
City of Fort Wayne Utilities

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



CITY UTILITIES

WATER THAT WORKS

Financial Statements

December 31, 2016

FILED

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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, ALLEN COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the City of Fort Wayne Utilities (Utilities), departments of the City of Fort Wayne (City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Utilities as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)


Emphasis of Matter

As discussed in Note 1, the financial statements of the Utilities are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City, as of December 31, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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


Paul D. Joyce, CPA
State Examiner

June 27, 2017

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 year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements and the notes to the basic financial statements.

Financial Highlights

- The assets and deferred outflow of resources of the Utilities exceeded its liabilities and deferred inflow of resources (net position) as of December 31, 2016 and 2015 by \$572.5 million and \$538.4 million, respectively.
- The Utilities' net position increased for the years ended December 31, 2016 and 2015 by \$34.1 million and \$10.4 million before restatement for change in accounting principle of \$11.0 million, respectively.
- The Utilities added new bonded debt and long-term loans payable for years ended December 31, 2016 and 2015 of \$184.2 million and \$67.4 million, respectively. The 2016 increase in debt consists of two new Wastewater State Revolving Fund ("SRF") loans and additional withdrawals against existing SRF loans. The 2015 increase in debt consists of one new SRF pooled loan and additional withdrawals against existing SRF loans.

In 2016 refunding bonds were issued at rates ranging from 1.50% to 4.00% to retire the 2005 SRF bond with interest rates of 3.10% and the 2007 Revenue bond with interest rates ranging from 4.50% to 4.75%. The Utility had an economic gain of \$3,612,129 with this refunding.

- The Utilities' net investment in capital assets for the years ended December 31, 2016 and 2015 increased approximately \$17.6 million and \$32.8 million, respectively. Significantly, the Utilities continue to meet all 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 13-40 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	
	December 31		2015-2016	
	2016	2015	\$millions	%
Net capital assets	\$ 949.0	\$ 910.8	\$ 38.2	4.2%
Other assets	292.1	176.3	115.8	65.7%
Total assets	\$ 1,241.1	\$ 1,087.1	\$ 154.0	14.2%
Deferred Outflows of Resources	\$ 9.2	\$ 7.6	\$ 1.6	21.1%
Current liabilities	\$ 54.4	\$ 53.6	\$ 0.8	1.5%
Long term liabilities	621.9	501.0	120.9	24.1%
Total liabilities	\$ 676.3	\$ 554.6	\$ 121.7	21.9%
Deferred Inflows of Resources	\$ 1.5	\$ 1.7	\$ (0.2)	-11.8%
Total net position	\$ 572.5	\$ 538.4	\$ 34.1	6.3%
Net investment in capital assets	\$ 492.2	\$ 474.6	\$ 17.6	3.7%
Restricted	69.2	54.2	15.0	27.7%
Unrestricted	11.1	9.6	1.5	15.6%
Total net position	\$ 572.5	\$ 538.4	\$ 34.1	6.3%

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

	(\$millions)		Variance	
	Year Ended December 31		2015-2016	
	2016	2015	\$millions	%
Operating revenues:				
Water service revenues	\$ 49.6	\$ 45.7	\$ 3.9	8.5%
Wastewater service revenues	68.5	59.5	9.0	15.1%
Stormwater service revenues	10.2	9.9	0.3	3.0%
Electric revenues	0.0	0.0	0.0	0.0%
Yard Waste revenues	0.2	0.3	(0.1)	-33.3%
Total operating revenues	128.5	115.4	13.1	11.4%
Operating expenses:				
Water operations	36.0	36.7	(0.7)	-1.9%
Wastewater operations	38.2	37.4	0.8	2.1%
Stormwater operations	8.7	7.4	1.3	17.6%
Electric operations	0.0	0.0	0.0	0.0%
Yard Waste operations	0.4	0.3	0.1	33.3%
Total operating expenses	83.3	81.8	1.5	1.8%
Operating Income	45.2	33.6	11.6	34.5%
Net nonoperating revenues (expenses)	(12.1)	(10.4)	(1.7)	16.3%
Income before capital contributions and transfers out	33.1	23.2	9.9	42.7%
Capital contributions	10.0	6.6	3.4	51.5%
Net transfers out	(9.0)	(8.4)	(0.6)	7.1%
Increase in net position	34.1	21.4	12.7	59.3%
Net position - January 1st	538.4	528.0	10.4	2.0%
Prior period adjustment	0.0	(11.0)	11.0	-100.0%
Net position - January 1st (restated)	538.4	517.0	21.4	4.1%
Net position - December 31st	\$ 572.5	\$ 538.4	\$ 34.1	6.3%

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$572.5 million and \$538.4 million as of December 31, 2016 and 2015, respectively. The largest portion portion (85.9%) of the Utilities' net position in 2016 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 (\$69.2 million, or 12.1%) represents resources that are subject to external restrictions on how they may be used.

The Utilities' net position increased \$34.1 million and \$10.4 million for the years ended December 31, 2016 and 2015, respectively.

Capital Assets and Capital Improvement Program

The Utilities' total capital assets in service are \$1,350.8 million with an accumulated depreciation of \$401.8 million for a net book value of \$949.0 million. The statement of net position also includes \$62.2 million in construction in progress reflecting capital projects in various stages of completion. During 2016, approximately \$66.3 million was invested in capital projects (see Note 5).

Debt

At December 31, 2016, the Utilities had approximately \$629.7 million in bonds and loans payable, an increase of \$119.3 million over last year.

The 2016 increase of \$119.3 million in debt consists of the following:

- A SRF draw-down wastewater loan for up to \$108.0 million over 24 years at 2.00%.
- A SRF shared pool wastewater loan for \$138.6 million over 30 years at 3.06%.
- Wastewater refunder revenue bond for \$35.4 million over 12 years at rates ranging from 1.50% to 4.00%.
- \$7.1 withdraws against existing SRF loans.

The Utilities paid principal of \$24.5 million and \$25.9 million in 2016 and 2015, 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 investment of approximately \$240.0 million (denominated in 2005 dollars) in infrastructure solutions over the next 18 years. The Utilities also agreed to:
 - Eliminate three sanitary sewer overflows at an estimated cost of \$31.0 million.
 - Maintain the entire storm and sewer systems to performance standards prescribed in the LTCP.
 - Mitigate assessed penalties with local investments in septic tank elimination subsidies and rain garden stipends.

The Consent Decree further provides for stipulated penalties for failure to achieve specified construction milestones, reporting deadlines or

maintenance objectives. The Utilities are in full compliance with terms and conditions of the Consent Decree.

Consistent with the long term nature of the Consent Decree, Fort Wayne City Council (Council) approved another five year rate plan that generally increased wastewater unit rates by approximately 9% effective January 1, 2015 and again on Jan 1, 2016-2019 of each year by 8.5%, 8%, 8% and 8%, respectively. Council had previously approved a 5 1/2 year rate plan that spanned the period July 2009 through December 2014.

In 2014, Council also authorized the issuance of another wave of bond financing; up to \$257 million in debt to fund the 2016-2019 capital plan that will accomplish a significant portion of the infrastructure investment required to fulfill the requirements of the Consent Decree. In 2016, Council authorized an amendment that increased the amount an additional \$55 million in debt to fund the 2016-2019 capital plan and added additional projects. As of December 31, 2016, the Utilities have closed on the bonds associated with aforementioned Council authorization.

The Utilities are in full compliance with the terms and conditions of the Consent Decree. Significantly, the Utilities has completed to date: the upgrade to the wastewater plant to increase its treatment capacity from 60 million gallons per day (mgd) to 100 mgd and completed 33 combined sewer separation projects. The Utilities also constructed a CSO pond bleedback process that fully treats over 1 billion gallons of wastewater each year that previously entered the Maumee River only partially treated. Untreated wastewater storage capacity was increased by nearly 100 million gallons through several pond enhancement projects and the pump station used to fill those ponds has had its capacity increased to maximize the available storage.

Each of Fort Wayne's three rivers have their own control limits and compliance deadlines for reductions in combined sewer overflows per the Consent Decree. The improvements for reducing the combined sewer overflows along the St. Joseph river were completed in 2015 and the St. Joseph is now considered to be in compliance with the Consent Decree.

The single largest project associated with satisfying the requirements of the Consent Decree is a large underground tunnel that starts near Rudisill Blvd. and swings north along the St Marys river, past the convergence of the three rivers and then follows along the Maumee river to the Wastewater Plant. The tunnel will be approximately 5 miles long, drilled through rock over 200 feet below ground and be approximately 16 feet in diameter. The cost for the tunnel is estimated at \$220 million and the estimated completion date is planned for 2022. Upon completion of the tunnel, additional sewers will be extended off the tunnel drop shafts to connect the existing combined sewer outfalls to the tunnel. All work must be completed by no later than 2025.

Lining wastewater pipelines significantly extends the life of the pipeline, improves overall system flow and reduces reactive maintenance. Since 2008, the Utilities have invested \$37 million to line approximately 166 miles of pipe. The annual pipe enhancement rate since 2008 is 1.4% which exceeds our annual goal of 1.0% per year.

- On June 30, 2016 the Wastewater Utility issued Wastewater refunding bonds at rates ranging from 1.50% to 4.00% to retire the 2005 SRF bond with interest rates of 3.10% and the 2007 Revenue bond with interest rates ranging from 4.50% to 4.75%. The Wastewater Utility had an economic gain of \$3,612,129 with this refunding.
- On March 28, 2017, Common Council approved the change in stormwater rates that will be introduced in three phases and differentiates between residential and non-residential. The rates adjustments will fund drainage improvement projects, as well as the protection of public health and safety through ongoing operation and maintenance of the Utilities' stormwater management system.

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/CFO - City Utilities, City of Fort Wayne Utilities, 200 E Berry Street, Suite 270, Fort Wayne, IN 46802.

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CITY OF FORT WAYNE UTILITIES

Statement of Net Position
At December 31, 2016

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2016
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 10,505,308	\$ 9,802,058	\$ 933,888	\$ -	\$ 488,578	\$ 21,729,832
Receivables:						
Customers, net of allowance for doubtful accounts of \$56,783	4,717,994	8,133,461	1,315,494	-	780	14,167,729
Interest	2,322	10,422	-	-	-	12,744
Due from City of Fort Wayne	11,724	2,790	1,013	-	10	15,537
Materials and supplies	1,244,783	69,271	-	-	-	1,314,054
Prepaid expenses	85,918	88,372	1,758	-	9	176,057
Total current assets	<u>16,568,049</u>	<u>18,106,374</u>	<u>2,252,153</u>	<u>-</u>	<u>489,377</u>	<u>37,415,953</u>
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	7,230,545	219,935,279	639,750	-	-	227,805,574
Restricted investments	7,500,000	14,000,000	-	-	-	21,500,000
Regulatory assets	2,666,485	1,867,694	50,882	-	-	4,585,061
Assessments receivable	-	780,699	-	-	-	780,699
Capital assets:						
Land	5,865,814	2,161,829	6,081,546	75,732	-	14,184,921
Distribution and collection	244,526,500	341,865,783	142,487,756	-	-	728,880,039
Buildings and improvements	84,891,169	170,168,068	2,909,958	1,121,198	68,777	259,159,170
Equipment and other	123,873,625	156,374,870	5,763,895	342,787	55,997	286,411,174
Less: Accumulated depreciation	(166,942,863)	(188,991,572)	(44,307,610)	(1,447,920)	(112,250)	(401,802,215)
Plus: Construction in progress	2,844,062	57,190,160	2,127,785	-	1,005	62,163,012
Net capital assets	<u>295,058,307</u>	<u>538,769,138</u>	<u>115,063,330</u>	<u>91,797</u>	<u>13,529</u>	<u>948,996,101</u>
Total noncurrent assets	<u>312,455,337</u>	<u>775,352,810</u>	<u>115,753,962</u>	<u>91,797</u>	<u>13,529</u>	<u>1,203,667,435</u>
Total assets	<u>\$ 329,023,386</u>	<u>\$ 793,459,184</u>	<u>\$ 118,006,115</u>	<u>\$ 91,797</u>	<u>\$ 502,906</u>	<u>\$ 1,241,083,388</u>
DEFERRED OUTFLOWS OF RESOURCES:						
Debt Refunding Loss	\$ -	\$ 1,071,272	\$ -	\$ -	\$ -	\$ 1,071,272
Outflows of Resources related to pensions	2,712,683	3,967,419	1,462,314	-	-	8,142,416
Total deferred outflows of resources	<u>\$ 2,712,683</u>	<u>\$ 5,038,691</u>	<u>\$ 1,462,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,213,688</u>
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 1,645,916	\$ 6,160,626	\$ 460,394	\$ -	\$ 245,592	\$ 8,512,528
Wages and withholdings payable	339,266	309,717	93,540	-	771	743,294
Due to City of Fort Wayne	1,864,091	3,148,897	919,230	-	3,884	5,936,102
Interfund payable - current portion	68,215	7,894	36,642	-	21	112,772
Compensated absences payable - current portion	620,155	596,398	178,554	-	1,346	1,396,453
Other current liabilities	565,303	898,954	25,000	-	-	1,489,257
Accrued interest payable	387,319	5,202,776	114,750	-	-	5,704,845
Bonds payable - current portion	3,920,000	14,240,000	1,260,000	-	-	19,420,000
Loans payable - current portion	3,618,000	5,893,199	-	-	-	9,511,199
Customer deposits	1,524,150	-	-	-	-	1,524,150
Total current liabilities	<u>14,552,415</u>	<u>36,458,461</u>	<u>3,088,110</u>	<u>-</u>	<u>251,614</u>	<u>54,350,600</u>
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	102,581,721	185,721,770	5,635,820	-	-	293,939,311
Loans payable	33,670,000	273,134,879	-	-	-	306,804,879
Compensated absences payable	344,242	301,394	43,334	-	583	689,553
Net pension liability	6,821,943	9,980,723	3,687,503	-	-	20,490,169
Total noncurrent liabilities	<u>143,417,906</u>	<u>469,138,766</u>	<u>9,366,657</u>	<u>-</u>	<u>583</u>	<u>621,923,912</u>
Total liabilities	<u>\$ 157,970,321</u>	<u>\$ 505,597,227</u>	<u>\$ 12,454,767</u>	<u>\$ -</u>	<u>\$ 252,197</u>	<u>\$ 676,274,512</u>
DEFERRED INFLOWS OF RESOURCES:						
	<u>\$ 503,953</u>	<u>\$ 736,266</u>	<u>\$ 269,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,509,508</u>
NET POSITION:						
Net investment in capital assets	\$ 151,268,677	\$ 232,637,427	\$ 108,167,510	\$ 91,797	\$ 13,529	\$ 492,178,940
Restricted						
For debt service	12,818,985	53,856,093	525,000	-	-	67,200,078
For capital projects	-	2,018,272	-	-	-	2,018,272
Unrestricted	<u>9,174,133</u>	<u>3,652,590</u>	<u>(1,948,137)</u>	<u>-</u>	<u>237,180</u>	<u>11,115,766</u>
Total net position	<u>\$ 173,261,795</u>	<u>\$ 292,164,382</u>	<u>\$ 106,744,373</u>	<u>\$ 91,797</u>	<u>\$ 250,709</u>	<u>\$ 572,513,056</u>

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, 2016

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2016
OPERATING REVENUES:						
Charges for goods and services	\$ 49,622,183	\$ 68,469,275	\$ 10,244,551	\$ -	\$ 203,302	\$ 128,539,311
OPERATING EXPENSES:						
Personnel services	11,014,250	9,845,629	2,242,507	-	12	23,102,398
Contractual services	1,629,861	2,230,903	538,789	-	334,617	4,734,170
Utilities	1,685,706	1,781,000	-	-	-	3,466,706
Chemicals	2,641,284	729,157	-	-	-	3,370,441
Administrative services	4,582,511	6,741,444	2,562,863	-	41,786	13,928,604
Other supplies/services	4,068,266	3,834,615	451,486	-	5,232	8,359,599
Depreciation	10,410,427	13,089,937	2,902,179	690	4,956	26,408,189
Total operating expenses	36,032,305	38,252,685	8,697,824	690	386,603	83,370,107
Operating income (loss)	13,589,878	30,216,590	1,546,727	(690)	(183,301)	45,169,204
NONOPERATING REVENUES (EXPENSES):						
Investment income	112,790	357,777	6,913	-	-	477,480
Interest expense	(4,976,114)	(5,964,041)	(217,392)	-	-	(11,157,547)
Amortization of debt issuance costs	(290,377)	(219,200)	(21,002)	-	-	(530,579)
Gain/(Loss) on disposal of assets	(811,823)	(189,455)	137,807	-	-	(863,471)
Total nonoperating revenues (expenses)	(5,965,524)	(6,014,919)	(93,674)	-	-	(12,074,117)
Income (loss) before capital contributions and transfers	7,624,354	24,201,671	1,453,053	(690)	(183,301)	33,095,087
Capital contributions	2,047,027	6,982,961	973,964	-	-	10,003,952
Transfers in	6,806	-	1,974,826	-	-	1,981,632
Transfers out	(2,750,000)	(6,919,498)	(1,300,000)	-	-	(10,969,498)
Change in net position	6,928,187	24,265,134	3,101,843	(690)	(183,301)	34,111,173
Total net position-beginning of year	166,333,608	267,899,248	103,642,530	92,487	434,010	538,401,883
Total net position-end of year	\$ 173,261,795	\$ 292,164,382	\$ 106,744,373	\$ 91,797	\$ 250,709	\$ 572,513,056

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES

Statement of Cash Flows
For the Year Ended December 31, 2016

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2016
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 49,778,595	\$ 66,346,601	\$ 10,907,978	\$ -	\$ 207,187	\$ 127,240,361
Payments to suppliers	(16,175,355)	(12,634,680)	(3,451,074)	-	(165,191)	(32,426,300)
Payments to employees	(11,029,473)	(9,948,791)	(2,256,979)	-	(12)	(23,235,255)
Other receipts (payments)	(247,636)	(457,094)	(146,885)	-	-	(851,615)
Net cash provided by operating activities	<u>22,326,131</u>	<u>43,306,036</u>	<u>5,053,040</u>	<u>-</u>	<u>41,984</u>	<u>70,727,191</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	<u>(2,750,000)</u>	<u>(4,937,866)</u>	<u>(1,300,000)</u>	<u>-</u>	<u>-</u>	<u>(8,987,866)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(7,994,446)	(38,868,950)	(3,828,182)	-	3,591	(50,687,987)
Proceeds from long-term debt	-	184,210,691	-	-	-	184,210,691
Purchase of debt refunding securities	-	(39,925,000)	-	-	-	(39,925,000)
Interest paid on long-term debt	(4,891,817)	(11,369,149)	(323,599)	-	-	(16,584,565)
Debt issuance costs	-	(452,577)	-	-	-	(452,577)
Principal paid on long-term debt	(7,299,000)	(15,990,048)	(1,204,999)	-	-	(24,494,047)
Proceeds from sales of assets	69,399	58,333	207,555	-	-	335,287
Contribution in aid of construction	-	-	50,000	-	-	50,000
Net cash provided (used) by capital and related financing activities	<u>(20,115,864)</u>	<u>77,663,300</u>	<u>(5,099,225)</u>	<u>-</u>	<u>3,591</u>	<u>52,451,802</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	(7,500,000)	(94,000,000)	-	-	-	(101,500,000)
Sale of investments	5,088,159	95,088,159	-	-	-	100,176,318
Investment income received	132,164	420,421	6,913	-	-	559,498
Net cash provided (used) by investing activities	<u>(2,279,677)</u>	<u>1,508,580</u>	<u>6,913</u>	<u>-</u>	<u>-</u>	<u>(764,184)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,819,410)	117,540,050	(1,339,272)	-	45,575	113,426,943
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,555,263	112,197,287	2,912,910	-	443,003	136,108,463
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 17,735,853</u>	<u>\$ 229,737,337</u>	<u>\$ 1,573,638</u>	<u>\$ -</u>	<u>\$ 488,578</u>	<u>\$ 249,535,406</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 13,589,878	\$ 30,216,590	\$ 1,546,727	\$ (690)	\$ (183,301)	\$ 45,169,204
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	10,410,427	13,089,937	2,902,179	690	4,956	26,408,189
Provision for doubtful accounts	(6,044)	(66,225)	2,087	-	-	(70,182)
Changes in assets and liabilities:						
Receivables	156,412	(2,122,674)	663,427	-	3,885	(1,298,950)
Other assets	(241,592)	(390,869)	(148,972)	-	-	(781,433)
Accounts payable and other liabilities	(1,582,950)	2,579,277	87,592	-	216,444	1,300,363
Net cash provided by operating activities	<u>\$ 22,326,131</u>	<u>\$ 43,306,036</u>	<u>\$ 5,053,040</u>	<u>\$ -</u>	<u>\$ 41,984</u>	<u>\$ 70,727,191</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Capital assets acquired through accounts payable	\$ 485,338	\$ 3,334,417	\$ 246,227	\$ -	\$ -	\$ 4,065,982
Capital asset contributions	2,053,833	6,982,961	917,158	-	-	9,953,952
Interfund capital asset contribution	-	(1,981,632)	1,981,632	-	-	-
Capitalized interest added to capital assets	267,649	5,243,522	81,658	-	-	5,592,829

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2016

(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 financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Fort Wayne and the results of its operations and cash flows of its enterprise funds. 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.

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 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, 2016

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:

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

Net interest cost incurred on borrowed funds for the Water, Wastewater and Stormwater Utilities is capitalized as a component of the cost of construction. In 2016, net interest capitalized was \$267,649 for the Water Utility, \$5,243,522 for the Wastewater Utility and \$81,658 for the Stormwater Utility.

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.

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. The unamortized balance of premiums/discounts is included in noncurrent bonds payable on the statement of net position. The unamortized balance of bond issuance costs is reported as regulatory assets on the statement of net position per the exception for regulated utilities.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2016

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.

All full-time employees will receive 40 hours of sick time per calendar year to be used or forfeited by the end of the same calendar year. Regular part-time employees will receive 20 hours of sick time per calendar year. Sick time will be pro-rated for all employees hired after April 30th of each calendar year.

Employees with a balance of sick time as of December 31, 2013, will have this balance placed into a separate, frozen sick time account. All employees with a frozen sick time account will receive compensation for this unused sick leave upon separation from employment at \$1.00 for each hour up to 520 hours.

Employees with a frozen sick time account will be eligible to either 50 percent of the employee's hourly rate as of December 31, 2013 for each accumulated hour over 520, or an employee with 20 years of service and who retires, may receive credit at 100 percent of the employee's hourly rate at December 31, 2013 for each sick hour over 520 to be used for the purchase of group health insurance. The maximum payment per employee cannot exceed \$25,000.

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.
- 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, 2016

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement section element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Wastewater utility has an item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position (Debt refunding loss). A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The other item listed under deferred outflows of resources is related to pensions. See note 13 on pensions for further information.

Deferred Inflows of Resources

In additions to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement section element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and, therefore, will not be recognized as an inflow of resources (revenue) until then. At this time the only item that qualifies for reporting in this category is related to the deferred inflow related to pension. See note 13 on pensions for further information.

(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.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2016

Investments

Authorization for investment activity is stated in Indiana Code IC 5-13. The Utilities had the following investments at December 31, 2016.

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Yard Waste Utility</u>	<u>Total</u>
Investment Maturities less than one year Certificate of Deposit	\$ 7,500,000	\$ 14,000,000	\$ --	\$ --	\$ --	\$ 21,500,000

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 five 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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2016

(3) Restricted Assets

Restricted assets consisted of the following at December 31, 2016:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Yard Waste Utility</u>	<u>Total</u>
Cash and cash equivalents:						
Sinking fund	\$ 1,015,486	\$ 13,591,612	\$ 636,750	\$ --	\$ --	\$ 15,246,848
Debt service reserve	4,690,818	31,467,257	--	--	--	36,158,075
Construction	91	172,858,138	--	--	--	172,858,229
Customer deposits	1,524,150	--	--	--	--	1,524,150
Connection fees	--	123,891	--	--	--	123,891
Septic elimination program	--	1,894,381	--	--	--	1,894,381
Total	<u>\$ 7,230,545</u>	<u>\$219,935,279</u>	<u>\$ 636,750</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$227,805,574</u>
Investments:						
Debt service reserve	<u>\$ 7,500,000</u>	<u>\$ 14,000,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 21,500,000</u>
Total	<u>\$ 7,500,000</u>	<u>\$ 14,000,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 21,500,000</u>

Sinking Fund

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

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

Debt Service Reserve

In addition to the sinking fund accounts, revenue bonds require debt service "reserve accounts" which require funding at: the lesser of 10% of bond proceeds, the maximum annual principal and interest required thereon, or 125% of the average annual principal and interest requirements thereon. The 2016 Sewage Works Refunder bond requires that the debt service reserve for that particular bond be 10% of par value. 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.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2016

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 2016, 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, 2016, 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.

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 wastewater 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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2016

(5) Capital Assets

The following changes occurred in capital assets during the year ended December 31, 2016:

<u>Water Utility</u>	Balance			Adjustments/ <u>Transfers</u>	Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>		<u>Dec. 31, 2016</u>
Land	\$ 5,666,314	\$ --	\$ --	\$ 199,500	\$ 5,865,814
Distribution and collection	238,758,029	--	1,439,586	7,208,057	244,526,500
Buildings and improvement	84,437,188	--	--	453,981	84,891,169
Equipment and other	120,446,813	826,109	1,837,050	4,437,753	123,873,625
Construction in progress	<u>5,434,575</u>	<u>9,998,512</u>	<u>--</u>	<u>(12,589,025)</u>	<u>2,844,062</u>
	454,742,919	10,824,621	3,276,636	(289,734)	462,001,170
Less accumulated depreciation:					
Distribution and collection	65,335,115	3,896,889	1,145,436	1,274	68,087,842
Buildings and improvement	35,418,313	1,489,660	--	--	36,907,973
Equipment and other	<u>58,267,909</u>	<u>5,023,878</u>	<u>1,249,647</u>	<u>(95,092)</u>	<u>61,947,048</u>
	<u>159,021,337</u>	<u>10,410,427</u>	<u>2,395,083</u>	<u>(93,818)</u>	<u>166,942,863</u>
Net Capital Assets	<u>\$295,721,582</u>	<u>\$ 414,194</u>	<u>\$ 881,553</u>	<u>\$ (195,916)</u>	<u>\$295,058,307</u>
<u>Wastewater Utility</u>	Balance			Adjustments/ <u>Transfers</u>	Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>		<u>Dec. 31, 2016</u>
Land	\$ 1,733,316	\$ --	\$ --	\$ 428,513	\$ 2,161,829
Distribution and collection	316,355,730	--	3,839,086	29,349,139	341,865,783
Buildings and improvement	171,757,556	--	--	(1,589,488)	170,168,068
Equipment and other	151,581,815	602,922	282,845	4,472,978	156,374,870
Construction in progress	<u>42,157,543</u>	<u>49,978,381</u>	<u>--</u>	<u>(34,945,764)</u>	<u>57,190,160</u>
	683,585,960	50,581,303	4,121,931	(2,284,622)	727,760,710
Less accumulated depreciation:					
Distribution and collection	78,953,824	5,247,533	3,591,296	--	80,610,061
Buildings and improvement	44,629,964	2,902,905	--	--	47,532,869
Equipment and other	<u>56,235,215</u>	<u>4,939,499</u>	<u>277,164</u>	<u>(48,908)</u>	<u>60,848,642</u>
	<u>179,819,003</u>	<u>13,089,937</u>	<u>3,868,460</u>	<u>(48,908)</u>	<u>188,991,572</u>
Net Capital Assets	<u>\$503,766,957</u>	<u>\$ 37,491,366</u>	<u>\$ 253,471</u>	<u>\$ (2,235,714)</u>	<u>\$538,769,138</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2016

<u>Stormwater Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2016</u>
Land	\$ 6,035,655	\$ --	\$ 66,382	\$ 112,273	\$ 6,081,546
Distribution and collection	135,460,539	--	323,102	7,350,319	142,487,756
Buildings and improvement	2,840,743	--	--	69,215	2,909,958
Equipment and other	4,988,980	270,708	128,678	632,885	5,763,895
Construction in progress	<u>3,693,042</u>	<u>4,633,105</u>	<u>--</u>	<u>(6,198,362)</u>	<u>2,127,785</u>
	153,018,959	4,903,813	518,162	1,966,330	159,370,940
Less accumulated depreciation:					
Distribution and collection	37,654,864	2,238,051	319,735	--	39,573,180
Buildings and improvement	711,740	69,503	--	--	781,243
Equipment and other	<u>3,450,398</u>	<u>594,625</u>	<u>128,678</u>	<u>36,842</u>	<u>3,953,187</u>
	<u>41,817,002</u>	<u>2,902,179</u>	<u>448,413</u>	<u>36,842</u>	<u>44,307,610</u>
Net Capital Assets	<u>\$ 111,201,957</u>	<u>\$ 2,001,634</u>	<u>\$ 69,749</u>	<u>\$ 1,929,488</u>	<u>\$ 115,063,330</u>
<u>Electric Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2016</u>
Land	\$ 75,732	\$ --	\$ --	\$ --	\$ 75,732
Distribution and collection	--	--	--	--	--
Buildings and improvement	1,121,198	--	--	--	1,121,198
Equipment and other	342,787	--	--	--	342,787
Construction in progress	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	1,539,717	--	--	--	1,539,717
Less accumulated depreciation:					
Distribution and collection	--	--	--	--	--
Buildings and improvement	1,120,550	46	--	--	1,120,596
Equipment and other	<u>326,680</u>	<u>644</u>	<u>--</u>	<u>--</u>	<u>327,324</u>
	<u>1,447,230</u>	<u>690</u>	<u>--</u>	<u>--</u>	<u>1,447,920</u>
Net Capital Assets	<u>\$ 92,487</u>	<u>\$ (690)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 91,797</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2016

<u>Yard Waste Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2016</u>
Land	\$ --	\$ --	\$ --	\$ --	\$ --
Distribution and collection	--	--	--	--	--
Buildings and improvement	68,777	--	--	--	68,777
Equipment and other	60,185	--	--	(4,188)	55,997
Construction in progress	<u>6,002</u>	<u>--</u>	<u>--</u>	<u>(4,997)</u>	<u>1,005</u>
	134,964	--	--	(9,185)	125,779
Less accumulated depreciation:					
Distribution and collection	--	--	--	--	--
Buildings and improvement	55,309	3,725	--	--	59,034
Equipment and other	<u>57,579</u>	<u>1,231</u>	<u>--</u>	<u>(5,594)</u>	<u>53,216</u>
	<u>112,888</u>	<u>4,956</u>	<u>--</u>	<u>(5,594)</u>	<u>112,250</u>
Net Capital Assets	<u>\$ 22,076</u>	<u>\$ (4,956)</u>	<u>\$ --</u>	<u>\$ (3,591)</u>	<u>\$ 13,529</u>

(6) Deferred Outflows of Resources

The following is a summary of changes in deferred outflows of resources for the year ended December 31, 2016:

<u>Water Utility</u>	Balance			Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Dec. 31, 2016</u>
Debt refunding loss	\$ --	\$ --	\$ --	\$ --
Outflow of resources related to pensions (see note 13)	<u>2,447,511</u>	<u>788,685</u>	<u>523,513</u>	<u>2,712,683</u>
	<u>\$ 2,447,511</u>	<u>\$ 788,685</u>	<u>\$ 523,513</u>	<u>\$ 2,712,683</u>

<u>Wastewater Utility</u>	Balance			Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Dec. 31, 2016</u>
Debt refunding loss	\$ 306,415	\$ 904,573	\$ 139,716	\$ 1,071,272
Outflow of resources related to pensions (see note 13)	<u>3,577,697</u>	<u>1,159,127</u>	<u>769,405</u>	<u>3,967,419</u>
	<u>\$ 3,884,112</u>	<u>\$ 2,063,700</u>	<u>\$ 909,121</u>	<u>\$ 5,038,691</u>

<u>Stormwater Utility</u>	Balance			Balance
	<u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Dec. 31, 2016</u>
Debt refunding loss	\$ --	\$ --	\$ --	\$ --
Outflow of resources related to pensions (see note 13)	<u>1,313,657</u>	<u>442,141</u>	<u>293,484</u>	<u>1,462,314</u>
	<u>\$ 1,313,657</u>	<u>\$ 442,141</u>	<u>\$ 293,484</u>	<u>\$ 1,462,314</u>

CITY OF FORT WAYNE UTILITIES
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(7) 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 \$437,885 for Wastewater Utility in 2016. Developer notes payable were \$943,476 for Wastewater Utility in 2016. The debt accrues interest at prime, which as of the end of 2016 was at 3.75%, plus 1%. Developer notes payable are included in current liabilities.

(8) Long-Term Debt

Bonds Payable:

Water Utility bonds payable at December 31, 2016 are as follows:

Water Works Revenue Bonds of 2003 – original issue of \$5,800,000 – interest rates range from 4.13% to 4.25% and matures serially in amount of \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$284.	\$ 505,284
Water Works Revenue Bonds of 2005 – original issue of \$16,700,000 – interest rates range from 4.00% to 4.13% and mature serially in amounts ranging from \$1,650,000 in 2017 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$6,177.	6,251,177
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 \$1,175,000 in 2017 to \$2,975,000 in 2032, redeemable prior to maturity for bonds maturing on or after 2023, plus unamortized bond premium of \$394,366.	36,574,366
Water Works Revenue Bonds of 2014 – original issue of \$63,000,000 – interest rates range from 2.00% to 4.00% and mature serially in amounts ranging from \$590,000 in 2017 to \$5,730,000 in 2034, redeemable prior to maturity for bonds maturing on or after 2024, plus unamortized bond premium of \$1,240,894.	<u>63,170,894</u>
Total	106,501,721
Less: Current portion	<u>(3,920,000)</u>
Noncurrent Bonds payable, net	<u>\$102,581,721</u>

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Water Utility bond debt service requirements to maturity as of December 31, 2016 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,920,000	\$ 3,415,969	\$ 7,335,969
2018	4,030,000	3,293,206	7,323,206
2019	4,150,000	3,167,606	7,317,606
2020	2,820,000	3,034,775	5,854,775
2021	2,885,000	2,978,375	5,863,375
2022 to 2026	30,920,000	12,797,888	43,717,888
2027 to 2031	36,755,000	7,662,963	44,417,963
2032 to 2034	<u>19,380,000</u>	<u>1,311,050</u>	<u>20,691,050</u>
Total	<u>\$104,860,000</u>	<u>\$37,661,832</u>	<u>\$142,521,832</u>

Wastewater Utility bonds payable at December 31, 2016 are as follows:

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 \$1,875,000 in 2017 to \$3,135,000 in 2030, redeemable at 100% beginning in 2020, less unamortized bond discount of \$137,025.	\$ 33,842,975
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 \$2,675,000 in 2017 to \$3,490,000 in 2026, redeemable at 100% beginning in 2022.	30,280,000
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 \$1,020,000 in 2017 to \$1,295,000 in 2027, redeemable at 100% beginning in 2023, plus unamortized debt premium of \$394,795.	12,909,795
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 \$1,990,000 in 2017 to \$2,140,000 in 2022, redeemable at 100% beginning in 2021, plus unamortized debt premium of \$24,650.	12,399,650
Sewage Works Refunding Revenue Bonds of 2013 – original issue of \$7,335,000 – interest rate is 1.0% and mature serially in amounts from \$1,375,000 in 2017 to \$1,390,000 in 2018.	2,765,000
Sewage Works Revenue Bonds of 2013, Series A – original issue of \$32,955,000 – interest rate is 1.95% and mature serially in amounts from \$2,060,000 in 2017 to \$4,060,000 in 2024, plus unamortized debt premium of \$438,208.	27,578,208
Sewage Works Revenue Bonds of 2013, Series B – original issue of \$42,260,000 – interest rates range from 3.50% to 3.63% and mature serially in amounts from \$4,165,000 in 2025 to \$5,295,000 in 2033, redeemable at 100% beginning in 2023.	42,260,000

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Sewage Works Refunding Revenue Bonds of 2016 – original issue of \$35,440,000 – interest rates range from 1.50% to 4.00% and mature serially in amounts from \$3,245,000 in 2017 to \$1,505,000 in 2027, redeemable at 100% beginning in 2024, plus unamortized debt premium of \$2,801,142.	<u>37,926,142</u>
Total	199,961,770
Less: Current portion	<u>(14,240,000)</u>
Noncurrent Bonds payable, net	<u>\$185,721,770</u>

Wastewater Utility bond debt service requirements to maturity as of December 31, 2016 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 14,240,000	\$ 5,925,870	\$ 20,165,870
2018	14,535,000	5,619,432	20,154,432
2019	14,865,000	5,284,635	20,149,635
2020	15,210,000	4,927,947	20,137,947
2021	15,610,000	4,527,963	20,137,963
2022 to 2026	73,615,000	16,068,089	89,683,089
2027 to 2031	37,945,000	5,813,879	43,758,879
2032 to 2034	<u>10,420,000</u>	<u>569,669</u>	<u>10,989,669</u>
Total	<u>\$196,440,000</u>	<u>\$48,737,484</u>	<u>\$245,177,484</u>

Stormwater Utility bonds payable at December 31, 2016 are as follows:

Stormwater Management District Revenue Bonds of 2006 – original issue of \$17,000,000 – interest rate is 4.00% and mature serially in amounts from \$1,260,000 in 2017 to \$1,500,000 in 2021, redeemable at 100% beginning in 2016, plus unamortized bond premium of \$10,820.	\$ 6,895,820
Less: Current portion	<u>(1,260,000)</u>
Noncurrent Bonds payable, net	<u>\$ 5,635,820</u>

CITY OF FORT WAYNE UTILITIES
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Stormwater Utility bond debt service requirements to maturity as of December 31, 2016 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,260,000	\$ 275,400	\$ 1,535,400
2018	1,315,000	225,000	1,540,000
2019	1,375,000	172,400	1,547,400
2020	1,435,000	117,400	1,552,400
2021	<u>1,500,000</u>	<u>60,000</u>	<u>1,560,000</u>
Total	<u>\$ 6,885,000</u>	<u>\$ 850,200</u>	<u>\$ 7,735,200</u>

Loans Payable:

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

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 Water Utility State Revolving Fund (SRF) loans payable at December 31, 2016 are as follows:

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 \$2,360,000 in 2017 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017.	\$12,770,000
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 \$1,258,000 in 2017 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2021.	<u>24,518,000</u>
Total	37,288,000
Less: Current portion	<u>(3,618,000)</u>
Noncurrent Loan payable	<u>\$33,670,000</u>

CITY OF FORT WAYNE UTILITIES
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Water Utility anticipated loan debt service requirements to maturity as of December 31, 2016 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,618,000	\$ 1,231,864	\$ 4,849,864
2018	3,759,000	1,101,319	4,860,319
2019	3,901,000	965,657	4,866,657
2020	4,051,000	824,848	4,875,848
2021	4,206,000	678,605	4,884,605
2022 to 2026	8,087,000	2,170,895	10,257,895
2027 to 2031	<u>9,666,000</u>	<u>880,784</u>	<u>10,546,784</u>
Total	<u>\$37,288,000</u>	<u>\$ 7,853,972</u>	<u>\$45,141,972</u>

Details of all Wastewater Utility State Revolving Fund (SRF) loans payable at December 31, 2016 are as follows:

SRF Draw-down loans:

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 \$243,435 in 2017 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020.	\$ 3,443,758
Sewage Works SRF Revenue Bonds of 2011, Series B – Draw up to \$33,576,000 – the interest rate is 2.29% and matures serially in amounts ranging from \$1,510,000 in 2017 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2023.	26,667,000
Sewage Works SRF Revenue Bonds of 2012, Series A – Draw up to \$10,415,000 – the interest rate is 1.78% and matures serially in amounts ranging from \$469,000 in 2017 to \$612,000 in 2032, redeemable prior to maturity for bonds maturing after 2024.	8,603,000
Sewage Works SRF Revenue Bonds of 2014, Series A – Draw up to \$17,000,000 – as of December 31, 2016, total draw is \$15,242,533 – the interest rate is 2.35% and matures serially in amounts ranging from \$754,000 in 2017 to \$1,094,000 in 2033, redeemable prior to maturity for bonds maturing after 2026.	13,785,533
Sewage Works SRF Revenue Bonds of 2016, Series A – Draw up to \$108,000,000 – as of December 31, 2016, total draw is \$186,551 – the interest rate is 2.00% and matures serially in amounts ranging from \$4,065,000 in 2018 to \$3,050,000 in 2039, redeemable prior to maturity for bonds maturing after 2028.	186,551

SRF Shared Pool loans:

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 \$1,227,007 in 2017 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020.	22,692,236
Sewage Works SRF Revenue Bonds of 2014, Series B – final pool share - \$60,872,000	60,247,000

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– the interest rate is 3.074% and matures serially in amounts ranging from \$670,000 in 2017 to \$2,012,000 in 2034, redeemable prior to maturity for bonds maturing after 2027.

Sewage Works SRF Revenue Bonds of 2014, Series C – final pool share - \$5,015,000 – the interest rate is 3.074% and matures serially in amounts ranging from \$200,000 in 2017 to \$350,000 in 2034, redeemable prior to maturity for bonds maturing after 2027.	4,820,000
Sewage Works SRF Revenue Bonds of 2016, Series B – final pool share - \$138,583,000 – the interest rate is 3.06% and matures serially in amounts ranging from \$819,757 in 2017 to \$7,325,433 in 2046, redeemable prior to maturity for bonds maturing after 2028.	<u>138,583,000</u>
Total	279,028,078
Less: Current portion	<u>(5,893,199)</u>
Noncurrent Loans payable	<u>\$ 273,134,879</u>

Wastewater Utility anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2016 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,893,199	\$ 8,520,087	\$ 14,413,286
2018	9,940,770	10,315,467	20,256,237
2019	11,191,080	10,070,750	21,261,830
2020	11,892,988	9,788,543	21,681,531
2021	13,403,161	9,485,682	22,888,843
2022 to 2026	82,458,119	41,606,828	124,064,947
2027 to 2031	103,134,944	29,057,520	132,192,464
2032 to 2036	71,461,088	16,086,500	87,547,588
2037 to 2041	44,720,711	8,284,438	53,005,149
2042 to 2046	<u>34,502,934</u>	<u>2,969,365</u>	<u>37,472,299</u>
Total	<u>\$388,598,994</u>	<u>\$146,185,180</u>	<u>\$534,784,174</u>

On June 30, 2016 the Wastewater Utility issued \$35,440,000 in refunding revenue bonds with an average interest rate of 3.20% to advance refund \$23,030,000 of outstanding 2005 series bonds with an interest rate of 3.10% and \$16,895,000 of outstanding 2007 series bonds with an interest rate range of 4.50% to 4.75%. The net proceeds of \$37,775,637 (after payment of \$303,803 in issuance costs) and local contributions of \$3,481,920 were used to cash defease the 2005 and 2007 bonds and 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 2005 series bonds and 2007 series bonds. As a result, these bonds are considered to be defeased and the liabilities for those bonds have been removed from the Statement of Net Position. The refunding results in the accounting loss of \$904,573, which has been recognized on the Statement of Net Position as a deferred outflow of resources. This amount will be amortized using the straight line method and charged to interest expense over the next 12 years. The Wastewater Utility in effect lowered its aggregate debt service

CITY OF FORT WAYNE UTILITIES
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payment by \$3,501,545 over the next 12 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$3,612,129.

Changes in Long-Term Liabilities

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2016:

<u>Water Utility</u>	<u>Balance</u> <u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Current</u> <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$110,464,951	\$ --	\$ 3,963,230	\$106,501,721	\$ 3,920,000
Loans payable	<u>40,772,000</u>	<u>--</u>	<u>3,484,000</u>	<u>37,288,000</u>	<u>3,618,000</u>
Total bonds and loans	151,236,951	--	7,447,230	143,789,721	7,538,000
Other noncurrent liabilities					
Accrued compensated absences	1,068,639	793,899	898,141	964,397	620,155
Interfund payable	70,976	--	2,761	68,215	68,215
Net pension liability (see note 12)	<u>5,734,933</u>	<u>1,419,139</u>	<u>332,129</u>	<u>6,821,943</u>	<u>--</u>
Total other noncurrent liabilities	<u>6,874,548</u>	<u>2,213,038</u>	<u>1,233,031</u>	<u>7,854,555</u>	<u>688,370</u>
	<u>\$158,111,499</u>	<u>\$ 2,213,038</u>	<u>\$ 8,680,261</u>	<u>\$151,644,276</u>	<u>\$ 8,226,370</u>
<u>Wastewater Utility</u>	<u>Balance</u> <u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Current</u> <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$189,654,693	\$ 38,496,759	\$28,189,682	\$199,961,770	\$14,240,000
Loans payable	<u>161,367,670</u>	<u>145,725,456</u>	<u>28,065,048</u>	<u>279,028,078</u>	<u>5,893,199</u>
Total bonds and loans	351,022,363	184,222,215	56,254,730	478,989,848	20,133,199
Other noncurrent liabilities					
Accrued compensated absences	876,491	896,007	874,706	897,792	596,398
Interfund payable	7,908	--	14	7,894	7,894
Net pension liability (see note 12)	<u>8,383,148</u>	<u>2,085,704</u>	<u>488,129</u>	<u>9,980,723</u>	<u>--</u>
Total other noncurrent liabilities	<u>9,267,547</u>	<u>2,981,711</u>	<u>1,362,849</u>	<u>10,886,409</u>	<u>604,292</u>
	<u>\$360,289,910</u>	<u>\$187,203,926</u>	<u>\$57,617,579</u>	<u>\$489,876,257</u>	<u>\$20,737,491</u>
<u>Stormwater Utility</u>	<u>Balance</u> <u>Jan. 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Current</u> <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 8,105,285	\$ --	\$ 1,209,465	\$ 6,895,820	\$ 1,260,000
Loans payable	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total bonds and loans	8,105,285	--	1,209,465	6,895,820	1,205,000
Other noncurrent liabilities					
Accrued compensated absences	194,086	245,765	217,963	221,888	178,554
Interfund payable	36,601	41	--	36,642	36,642
Net pension liability (see note 12)	<u>3,078,119</u>	<u>795,578</u>	<u>186,194</u>	<u>3,687,503</u>	<u>--</u>
Total other noncurrent liabilities	<u>3,308,806</u>	<u>1,041,384</u>	<u>404,157</u>	<u>3,946,033</u>	<u>215,196</u>
	<u>\$ 11,414,091</u>	<u>\$ 1,041,384</u>	<u>\$ 1,613,622</u>	<u>\$10,841,853</u>	<u>\$ 1,475,196</u>

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<u>Yard Waste Utility</u>	Balance Jan. 1, 2016	<u>Additions</u>	<u>Deductions</u>	Balance Dec. 31, 2016	Current Portion
Bonds and loans					
Revenue bonds payable, net	\$ --	\$ --	\$ --	\$ --	\$ --
Loans payable	--	--	--	--	--
Total bonds and loans	--	--	--	--	--
Other noncurrent liabilities					
Accrued compensated absences	2,494	1,176	1,741	1,929	1,346
Interfund payable	27	--	6	21	21
Net pension liability (see note 12)	--	--	--	--	--
Total other noncurrent liabilities	<u>2,521</u>	<u>1,176</u>	<u>1,747</u>	<u>1,950</u>	<u>1,367</u>
	<u>\$ 2,521</u>	<u>\$ 1,176</u>	<u>\$ 1,747</u>	<u>\$ 1,950</u>	<u>\$ 1,367</u>

(9) Related Party Transactions

During the course of operations, numerous transactions occurred between the Utilities and City for goods and services rendered. The Utilities received \$975,006 in 2016 from the City for water, sewer and stormwater services.

The City received the following from the Utilities in 2016:

	Water Utility	Wastewater Utility	Stormwater Utility	Yard Waste Utility	Electric Utility	Totals
Self insurance	\$2,799,240	\$2,656,594	\$ 635,827	\$ 4,852	\$ --	\$ 6,096,513
Garage services	591,494	527,665	173,213	174	--	1,292,546
Overhead charges	536,781	789,672	300,206	4,895	--	1,631,554
Office and technical services	158,132	27,647	21,471	78	--	207,328
Transfers out in lieu of taxes	<u>2,750,000</u>	<u>4,937,866</u>	<u>1,300,000</u>	--	--	<u>8,987,866</u>
Totals	<u>\$6,835,647</u>	<u>\$8,939,444</u>	<u>\$2,430,717</u>	<u>\$ 9,999</u>	<u>\$ --</u>	<u>\$18,215,807</u>

(10) Interfund Assets and Liabilities

As of December 31, 2016, 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>Total</u>
	<u>General</u>	<u>Garage</u>	<u>Highway/ Streets</u>	
Water	\$10,665	\$ 1,059	\$ --	\$11,724
Wastewater	662	2,028	100	2,790
Stormwater	630	383	--	1,013
Electric	--	--	--	--
Yard Waste	10	--	--	10
Total	<u>\$ 11,967</u>	<u>\$ 3,470</u>	<u>\$ 100</u>	<u>\$15,537</u>

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Due to City:

<u>Receivable Fund</u>	<u>Payable Fund</u>					<u>Total</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	
General	\$1,380,259	\$2,474,673	\$ 669,013	\$ --	\$ 32	\$ 4,523,977
Benefits	10,590	9,755	2,618	--	17	22,980
CSQ Parking	835	1,376	519	--	7	2,737
Garage	53,424	47,364	13,001	--	12	113,801
Parks	439	--	--	--	--	439
Capital Imp.	245	361	137	--	2	745
CEDIT	329	483	184	--	3	999
Solid Waste	417,970	614,885	233,758	--	3,811	1,270,424
Total	<u>\$1,864,091</u>	<u>\$3,148,897</u>	<u>\$ 919,230</u>	<u>\$ --</u>	<u>\$ 3,884</u>	<u>\$5,936,102</u>

Interfund Receivables / Payables

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 have 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 Utility	\$ 68,215	\$ --	\$ 68,215
Wastewater Utility	7,894	--	7,894
Stormwater Utility	36,642	--	36,642
Yard Waste Utility	21	--	21
Total	<u>\$ 112,772</u>	<u>\$ --</u>	<u>\$ 112,772</u>

(11) 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 \$1,974,826 in 2016. The amount transferred from Wastewater Utility to Water Utility was \$6,806 in 2016.

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(12) 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 \$325,000 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 \$250,000 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.

(13) Pension Plan – Public Employee's Retirement Fund

Plan Description

The Utilities contribute to the Public Employees' Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan. PERF provides retirement, disability, and survivor 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, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account (ASA). The annuity savings account consists of member's contributions, set by state 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.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report is available online at <http://www.inprs.in.gov> or may be obtained by contacting:

Indiana Public Retirement System
One North Capitol Avenue, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Benefits Provided

The PERF retirement benefit consists of the sum of a defined pension benefit provided by the Utilities' contributions plus the amount credited to the member's annuity savings account. Pension benefits vest after 10 years of creditable service. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount

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as an annuity, or leave the contributions invested with INPRS.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the pension benefit.

A member who has reached age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal pension benefit, which remains the same for the member's lifetime.

The PERF plan provides disability benefits to members who have at least 5 years of creditable service and become disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer provided disability insurance benefits. The member must be qualified for social security disability benefits and furnish proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Also, under certain circumstances, upon the death in service of a member, a survivor benefit may be paid to a surviving spouse or surviving dependent children under the age of 18.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA), however, such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis. These increases can only be granted by the Indiana General Assembly.

Contributions

The contributions requirements of the plan members and the Utilities are established and may be amended by the INPRS Board of Trustees. The required contributions are based on actuarial investigations and valuation in accordance with IC 5-10.2. The funding policy provides for periodic employer contributions at actuarially determined rates, that expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. PERF members are required to contribute 3 percent of their annual covered salary. For 2016, the Utilities are required to contribute at an actuarially determined rate of 11.2 percent of annual covered payroll. The Utilities' contribution to the plan for the year ending December 31, 2016 was \$2,647,486 and was equal to the required contribution for each year.

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Actuarial Assumptions

The were no changes in assumptions for the June 30, 2016 actuarial valuation. The actuarial assumptions used in the June 30, 2016 valuation of the Public Employee’s Pension Fund were adopted by the INPRS Board in April, 2015. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	2.50% to 4.25%
Cost-of-living increases	1.00%

Mortality rates were based upon the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration’s 2014 Trustee Report.

The actuarial assumptions used are based on plan experience from July 1, 2010 through June 30, 2014 and were first used in the June 30, 2015 valuation. The actuarial cost method used for computing the total pension liability is the Entry Age Normal – Level Percent of Payroll method.

The long term return expectation for the INPRS defined benefit retirement plans has been determined by using a building block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized below:

	Target Allocation (%)	Long Term Expected Real Rate of Return (%)
Public Equity	22.0	5.7
Private Equity	10.0	6.2
Fixed Income – Ex Inflation Linked	24.0	2.7
Fixed Income – Inflation Linked	7.0	0.7
Commodities	8.0	2.0
Real Estate	7.0	2.7
Absolute Return	10.0	4.0
Risk Parity	12.0	5.0
Total	100.0	

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Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed the contributions from employers would be, at a minimum, made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board. Projected inflows from investment earnings were calculated using the long term assumed investment rate of 6.75%. Based on those assumptions, each defined benefit pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability of the Utilities, calculated using the discount rate of 6.75 percent, as well as what the Utilities' net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75 percent) or 1-percentage point higher (7.75 percent) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Utilities proportionate share of the net pension liability	\$29,428,735	\$20,490,169	\$13,060,870

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2016, the Utilities reported a liability of \$20,490,169 for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on wages reported by employers relative to the collective wages of the plan. At June 30, 2016, the Utilities' proportion was 0.0045148 percent, which was an increase of 0.0002927 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Utilities recognized pension expenses of \$4,300,421. At June 30, 2016, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 459,057	\$ 37,824
Net difference between projected and actual investment earnings on pension plan investments	4,506,729	1,152,903
Changes of assumptions	904,042	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,037,449	318,781
Employer contributions subsequent to the measurement date	<u>1,235,139</u>	<u>--</u>
	<u>\$ 8,142,416</u>	<u>\$ 1,509,508</u>

\$1,235,139 was reported as deferred outflows of resources related to pensions resulting from Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30, 2016	
2017	\$ 2,130,508
2018	1,378,956
2019	1,342,968
2020	545,337
2021	--
Thereafter	--

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position has been determined on the same basis of accounting used by the pension plan. Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS financial report, which is available online at <http://www.inprs.in.gov> or may be obtained by contacting:

Indiana Public Retirement System
One North Capitol Avenue, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Benefit Payment Policies

Pension, disability, special death benefits and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or automatically distributed by the fund when certain criteria are met.

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Valuation of Pension Plan Investments

The pooled and non-pooled investments are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgement. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

CITY OF FORT WAYNE UTILITIES
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(14) 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, 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.

Aqua Agreement:

As part of the Asset Acquisition Agreement (AAA) executed December 4, 2014, the City shall pay \$2.75 per thousand gallons of sewage conveyed to Aqua Indiana, Inc. and a minimum of \$1,505,625 per year for each of the first 5 years after effective date. The effective date is the latest of the following dates: 1) the effective date of approval by the IURC, 2) The effective date of the approval by IDEM in a manner and upon discharge parameters that are consistent with the Preliminary National Pollutant Discharge Elimination System (NPDES) Standards, or 3) the date of the Purchased Assets Closing, as defined in the AAA. The rate and minimum shall be adjusted by a consumer price index (CPI) escalator and will cover an additional 5 years. For years 11 through 15, the rate will escalate by a CPI escalator and the annual minimum shall be \$120,000 per year.

Other:

The Utilities have entered into many contracts for various construction projects. Remaining contract payments as of December 31, 2016 for each utility are as follows:

Water Utility	\$ 2,370,823
Wastewater Utility	13,611,428
Stormwater Utility	464,896
	<u>\$ 16,447,146</u>

CITY OF FORT WAYNE UTILITIES
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Major contracts awarded subsequent to December 31, 2016:

<u>Award Date</u>	<u>Vendor</u>	<u>Major Contract Project Description</u>	<u>Amount</u>
Board of Works			
<u>Wastewater Utility</u>			
04/19/2017	Salini Impregilo/S.A. Healy Joint Venture	CSOCM11 – 3RPORT – Deep Tunnel & Shafts	\$187,663,000
03/22/2017	CH2M Hill	CSOCM11 – 3RPORT – Deep Tunnel & Shafts	7,772,078
02/15/2017	Dunigan Brothers	CSOCM9 – Outfall 61/62 Relief Sewer	6,853,571
04/26/2017	Ottenweller Contracting	WPCP Digesters 3 & 4 Improvements	6,424,000
03/22/2017	Black & Veatch	CSOCM11 – 3RPORT – Deep Tunnel & Shafts	5,476,600
03/22/2017	AECOM Tech. Svcs.	CSOCM11 – 3RPORT – Deep Tunnel & Shafts	2,915,210
02/07/2017	Initutform Technology	2016 CIPP Package #1	1,917,999
02/01/2017	Project Piping & Design	Digester Boiler & Heating Exchanger Improvements	1,162,600
03/22/2017	7NT	CSOCM11 – 3RPORT – Deep Tunnel & Shafts	947,000
			<u>\$221,132,058</u>

(15) Subsequent Events

Water Utility Rates:

On January 24, 2017, the Common Council of Fort Wayne approved an adjustment in water rates effective January 1, 2017. This adjustment increased rates for wholesale contract customer New Haven and decreased rates for all other water utility customers. The rate adjustment does not anticipate a change in water utility revenue, but was implemented by an Indiana Utility Regulatory Commission order to make rates more equitable. The typical residential retail customer will see a decrease of \$0.14 per month (assuming 7 units of consumption) and New Haven’s contract rates increased \$0.44 for commodity charge (per hundred CCF) and \$3,221.70 for monthly demand charge.

Stormwater Utility Rates:

On March 28, 2017, the Common Council of Fort Wayne approved a change in stormwater rates that will be introduced in three phases and differentiates between residential and non-residential. The first phase is a \$0.75 increase for residential effective July 1, 2017. The second phase effective July 1, 2018 is an increase of \$0.75 and \$0.60 for residential and non-residential, respectively. The third phase is an increase effective July 1, 2019 of \$0.75 and \$0.50 for residential and non-residential, respectively. The new rates were developed based upon a cost of service study.

CITY OF FORT WAYNE UTILITIES
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Stormwater Bonds:

On June 13, 2017, the Common Council approved the refinancing on the Stormwater Revenue Bonds of 2006. They also authorized the issuance of new Stormwater Revenue bonds in addition to the refinancing.

Equipment and Vehicle Lease:

On March 28, 2017, the Common Council approved the financing \$1,710,000 for various vehicles and equipment items by City Utilities and authorized the acceptance of the Lessor, JP Morgan Chase.

CITY OF FORT WAYNE UTILITIES
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Schedule of Proportionate Share of the Net Pension Liability

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset)	0.45%	0.42%	0.40%
Proportionate share of the net pension liability	\$20,490,169	\$17,196,200	\$10,437,633
Covered employee-payroll	\$21,637,668	\$20,223,082	\$19,391,743
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	94.70%	85.03%	53.83%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	77.30%	84.30%

*GASB 68 requires that information be shown for 10 years. Until a full 10 year trend is complied, information will be shown for those years for which the information is available.

Schedule of Contributions for Pension Plan

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,647,486	\$ 2,163,471	\$ 2,196,819
Contributions in relation to the contractually required contributions	<u>2,647,486</u>	<u>2,163,471</u>	<u>\$ 2,196,819</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered-employee payroll	\$21,637,668	\$20,223,082	\$19,391,743
Contributions as a percentage of covered-employee payroll	10.69%	10.70%	11.33%

*GASB 68 requires that information be shown for 10 years. Until a full 10 year trend is complied, information will be shown for those years for which the information is available.

CITY OF FORT WAYNE UTILITIES
Note to Required Supplementary Information
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(1) Financial Reporting – Pension Plans – Changes in Assumptions

For the Public Employees Retirement Fund, based upon an assumption study performed in April of 2015, the inflation assumption changed from 3.0% to 2.25% per year and the future salary increase assumption was reduced from a range of 3.25% to 4.5% to a range of 2.5% to 4.25%. The mortality assumption changed from the 2013 IRS Static Mortality projected five years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report. The retirement, termination, and disability assumptions were updated based on recent experience. The ASA annuitization assumption was updated from 50% of members assumed to annuitize their ASA balance to 60% of members assumed to annuitize their ASA balance prior to January 1, 2017.