Term Debt**

##### **Bonds Payable:**

Details of all Utilities' bonds payable at December 31, 2012 are as follows:

Water Works Revenue Bonds of 2003 – original issue of \$5,800,000 – interest rates range from 2.00% to 4.250% and mature serially in amounts ranging from \$425,000 in 2013 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$5,781.

\$ 2,315,781

## **CITY OF FORT WAYNE UTILITIES**

### **Notes to Financial Statements**

**December 31, 2012 and 2011**

|                                                                                                                                                                                                                                                                                                                                   |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Water Works Revenue Bonds of 2005 – original issue of \$16,700,000 – interest rates range from 2.70% to 4.40% and mature serially in amounts ranging from \$1,420,000 in 2013 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$28,015.                | 12,288,015 |
| Water Works Revenue Bonds of 2012 – original issue of \$40,000,000 – interest rates range from 2.00% to 3.00% and mature serially in amounts ranging from \$590,000 in 2013 to \$2,975,000 in 2032, redeemable prior to maturity for bonds maturing on or after 2023, plus unamortized bond premium of \$564,644.                 | 40,564,644 |
| 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 \$420,000 in 2013 to \$500,000 in 2017, redeemable at 100% beginning in 2014.                                                                                  | 2,295,000  |
| 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 \$860,000 in 2013 to \$1,045,000 in 2018, plus unamortized bond premium of \$9,585.                                                                                     | 5,699,585  |
| 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 \$970,000 in 2013 to \$1,775,000 in 2027, redeemable at 100% beginning in 2017, less unamortized bond discount of \$18,522.                                                    | 19,911,478 |
| 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, redeemable at 100% beginning in 2020, less unamortized bond discount of \$214,790.                                                 | 40,830,210 |
| Sewage Works Revenue Bonds of 2011, Series A – original issue of \$38,100,000 – interest rate is 2.80% annually and mature serially in amounts from \$2,580,000 in 2014 to \$3,490,000 in 2026, redeemable at 100% beginning in 2022.                                                                                             | 38,100,000 |
| Sewage Works Revenue Bonds of 2012, Series B – original issue of \$15,530,000 – interest rates range from 2.00% to 3.00% and mature serially in amounts from \$1,000,000 in 2014 to \$1,295,000 in 2027, redeemable at 100% beginning in 2023, plus unamortized debt premium of \$671,528.                                        | 16,201,528 |
| Sewage Works Refunding Revenue Bonds of 2012 – original issue of \$19,675,000 – interest rate is 1.45% annually and mature serially in amounts from \$1,500,000 in 2013 to \$2,140,000 in 2022, redeemable at 100% beginning in 2021, plus unamortized debt premium of \$65,629, less unamortized loss on refunding of \$283,536. | 19,457,093 |
| Stormwater Management District Revenue Bonds of 2006 – original                                                                                                                                                                                                                                                                   |            |

# CITY OF FORT WAYNE UTILITIES

## Notes to Financial Statements

December 31, 2012 and 2011

issue of \$17,000,000 – interest rates range from 3.75% to 4.00% and mature serially in amounts from \$1,065,000 in 2013 to \$1,500,000 in 2021, redeemable at 100% beginning in 2016, plus unamortized bond premium of \$32,725.

11,452,725

Total 209,116,059

Less: Current portion (8,965,000)

Noncurrent Bonds payable, net \$200,151,059

Total bond debt service requirements to maturity as of December 31, 2012 are as follows:

| <u>Year Due</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|-----------------|----------------------|---------------------|----------------------|
| 2013            | \$ 8,965,000         | \$ 6,579,101        | \$ 15,544,101        |
| 2014            | 13,520,000           | 6,574,276           | 20,094,276           |
| 2015            | 14,050,000           | 6,149,530           | 20,199,530           |
| 2016            | 14,410,000           | 5,704,440           | 20,114,440           |
| 2017            | 14,800,000           | 5,244,079           | 20,044,079           |
| 2018 to 2022    | 67,215,000           | 19,427,484          | 86,642,484           |
| 2023 to 2027    | 52,265,000           | 9,684,597           | 61,949,597           |
| 2028 to 2032    | <u>23,030,000</u>    | <u>2,109,678</u>    | <u>25,139,678</u>    |
| Total           | <u>\$208,255,000</u> | <u>\$61,473,183</u> | <u>\$269,728,183</u> |

On December 4, 2012 the Wastewater Utility issued \$19,675,000 in refunding revenue bonds with an average interest rate of 1.45% to advance refund \$15,107,351 of outstanding 2002A series SRF Loans with an interest rate of 4.00% annually and \$5,720,000 2002B series bonds with a interest rate range from 3.50% to 5.50%. The net proceeds of \$19,742,284 and local contribution of \$1,746,788 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002A loans and 2002B series bonds. As a result, these loans and bonds are considered to be defeased and the liabilities for those loans and bonds have been removed from the Statement of Net Position. The 2002A series SRF loans were called and paid in full in December 2012. The 2002B series bonds were called and repaid in February 2013. The refunding results in the accounting loss of \$283,536, which has been recognized on the Statement of Net Position as a net reduction of noncurrent bonds payable. This amount will be amortized using the straight line method and charged to interest expense over the next 10 years. The Wastewater Utility in effect lowered its aggregate debt service payment by \$4,410,628 over the next 11 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$2,411,890.

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

#### **Loans Payable:**

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

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

Details of all Utilities’ State Revolving Fund (SRF) loans payable at December 31, 2012 are as follows:

#### SRF Draw-down loans:

|                                                                                                                                                                                                                                                                                                                    |              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Sewage Works SRF Revenue Bonds of 2005 – Final Draw - \$40,000,000 – the interest rate is 3.10% and mature serially in amounts ranging from \$1,825,000 in 2013 to \$2,635,000 in 2025, redeemable prior to maturity for bonds maturing after 2017.                                                                | \$28,675,000 |
| Sewage Works SRF Revenue Bonds of 2009, Series A – Final Draw - \$5,000,000 – the interest rate is 0.16% and mature serially in amounts ranging from \$241,883 in 2013 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020.                                                           | 4,413,616    |
| Sewage Works SRF Revenue Bonds of 2011, Series B – Draw up to \$33,576,000 – as of December 31, 2012, total draw is \$19,909,835 – the interest rate is 2.29% and matures serially in amounts ranging from \$1,379,000 in 2013 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2023. | 18,709,835   |
| Sewage Works SRF Revenue Bonds of 2012, Series A – Draw up to \$10,415,000 – as of December 31, 2012, total draw is \$4,435,333 – the interest rate is 1.78% and matures serially in amounts ranging from \$453,000 in 2013 to \$612,000 in 2032, redeemable prior to maturity for bonds maturing after 2024.      | 4,435,333    |

# CITY OF FORT WAYNE UTILITIES

## Notes to Financial Statements

December 31, 2012 and 2011

### 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 \$2,020,000 in 2013 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017. 21,345,000

Waterworks SRF Revenue Bonds of 2011, Series B – original pool share issue \$26,906,000 – the interest rate is 2.967% and matures serially in amounts ranging from \$1,000 in 2013 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2021. 26,906,000

Sewage Works SRF Revenue Bonds of 2009, Series B – final pool share - \$29,091,005 – the interest rate is 4.16% and mature serially in amounts ranging from \$1,042,421 in 2013 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020. 27,129,399

### 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 \$115,000 in 2013 to \$120,000 in 2016, redeemable prior to maturity for all outstanding bonds. 471,000

Waterworks SRF Revenue Bonds of 2011, Series A (taxable) – original issue \$3,094,000 – the interest rate is 3.746% and matures serially in amounts ranging from \$1,272,000 in 2013 to \$1,320,000 in 2014. 2,592,000

Total SRF Loans Payable 134,677,183

Less: Current Portion (8,349,304)  
Noncurrent SRF Loans Payable, net \$ 126,327,879

The total anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2012 are as follows:

| <u>Year Due</u> | <u>Principal</u>      | <u>Interest</u>      | <u>Total</u>          |
|-----------------|-----------------------|----------------------|-----------------------|
| 2013            | 8,349,304             | \$ 4,398,826         | \$ 12,748,130         |
| 2014            | 8,602,057             | 4,429,574            | 13,031,631            |
| 2015            | 8,685,612             | 4,150,738            | 12,836,350            |
| 2016            | 8,962,048             | 3,878,593            | 12,840,641            |
| 2017            | 9,127,442             | 3,597,109            | 12,724,551            |
| 2018 to 2022    | 47,454,531            | 13,446,092           | 60,900,623            |
| 2023 to 2027    | 37,551,087            | 6,722,251            | 44,273,338            |
| 2028 to 2032    | 25,590,934            | 1,726,745            | 27,317,679            |
| Total           | <u>\$ 154,323,015</u> | <u>\$ 42,349,928</u> | <u>\$ 196,672,943</u> |

# CITY OF FORT WAYNE UTILITIES

## Notes to Financial Statements

December 31, 2012 and 2011

### Changes in Long-Term Liabilities

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2012:

|                                     | Balance<br>Jan. 1, 2012 | Additions            | Deductions           | Balance<br>Dec. 31, 2012 | Current<br>Portion   |
|-------------------------------------|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| <b>Bonds and loans</b>              |                         |                      |                      |                          |                      |
| Revenue bonds payable, net          | \$ 147,206,092          | \$ 76,180,637        | \$ 14,270,670        | \$ 209,116,059           | \$ 8,965,000         |
| Loans payable                       | <u>133,809,249</u>      | <u>23,822,570</u>    | <u>22,954,636</u>    | <u>134,677,183</u>       | <u>8,349,304</u>     |
| Total bonds and loans               | 281,015,341             | 100,003,207          | 37,225,306           | 343,793,242              | 17,314,304           |
| <b>Other noncurrent liabilities</b> |                         |                      |                      |                          |                      |
| Accrued compensated absences        | 2,504,126               | 2,061,504            | 2,020,199            | 2,545,431                | 1,079,303            |
| Interfund payable                   | 1,586,187               | 289,176              | 959,831              | 915,532                  | 261,470              |
| Net pension obligation              | 197,674                 | 2,589,947            | 2,169,300            | 618,321                  | --                   |
| Other long-term liabilities         | <u>15,341</u>           | <u>--</u>            | <u>15,341</u>        | <u>--</u>                | <u>--</u>            |
| Total other noncurrent liabilities  | <u>4,303,328</u>        | <u>4,940,627</u>     | <u>5,164,671</u>     | <u>4,079,284</u>         | <u>1,340,733</u>     |
|                                     | <u>\$ 285,318,669</u>   | <u>\$104,943,834</u> | <u>\$ 42,389,977</u> | <u>\$ 347,872,526</u>    | <u>\$ 18,655,077</u> |

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

|                                     | Balance<br>Jan. 1, 2011 | Additions           | Deductions          | Balance<br>Dec. 31, 2011 | Current<br>Portion  |
|-------------------------------------|-------------------------|---------------------|---------------------|--------------------------|---------------------|
| <b>Bonds and loans</b>              |                         |                     |                     |                          |                     |
| Revenue bonds payable, net          | \$117,293,257           | \$38,100,000        | \$ 8,187,165        | \$147,206,092            | \$8,505,000         |
| Loans payable                       | <u>108,427,854</u>      | <u>31,314,324</u>   | <u>5,932,929</u>    | <u>133,809,249</u>       | <u>7,508,576</u>    |
| Total bonds and loans               | 225,721,111             | 69,414,324          | 14,120,094          | 281,015,341              | 16,013,576          |
| <b>Other noncurrent liabilities</b> |                         |                     |                     |                          |                     |
| Accrued compensated absences        | 2,508,418               | 1,079,819           | 1,084,111           | 2,504,126                | 1,126,201           |
| Interfund payable                   | 1,552,231               | 882,297             | 848,341             | 1,586,187                | 959,831             |
| Net pension obligation              | --                      | 2,236,730           | 2,039,056           | 197,674                  | --                  |
| Other long-term liabilities         | <u>16,148</u>           | <u>--</u>           | <u>807</u>          | <u>15,341</u>            | <u>3,759</u>        |
| Total other noncurrent liabilities  | <u>4,076,797</u>        | <u>4,198,846</u>    | <u>3,972,315</u>    | <u>4,303,328</u>         | <u>2,089,791</u>    |
|                                     | <u>\$229,797,908</u>    | <u>\$73,613,170</u> | <u>\$18,092,409</u> | <u>\$285,318,669</u>     | <u>\$18,103,367</u> |

# CITY OF FORT WAYNE UTILITIES

## Notes to Financial Statements

December 31, 2012 and 2011

### (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 \$2,947,526 and \$2,935,910 in 2012 and 2011, respectively. The Utilities also received \$743,346 and \$665,224 in 2012 and 2011, respectively from the City for other water, sewer and stormwater services.

The City received the following from the Utilities in 2012:

|                                | Water<br>Utility   | Wastewater<br>Utility | Stormwater<br>Utility | Yard<br>Utility | Electric<br>Utility | Totals              |
|--------------------------------|--------------------|-----------------------|-----------------------|-----------------|---------------------|---------------------|
| Self insurance                 | \$2,360,364        | \$ 2,339,113          | \$ 585,326            | \$ 4,117        | \$ --               | \$5,288,920         |
| Garage services                | 668,473            | 595,607               | 225,791               | 180             | --                  | 1,490,051           |
| Overhead charges               | 457,911            | 697,369               | 240,858               | 4,201           | --                  | 1,400,339           |
| Office and technical services  | 32,606             | 292,038               | 64,493                | 142             | --                  | 389,279             |
| Transfers out in lieu of taxes | <u>1,153,843</u>   | <u>3,621,643</u>      | <u>1,117,554</u>      | <u>--</u>       | <u>--</u>           | <u>5,893,040</u>    |
| Totals                         | <u>\$4,673,197</u> | <u>\$ 7,545,770</u>   | <u>\$ 2,234,022</u>   | <u>\$ 8,640</u> | <u>\$ --</u>        | <u>\$14,461,629</u> |

The City received the following from the Utilities in 2011:

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

# CITY OF FORT WAYNE UTILITIES

## Notes to Financial Statements

December 31, 2012 and 2011

### **(12) Interfund Assets and Liabilities**

As of December 31, 2012 and 2011, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

**Due from City:**

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>2012</u>       | <u>2011</u>       |
|------------------------|---------------------|-------------------|-------------------|
| Water                  | General             | \$ 261,553        | \$ 7,261          |
|                        | Benefits            | --                | 87                |
|                        | Garage              | 509               | 3,949             |
|                        | Lease               | 299,825           | 347,244           |
|                        | Solid Waste         | 508               | --                |
| Total Water            |                     | <u>562,395</u>    | <u>358,541</u>    |
| Wastewater             | General             | 2,045             | 8,025             |
|                        | Barrett Law         | 102,704           | --                |
|                        | Benefits            | --                | 120               |
|                        | CC Urban            | 165,000           | --                |
|                        | Garage              | 409               | 2,213             |
|                        | Lease               | --                | 189,980           |
|                        | Legacy              | 2,854             | --                |
|                        | Solid Waste         | 773               | --                |
| Total Wastewater       |                     | <u>273,785</u>    | <u>200,338</u>    |
| Stormwater             | General             | 7,420             | 3,628             |
|                        | Benefits            | 1,089             | 1,131             |
|                        | Garage              | 72                | 913               |
|                        | Lease               | 7,381             | 105,049           |
|                        | Solid Waste         | 267               | --                |
| Total Stormwater       |                     | <u>16,229</u>     | <u>110,721</u>    |
| Yard Waste             | General             | --                | 50                |
|                        | Benefits            | --                | 1                 |
|                        | Solid Waste         | 5                 | --                |
| Total Yard Waste       |                     | <u>5</u>          | <u>51</u>         |
| Total Due from City    |                     | <u>\$ 852,414</u> | <u>\$ 669,651</u> |

**CITY OF FORT WAYNE UTILITIES**  
Notes to Financial Statements  
December 31, 2012 and 2011

Due to City:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>2012</u>         | <u>2011</u>         |
|------------------------|---------------------|---------------------|---------------------|
| General                | Water               | \$ 1,201,860        | \$ 58,089           |
| Benefits               |                     | 7,469               | -                   |
| CSQ Parking            |                     | 711                 | 1,264               |
| Cumulative Capital     |                     | 8,994               | -                   |
| Garage                 |                     | 58,753              | 57,338              |
| Lease                  |                     | -                   | 64,295              |
| MVH                    |                     | -                   | 12,613              |
| Park                   |                     | 598                 | 389                 |
| Solid Waste            |                     | 423,109             | 460,583             |
| Total Water            |                     | <u>1,701,494</u>    | <u>654,571</u>      |
| General                | Wastewater          | 98,730              | 93,153              |
| Benefits               |                     | 8,286               | -                   |
| Barrett Law            |                     | 1,170               |                     |
| CSQ Parking            |                     | 1,298               | 1,861               |
| Cumulative Capital     |                     | 18,423              | -                   |
| Fed Revolving          |                     | -                   | 107,740             |
| Garage                 |                     | 49,947              | 73,469              |
| Lease                  |                     | -                   | 46,886              |
| MVH                    |                     | -                   | 19,513              |
| Solid Waste            |                     | 644,367             | 633,964             |
| Total Wastewater       |                     | <u>822,221</u>      | <u>976,586</u>      |
| General                | Stormwater          | 14,253              | 18,139              |
| Benefits               |                     | 1,579               | -                   |
| CEDIT                  |                     | 3,046               | -                   |
| CSQ Parking            |                     | 456                 | 665                 |
| Cumulative Capital     |                     | 4,016               | -                   |
| Garage                 |                     | 15,977              | 19,631              |
| General Trust          |                     | 500                 | -                   |
| Lease                  |                     | -                   | 28,923              |
| Solid Waste            |                     | 222,553             | 224,998             |
| Total Stormwater       |                     | <u>262,380</u>      | <u>292,356</u>      |
| General                | Electric            | -                   | 627                 |
| General                | Yard Waste          | 250                 | 234                 |
| Benefits               |                     | 11                  | -                   |
| CSQ Parking            |                     | 6                   | 10                  |
| Cumulative Capital     |                     | 70                  | -                   |
| Garage                 |                     | 12                  | 12                  |
| Lease                  |                     | -                   | 33                  |
| Solid Waste            |                     | 3,882               | 3,971               |
| Total Yard Waste       |                     | <u>4,231</u>        | <u>4,260</u>        |
| Total Due to City      |                     | <u>\$ 2,790,326</u> | <u>\$ 1,928,400</u> |

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

#### Interfund Receivables / Payables

In 2008, the Water Utility financed the acquisition of the Aqua Indiana assets with Waterworks Utility Revenue Bond Anticipation Notes, Series 2007. Included in this acquisition were Wastewater Utility assets valued at approximately \$1,407,780. An inter-fund receivable was set up on the Water Utility and an interfund payable was set up on the Wastewater Utility for the same amount. The Wastewater Utility repaid half of the outstanding balance during 2011 and the other half in 2012. The interfund payable/receivable was \$703,890 as of December 31, 2011.

In 2011, the Utilities participated in the City's Commercial Master Lease wherein the Utilities financed the purchase of rolling stock at a not to exceed value of \$1,322,000. The Utilities will repay the City with interest over the 5 year term of the lease. The Utilities acquires the rolling stock and then seeks reimbursement from the Lessor with the City acting as the fiduciary intermediary. The City was holding \$307,206 and \$642,273 as of December 31, 2012 and 2011, respectively, of the Utilities' cash reimbursement which is reported as Due From City (noted above). Additionally, as of December 31, 2011 the first payment with interest of \$140,137 was due and owing to the City and is reported as Due to City (noted above). Lastly, the Utilities has used approximately 98% of its commitment and has set up interfund payables to the City for its share of the Commercial Master Lease as follows:

| <u>Interfund Payable</u> | <u>Current</u>    | <u>Non-Current</u> | <u>Total</u>      |
|--------------------------|-------------------|--------------------|-------------------|
| Water                    | \$ 119,527        | \$ 317,131         | \$ 436,658        |
| Wastewater               | 87,874            | 188,984            | 276,858           |
| Stormwater               | 54,007            | 147,798            | 201,805           |
| Yard Waste               | 62                | 149                | 211               |
| Total                    | <u>\$ 261,470</u> | <u>\$ 654,062</u>  | <u>\$ 915,532</u> |

#### **(13) Equity Transfers**

The 10-year sewer capacity improvement program includes storm sewer construction funded through the Wastewater Utility or Stormwater Utility. New storm sewers allow old combined sewers to be converted to sanitary-only lines. As projects are completed, the new storm sewers are transferred from the Wastewater Utility to the Stormwater Utility and new sanitary sewers are transferred from Stormwater Utility to Wastewater Utility. The amount transferred from Wastewater Utility to Stormwater Utility was \$2,992,637 and \$3,925,240 in 2012 and 2011, respectively.

## **CITY OF FORT WAYNE UTILITIES**

### **Notes to Financial Statements**

**December 31, 2012 and 2011**

#### **(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**

##### **Public Employees' Retirement Fund**

##### **Plan Description**

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

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

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

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

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and ordinance.

#### Funding Policy and Annual Pension Cost

The INPRS Board of Trustees establishes contribution requirements for plan members. The Utilities' annual pension cost for years ended 2012 and 2011, and related information as provided by the actuary, is presented in this note.

#### Tables of Required Information

|                                          | <u>2012</u>        | <u>2011</u>        |
|------------------------------------------|--------------------|--------------------|
| Annual required contribution (ARC)       | \$ 2,171,393       | \$ 2,035,147       |
| Interest on net pension obligation (NPO) | 13,837             | (25,846)           |
| Adjustment to ARC                        | <u>(15,930)</u>    | <u>29,755</u>      |
| Annual pension cost                      | 2,169,300          | 2,039,056          |
| Contributions made                       | <u>(1,748,653)</u> | <u>(1,472,158)</u> |
| Increase in NPO                          | 420,647            | 566,898            |
| NPO, beginning of year                   | <u>197,674</u>     | <u>(369,224)</u>   |
| NPO, end of year                         | <u>\$ 618,321</u>  | <u>\$ 197,674</u>  |

#### Contribution rates:

|                                 |                         |
|---------------------------------|-------------------------|
| City Utilities                  | 10.25%                  |
| Plan members                    | 3%                      |
| Actuarial valuation date        | 06/30/12                |
| Actuarial cost method           | Entry Age Normal        |
| Amortization method             | Level Dollar,<br>Closed |
| Amortization period             | 30 years                |
| Amortization period (from date) | 07/01/12                |

#### Actuarial assumptions:

|                                    |           |
|------------------------------------|-----------|
| Investment rate of return          | 6.75%     |
| Projected future salary increases: |           |
| Total                              | 3.25-4.5% |
| Cost-of-living adjustments         | 3.0%      |

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

#### Three-Year Trend Information

| <u>Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 06/30/10           | \$ 1,580,292                     | 83%                                  | \$ (369,224)                  |
| 06/30/11           | 2,039,056                        | 72%                                  | 197,674                       |
| 06/30/12           | 2,169,300                        | 81%                                  | 618,321                       |

#### Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL As a Percentage Of Covered Payroll ((a-b)/c) |
|--------------------------|-------------------------------|---------------------------------------|--------------------|--------------------|---------------------|-----------------------------------------------------------|
| 07/01/10                 | \$18,044,893                  | \$29,812,731                          | \$(11,767,838)     | 61%                | \$17,768,493        | 66%                                                       |
| 07/01/11                 | 14,974,245                    | 30,722,830                            | (15,748,584)       | 49%                | 18,732,050          | 84%                                                       |
| 07/01/12                 | 14,019,294                    | 32,405,116                            | (18,385,823)       | 43%                | 19,444,237          | 95%                                                       |

The schedule of funding progress presents multi-year information about whether the actuarial value of plant assets is increasing or decreasing over time relative to the actuarial liability for benefits.

## **CITY OF FORT WAYNE UTILITIES**

Notes to Financial Statements

December 31, 2012 and 2011

### **(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 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 was subsequently refinanced four times (see Note 9). The North Assets are now fully integrated with the Utilities' water and sewer systems and generating revenues for the respective Utilities at standard system-wide tariffs.

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

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2012 and 2011

#### 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>2012</u>          | <u>2011</u>         |
|------------|----------------------|---------------------|
| Water      | \$ 8,311,517         | \$ 86,740           |
| Wastewater | 21,530,344           | 3,198,206           |
| Stormwater | <u>5,370</u>         | <u>8,925</u>        |
|            | <u>\$ 29,847,230</u> | <u>\$ 3,293,871</u> |

Major contracts awarded subsequent to December 31, 2012:

| <u>Board of Works</u> |                                                                  |               |
|-----------------------|------------------------------------------------------------------|---------------|
| <u>Award Date</u>     | <u>Major Contract Project Description</u>                        | <u>Amount</u> |
| 03/27/2013            | Effluent Pump Station & Pond 3 Improvements                      | \$ 899,294    |
| 02/14/2013            | Effluent Pump Station & Pond Improvements                        | 729,868       |
| 04/10/2013            | Riverside-Hannas-Paramount Phase I: Water Main Replacement       | 726,957       |
| 04/10/2013            | Three Rivers Filtration Plant Filter Valve Replacement - Plant 3 | 905,409       |
| 03/27/2013            | WPCP Primary/Secondary Treatment & Digester Process Upgrades     | 2,183,184     |
| 03/04/2013            | WPCP Primary/Secondary Treatment & Digester Process Upgrades     | 27,623,995    |
| 03/27/2013            | WPCP Primary/Secondary Treatment & Digester Process Upgrades     | 2,687,270     |

#### **(17) Subsequent Events**

##### Water Utility Rates:

On May 14, 2013, the Common Council of Fort Wayne approved a change in water rates to be effective January 1, 2014. The new rates were developed based on a cost of service study and are not intended to generate additional revenue but rather more accurately charge the appropriate class of customer for water services. Most significantly, the City of Fort Wayne will no longer pay for public fire protection services and, instead, all water customers will pay for public fire protection based on the size of their water meter. Indiana Utility Regulatory Commission must also approve the rates before the rates can become effective.

##### Bond Issuances:

On March 13, 2013, the Wastewater Utility issued revenue bonds for \$32,955,000. The average interest rate is 1.95%. It matures serially in amounts ranging from \$600,000 in 2013 to \$4,060,000 in 2024.

On March 13, 2013, the Wastewater Utility issued revenue bonds for \$42,260,000. The average interest rate is 3.54%. It matures serially in amount ranging from \$4,165,000 in 2025 to \$5,295,000 in 2033.

**CITY OF FORT WAYNE UTILITIES**  
Notes to Financial Statements  
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On March 13, 2013, the Wastewater Utility issued \$7,335,000 in refunding revenue bonds with an average interest rate of 1.00% to advance refund \$7,985,000 of outstanding 2002C series bonds with interest rates ranging from 1.30% to 4.55% and 2003 series bonds with interest rates ranging from 2.00% to 3.80%. The 2013 refunding bonds mature serially in amounts ranging from \$500,000 in 2013 to \$1,390,000 in 2018.