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# *City of Fort Wayne Utilities*

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



*Financial Statements*

*December 31, 2009 & 2008*

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**CITY OF FORT WAYNE UTILITIES**  
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**STATE OF INDIANA**  
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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of each major fund of the City of Fort Wayne Utilities (City Utilities), as of and for the years ended December 31, 2009, and 2008. These statements collectively comprise City Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of City Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City Utilities' internal control over reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the financial position of each major fund of City Utilities as of December 31, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

In accordance with Government Auditing Standards, we have also issued a report dated April 29, 2010, on our consideration of City Utilities' compliance with laws and regulations and its internal control structure.

April 29, 2010

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

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

We have audited the financial statements of the City of Fort Wayne Utilities (City Utilities), as of and for the years ended December 31, 2009, and 2008, and have issued our report thereon dated April 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

April 29, 2010

STATE BOARD OF ACCOUNTS

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# Management's Discussion and Analysis

## Introduction

As management of the City of Fort Wayne Utilities (Utilities), we offer readers of the Utilities' financial statements, this narrative overview and analysis of the financial activities of the Utilities for the fiscal years ended December 31, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements and the notes to the basic financial statements.

## Financial Highlights

- The assets of the Utilities exceeded its liabilities as of December 31, 2009, 2008 and 2007 by \$465.4 million, \$448.9 million and \$442.8 million, respectively.
- The Utilities' net assets increased for the years ended December 31, 2009, 2008 and 2007 by \$16.5 million, \$6.1 million and \$21.7 million, respectively.
- The Utilities' added new bonded debt and long-term notes payable for years ended December 31, 2009, 2008 and 2007 of \$31.4 million, \$23.3 million and \$38.2 million, respectively. The 2009 increase in debt consists of a three new Wastewater SRF loans and additional withdrawals against existing SRF loans.
- The Utilities' investment in capital assets for the years ended December 31, 2009, 2008 and 2007 increased approximately \$34.0 million, \$76.7 million and \$47.3 million, respectively. Significantly, in 2009:
  - Acquired the North system water and wastewater assets of Aqua Indiana for \$16.9 million.
  - Acquired the wastewater assets of the Town of Zanesville for approximately \$0.9 million. Zanesville was formally a wholesale customer
  - Accomplished all of the 2008-2009 capital investment goals 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 assets, 2) statement of revenues, expenses and changes in net assets and 3) statement of cash flows. The notes provide additional information that is essential to a full understanding of the data provided in the Utilities' financial statements. The notes can be found on pages 16-38 of this report.

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

City of Fort Wayne Utilities  
Condensed Statement of Net Assets

	(\$millions)			Variance		Variance	
	December 31			2008-2009		2007-2008	
	2009	2008	2007	\$millions	%	\$millions	%
Net capital assets	\$ 590.6	\$ 572.0	\$ 508.6	\$ 18.6	3.3%	\$ 63.4	12.5%
Other assets	111.4	88.8	133.4	22.6	25.5%	(44.6)	-33.4%
<b>Total assets</b>	<b>702.0</b>	<b>660.8</b>	<b>642.0</b>	<b>41.2</b>	<b>6.2%</b>	<b>18.8</b>	<b>2.9%</b>
Current liabilities	53.7	47.6	27.6	6.1	12.8%	20.0	72.5%
Long term liabilities	182.9	164.3	171.6	18.6	11.3%	(7.3)	-4.3%
<b>Total liabilities</b>	<b>236.6</b>	<b>211.9</b>	<b>199.2</b>	<b>24.7</b>	<b>11.6%</b>	<b>12.7</b>	<b>6.4%</b>
<b>Total net assets</b>	<b>465.4</b>	<b>448.9</b>	<b>442.8</b>	<b>16.5</b>	<b>3.7%</b>	<b>6.1</b>	<b>1.4%</b>
Invested in capital assets, net of related debt	411.2	397.8	382.7	13.4	3.4%	15.1	3.9%
Restricted	51.5	43.1	52.2	8.4	19.5%	(9.1)	-17.4%
Unrestricted	2.7	8.0	7.9	(5.3)	-66.3%	0.1	1.3%
<b>Total net assets</b>	<b>\$ 465.4</b>	<b>\$ 448.9</b>	<b>\$ 442.8</b>	<b>\$ 16.5</b>	<b>3.7%</b>	<b>\$ 6.1</b>	<b>1.4%</b>

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

	(\$millions)			Variance		Variance	
	Year Ended December 31			2008-2009		2007-2008	
	2009	2008	2007	\$millions	%	\$millions	%
<b>Operating revenues:</b>							
Water service revenues	31.3	31.6	30.1	(0.3)	-0.9%	1.5	5.0%
Wastewater service revenues	36.1	34.1	34.7	2.0	5.9%	(0.6)	-1.7%
Stormwater service revenues	9.8	9.6	9.4	0.2	2.1%	0.2	2.1%
Electric revenues	1.7	1.7	1.7	0.0	0.0%	0.0	0.0%
Yard Waste revenues	0.2	0.1	0.1	0.1	100.0%	0.0	0.0%
<b>Total operating revenues</b>	<b>79.1</b>	<b>77.1</b>	<b>76.0</b>	<b>2.0</b>	<b>2.6%</b>	<b>1.1</b>	<b>1.4%</b>
<b>Operating expenses:</b>							
Water operations	25.2	24.2	22.3	1.0	4.1%	1.9	8.5%
Wastewater operations	26.4	23.8	22.5	2.6	10.9%	1.3	5.8%
Stormwater operations	8.5	9.1	7.9	(0.6)	-6.6%	1.2	15.2%
Electric operations	0.6	0.6	0.5	0.0	0.0%	0.1	20.0%
Yard Waste operations	0.2	0.1	0.1	0.1	100.0%	0.0	0.0%
<b>Total operating expenses</b>	<b>60.9</b>	<b>57.8</b>	<b>53.3</b>	<b>3.1</b>	<b>5.4%</b>	<b>4.5</b>	<b>8.4%</b>
<b>Operating Income</b>	<b>18.2</b>	<b>19.3</b>	<b>22.7</b>	<b>(1.1)</b>	<b>-5.7%</b>	<b>(3.4)</b>	<b>-15.0%</b>
<b>Net nonoperating revenues (expenses)</b>	<b>1.4</b>	<b>(12.6)</b>	<b>2.1</b>	<b>14.0</b>	<b>-111.1%</b>	<b>(14.7)</b>	<b>-700.0%</b>
<b>Income before capital contributions, transfers out and cumulative effect of change in method of depreciation</b>							
	19.6	6.7	24.8	12.9	192.5%	(18.1)	-73.0%
Capital contributions	2.0	4.0	2.3	(2.0)	-50.0%	1.7	73.9%
Transfers out	(5.1)	(4.6)	(4.6)	(0.5)	10.9%	0.0	0.0%
Cummulative change in depreciation method	0.0	0.0	(0.8)	0.0	0.0%	0.8	-100.0%
<b>Increase in net assets</b>	<b>16.5</b>	<b>6.1</b>	<b>21.7</b>	<b>10.4</b>	<b>170.5%</b>	<b>(15.6)</b>	<b>-71.9%</b>
<b>Net assets - January 1st</b>	<b>448.9</b>	<b>442.8</b>	<b>421.1</b>	<b>6.1</b>	<b>1.4%</b>	<b>21.7</b>	<b>5.2%</b>
<b>Net assets - December 31st</b>	<b>465.4</b>	<b>448.9</b>	<b>442.8</b>	<b>16.5</b>	<b>3.7%</b>	<b>6.1</b>	<b>1.4%</b>

## Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a governmental unit's financial health. In the case of the Utilities, assets exceeded liabilities by \$465.4 million, \$ 448.9 million and \$442.8 million as of December 31, 2009, 2008 and 2007, respectively. The largest portion (88.9%) of the Utilities' net assets in 2009 reflects its investment in capital assets (land, buildings, machinery, equipment and distribution and collection infrastructure), less any related debt used to acquire those assets that is still outstanding.

Another significant portion of the Utilities' net assets (\$51.5 million, or 11.1%) represents resources that are subject to external restrictions on how they may be used.

The Utilities net assets increased \$16.5 million, \$6.1 million and \$21.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. Net asset growth in 2009 was more than 2008 by \$10.4 million as follows:

- Operating income in 2009 was \$1.1 million less than 2008. Wastewater rates increased 25% effective July 1, 2009. Water and Stormwater rates did not increase in 2009. Overall revenues increased \$2.0 million or 2.6%. Expenses increased 5.4%. Depreciation (driven by heavy recent infrastructure investments) and increases in administrative services (predominately engineering services to support the expanding capital programs) pushed expenses higher than normal inflationary trends.
- Capital contributions in 2009 were \$2.0 million less than 2008. Capital contributions are principally the value of infrastructure donated to the Utilities by local area developers.
- Investment income increased significantly in 2009 from 2008 by \$15.1 million. Community Trust funds investment in marketable securities increased 28% of its value or \$7.2 million. Interest income decreased in 2009 over 2008 by \$3.8 million as investible cash decreased and interest rates stayed low in 2009. Interest expense increased nearly \$1.0 million between 2009 and 2008 as decreased construction activity caused a decrease in capitalized interest.

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

The Utilities total capital assets in service are \$810.8 million with an accumulated depreciation of \$256.1 million for a net book value of \$554.7 million. The statement of net assets also includes \$35.9 million in construction in progress reflecting capital projects in various stages of completion. During 2009, approximately \$32.0 million was spent on capital investments.

The Utilities acquired the North water and wastewater assets of Aqua Indiana for \$16.9 million in 2008. These assets were integrated into the Utilities' core systems within three months of the acquisition. This acquisition added 8,600 water and 1,600 wastewater customers. The wastewater customers were previously served by the Utilities through a wholesale arrangement with Aqua Indiana.

The Utilities acquired the wastewater assets of the Town of Zanesville for approximately \$0.9 million. Zanesville was formally a wholesale customer.



## **Debt**

At December 31, 2009, the Utilities had approximately \$194.5 million in bonds and loans payable, an increase of \$18.5 million over last year. The Wastewater Utility increased its draw against a \$40.0 million maximum financial assistance agreement with the State of Indiana's Wastewater Revolving Loan Program (2005 SRF) by \$0.6 million, for a total withdrawal-to-date of \$40.0 million.

The Utilities entered into two new debt arrangements with SRF in 2009. One arrangement was for \$5 million that included \$1.5 million ARRA grant with the balance of the proceeds provided at a subsidized rate. The loan is payable over 15 years with a blended interest rate of 0.54%. The other arrangement was through an SRF pooled loan program. The Utilities received \$29.1 million, payable over 15 years at 4.16% interest.

Subsequently, in April 2010, the Utilities issued an open market revenue bond for \$41.0 million payable over 20 years at 4.55%.

A Bond Anticipation Note (BAN1) was issued by the Utilities for \$17.8 million in Feb 2008 to provide funds to acquire the north assets of Aqua Indiana. In Feb 2009, the Utilities refinanced BAN1, with another one year BAN (BAN2). And, subsequently, in Feb 2010, the Utilities refinanced BAN2 with BAN3. BAN3 is a one year note payable in Feb 2011. The Utilities intends to repay BAN3 through permanent financing prior to BAN3's expiration date.

## **Economic Factors and Next Years Budget and Rates**

- On December 28, 2007, the Utilities tentatively agreed to a Long-Term Control Plan (LTCP), in the form of a federal Consent Decree, which will ultimately bring the Utilities' combined storm and sanitary sewer system into compliance with the federal Clean Water Act. The Consent Decree became effective April 1, 2008. The Utilities committed to combined sewer overflow reductions that require an approximate investment of \$240.0 million (denominated in 2005 dollars) in infrastructure solutions over the next 18 years. The Utilities also agreed to:
  - Eliminate three sanitary sewer overflows by 2014 at an estimated cost of \$31.0 million.
  - Maintain the entire storm and sewer systems to performance standards prescribed in the LTCP.
  - Pay assessed penalties of \$0.8 million in cash and local investments.

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

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

At that same time, Council authorized the issuance of up to \$255 million in debt to fund a six year capital plan that will accomplish a significant portion of the infrastructure investment required to accomplish the requirements of the Consent Decree. The Utilities has issued \$75.1 million (including the \$41.0 million issued April 2010) of debt associated with the \$255 million Council authorization.

The Utilities are in full compliance with the terms and conditions of the Consent Decree. Significantly, the Utilities completed: the upgrade to the Wastewater plant primaries; completed the pilot testing for the capture and disposal of floatables, designed and bid three combined sewer separation projects. Additionally, the Utilities constructed a backflow process that fully treats nearly 1 billion gallons wastewater that previously entered the Maumee River only partially treated.

- The Utilities will continue to pursue the goal to design and construct six miles of water main replacement and ten miles of sewer rehabilitation work.
- As noted above, the Utilities have significantly increased their long-term debt to accomplish important and necessary improvements to their plants and its distribution, drainage and collection systems. Debt-to-asset ratios measure financial leverage and the Utilities believe that a ratio over 50% is excess risk. The Utilities' ratios are well below that threshold.

<u>Debt-to-Asset Ratio</u>				
<u>Year</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Combined</u>
2009	29.4%	37.5%	15.6%	30.2%
2008	31.2%	33.9%	16.8%	30.5%
2007	28.2%	38.7%	11.2%	29.2%

- In June 2002, the Utilities initiated a condemnation action of Aqua Indiana's North Assets. On February 12, 2008, the Utilities paid Aqua Indiana \$16.9 million and took possession of those condemned assets. The North Assets are now fully integrated with the Utilities' water and sewer system and generating revenues at existing rates from 8,600 new retail water customers and 1,600 new retail sewer customers. Aqua Indiana asserts that the purchase price is inadequate and has sued for unspecified damages.

## **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 Controller - City Utilities, City of Fort Wayne Utilities, One Main Street, Room 280, Fort Wayne, IN 46802-1804.

**CITY OF FORT WAYNE UTILITIES**

Statement of Net Assets  
At December 31, 2009

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

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**

Statement of Net Assets  
At December 31, 2008

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2008
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 390,416	\$ 4,261,473	\$ 2,893,232	\$ 214,522	\$ 179,234	\$ 7,938,877
Receivables:						
Customers, net of allowance for doubtful accounts of \$376,832	3,137,911	3,894,514	1,063,161	-	31,643	8,127,229
Interest	-	29,817	-	-	-	29,817
Due from City of Fort Wayne	670	226,088	540	-	-	227,298
Interfund receivable	1,407,780	-	-	-	-	1,407,780
Materials and supplies	970,435	42,124	-	-	-	1,012,559
Prepaid expenses	95,782	80,034	11,565	-	130	187,511
Total current assets	<u>6,002,994</u>	<u>8,534,050</u>	<u>3,968,498</u>	<u>214,522</u>	<u>211,007</u>	<u>18,931,071</u>
<b>NONCURRENT ASSETS:</b>						
Restricted cash and cash equivalents	13,117,147	26,514,418	2,026,012	37,483	-	41,695,060
Restricted investments	-	-	-	25,610,438	-	25,610,438
Net pension asset	222,573	301,913	177,637	-	-	702,123
Unamortized bond issuance costs	694,480	796,371	301,681	-	-	1,792,532
Assessments receivable	-	126,069	-	-	-	126,069
Capital assets:						
Land	3,345,660	1,228,037	998,520	110,703	-	5,682,920
Distribution and collection	125,639,902	210,676,091	97,641,379	6,024,300	-	439,981,672
Buildings and improvements	43,999,353	109,075,966	2,457,922	1,194,836	68,777	156,796,854
Equipment and other	70,030,746	78,137,457	4,698,227	1,703,867	54,255	154,624,552
Less: Accumulated depreciation	(76,462,094)	(125,483,496)	(29,997,606)	(8,698,406)	(79,652)	(240,721,254)
Plus: Construction in progress	30,688,431	15,976,897	8,948,100	-	32	55,613,460
Net capital assets	<u>197,241,998</u>	<u>289,610,952</u>	<u>84,746,542</u>	<u>335,300</u>	<u>43,412</u>	<u>571,978,204</u>
Total noncurrent assets	<u>211,276,198</u>	<u>317,349,723</u>	<u>87,251,872</u>	<u>25,983,221</u>	<u>43,412</u>	<u>641,904,426</u>
Total assets	<u>\$ 217,279,192</u>	<u>\$ 325,883,773</u>	<u>\$ 91,220,370</u>	<u>\$ 26,197,743</u>	<u>\$ 254,419</u>	<u>\$ 660,835,497</u>
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES:</b>						
Accounts payable	\$ 1,264,080	\$ 2,851,228	\$ 629,891	\$ 84,744	\$ 5,546	\$ 4,835,489
Due to City of Fort Wayne	576,402	782,279	527,521	429	4,853	1,891,484
Interfund payable	-	1,407,780	-	-	-	1,407,780
Compensated absences payable - current portion	542,164	397,117	144,850	-	881	1,085,012
Other current liabilities	655,219	3,434,578	73,666	5,145	470	4,169,078
Accrued interest payable	458,184	1,794,255	250,646	-	-	2,503,085
Bonds payable - current portion	1,585,000	5,960,000	910,000	-	-	8,455,000
Loans payable - current portion	1,730,000	2,575,000	-	-	-	4,305,000
Notes payable - current portion	17,840,000	-	-	-	-	17,840,000
Customer deposits	1,135,930	-	-	-	-	1,135,930
Total current liabilities	<u>25,786,979</u>	<u>19,202,237</u>	<u>2,536,574</u>	<u>90,318</u>	<u>11,750</u>	<u>47,627,858</u>
<b>NONCURRENT LIABILITIES:</b>						
Bonds payable, net of unamortized bond discount/premium	19,766,614	50,631,269	14,434,149	-	-	84,832,032
Loans payable	26,960,000	51,419,094	-	-	-	78,379,094
Compensated absences payable	715,340	303,451	81,719	-	819	1,101,329
Other long-term liabilities	-	-	-	19,252	-	19,252
Total noncurrent liabilities	<u>47,441,954</u>	<u>102,353,814</u>	<u>14,515,868</u>	<u>19,252</u>	<u>819</u>	<u>164,331,707</u>
Total liabilities	<u>73,228,933</u>	<u>121,556,051</u>	<u>17,052,442</u>	<u>109,570</u>	<u>12,569</u>	<u>211,959,565</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	139,069,991	187,502,329	70,798,592	335,300	43,412	397,749,624
Restricted						
For debt service	276,250	6,790,608	379,166	-	-	7,446,024
For capital projects	537,176	9,452,815	-	-	-	9,989,991
For community trust	-	-	-	25,647,921	-	25,647,921
Unrestricted	4,166,842	581,970	2,990,170	104,952	198,438	8,042,372
Total net assets	<u>144,050,259</u>	<u>204,327,722</u>	<u>74,167,928</u>	<u>26,088,173</u>	<u>241,850</u>	<u>448,875,933</u>
Total liabilities and net assets	<u>\$ 217,279,192</u>	<u>\$ 325,883,773</u>	<u>\$ 91,220,370</u>	<u>\$ 26,197,743</u>	<u>\$ 254,419</u>	<u>\$ 660,835,497</u>

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Year Ended December 31, 2009

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2009
<b>OPERATING REVENUES:</b>						
Charges for goods and services	\$ 31,275,117	\$ 36,112,762	\$ 9,838,056	\$ -	\$ 163,148	\$ 77,389,083
Lease revenue	-	-	-	1,740,000	-	1,740,000
<b>Total operating revenues</b>	<b>31,275,117</b>	<b>36,112,762</b>	<b>9,838,056</b>	<b>1,740,000</b>	<b>163,148</b>	<b>79,129,083</b>
<b>OPERATING EXPENSES:</b>						
Personnel services	7,637,884	5,741,596	1,554,286	-	11	14,933,777
Contractual services	1,281,341	2,370,781	204,728	-	93,212	3,950,062
Utilities	1,418,451	1,648,602	-	-	-	3,067,053
Chemicals	2,519,880	739,307	-	-	-	3,259,187
Administrative services	3,369,151	4,880,546	2,214,613	-	31,488	10,495,798
Other supplies/services	2,813,392	2,269,498	2,664,856	511,253	5,238	8,264,237
Depreciation	6,196,518	8,791,779	1,894,465	108,260	5,633	16,996,655
<b>Total operating expenses</b>	<b>25,236,617</b>	<b>26,442,109</b>	<b>8,532,948</b>	<b>619,513</b>	<b>135,582</b>	<b>60,966,769</b>
<b>Operating income</b>	<b>6,038,500</b>	<b>9,670,653</b>	<b>1,305,108</b>	<b>1,120,487</b>	<b>27,566</b>	<b>18,162,314</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income	91,765	198,690	23,973	7,053,360	-	7,365,788
Interest expense	(1,478,106)	(3,193,701)	(240,277)	-	-	(4,912,084)
Amortization of debt issuance costs	(97,538)	(112,334)	(40,640)	-	-	(250,512)
Other revenues (expenses)	-	-	-	(37,140)	-	(37,140)
Loss on disposal of assets	(303,169)	(407,002)	(1,006)	-	(14)	(711,191)
<b>Total nonoperating revenues (expenses)</b>	<b>(1,787,048)</b>	<b>(3,516,347)</b>	<b>(257,950)</b>	<b>7,016,220</b>	<b>(14)</b>	<b>1,454,861</b>
<b>Income before capital contributions and transfers</b>	<b>4,251,452</b>	<b>6,154,306</b>	<b>1,047,158</b>	<b>8,136,707</b>	<b>27,552</b>	<b>19,617,175</b>
Capital contributions	392,815	1,373,053	285,507	-	-	2,051,375
Transfers in	-	-	952,401	-	-	952,401
Transfers out	(1,383,247)	(3,147,675)	(668,479)	(900,000)	-	(6,099,401)
<b>Change in net assets</b>	<b>3,261,020</b>	<b>4,379,684</b>	<b>1,616,587</b>	<b>7,236,707</b>	<b>27,552</b>	<b>16,521,550</b>
<b>Total net assets-beginning of year</b>	<b>144,050,259</b>	<b>204,327,722</b>	<b>74,167,928</b>	<b>26,088,173</b>	<b>241,850</b>	<b>448,875,932</b>
<b>Total net assets-end of year</b>	<b>\$ 147,311,279</b>	<b>\$ 208,707,406</b>	<b>\$ 75,784,515</b>	<b>\$ 33,324,880</b>	<b>\$ 269,402</b>	<b>\$ 465,397,482</b>

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Year Ended December 31, 2008

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2008
<b>OPERATING REVENUES:</b>						
Charges for goods and services	\$ 31,592,716	\$ 34,108,946	\$ 9,639,442	\$ -	\$ 140,703	\$ 75,481,807
Lease revenue	-	-	-	1,740,000	-	1,740,000
<b>Total operating revenues</b>	<b>31,592,716</b>	<b>34,108,946</b>	<b>9,639,442</b>	<b>1,740,000</b>	<b>140,703</b>	<b>77,221,807</b>
<b>OPERATING EXPENSES:</b>						
Personnel services	7,673,428	5,664,432	1,559,785	-	-	14,897,645
Contractual services	1,478,758	1,715,599	279,265	-	102,635	3,576,257
Utilities	1,217,465	1,385,549	-	-	-	2,603,014
Chemicals	2,245,751	501,340	-	-	-	2,747,091
Administrative services	3,199,486	4,343,605	2,551,489	27,913	30,375	10,152,868
Other supplies/services	2,772,012	2,752,205	2,973,824	364,299	15,860	8,878,200
Depreciation	5,586,009	7,423,766	1,780,575	201,928	5,652	14,997,930
<b>Total operating expenses</b>	<b>24,172,909</b>	<b>23,786,496</b>	<b>9,144,938</b>	<b>594,140</b>	<b>154,522</b>	<b>57,853,005</b>
<b>Operating income (loss)</b>	<b>7,419,807</b>	<b>10,322,450</b>	<b>494,504</b>	<b>1,145,860</b>	<b>(13,819)</b>	<b>19,368,802</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income	675,219	1,068,664	237,234	(9,761,312)	-	(7,780,195)
Interest expense	(1,008,335)	(2,829,703)	(105,650)	-	-	(3,943,688)
Amortization of debt issuance costs	(104,177)	(122,279)	(42,949)	-	-	(269,405)
Other revenues (expenses)	-	-	-	(40,558)	-	(40,558)
Loss on disposal of assets	(248,938)	(370,008)	(3,491)	-	(43)	(622,480)
<b>Total nonoperating revenues (expenses)</b>	<b>(686,231)</b>	<b>(2,253,326)</b>	<b>85,144</b>	<b>(9,801,870)</b>	<b>(43)</b>	<b>(12,656,326)</b>
<b>Income before capital contributions and transfers</b>	<b>6,733,576</b>	<b>8,069,124</b>	<b>579,648</b>	<b>(8,656,010)</b>	<b>(13,862)</b>	<b>6,712,476</b>
Capital contributions	1,646,533	1,661,827	734,328	-	-	4,042,688
Transfers in	-	329,319	2,158,482	-	-	2,487,801
Transfers out	(1,345,437)	(4,257,690)	(329,319)	(1,200,000)	-	(7,132,446)
<b>Change in net assets</b>	<b>7,034,672</b>	<b>5,802,580</b>	<b>3,143,139</b>	<b>(9,856,010)</b>	<b>(13,862)</b>	<b>6,110,519</b>
<b>Total net assets-beginning of year</b>	<b>137,015,587</b>	<b>198,525,142</b>	<b>71,024,789</b>	<b>35,944,183</b>	<b>255,712</b>	<b>442,765,413</b>
<b>Total net assets-end of year</b>	<b>\$ 144,050,259</b>	<b>\$ 204,327,722</b>	<b>\$ 74,167,928</b>	<b>\$ 26,088,173</b>	<b>\$ 241,850</b>	<b>\$ 448,875,932</b>

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**  
Statement of Cash Flows  
For the Year Ended December 31, 2009

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers	\$ 31,127,002	\$ 35,585,608	\$ 9,832,271	\$ -	\$ 158,113	\$ 76,702,994
Receipts from leases	-	-	-	1,740,000	-	1,740,000
Payments to suppliers	(9,289,500)	(7,933,900)	(4,478,321)	(316,263)	(108,615)	(22,126,599)
Payments to employees	(7,994,784)	(5,969,220)	(1,554,286)	(3,770)	(11)	(15,522,071)
Other receipts (payments)	(51,550)	(42,457)	42,997	-	44	(50,966)
<b>Net cash provided by operating activities</b>	<b>13,791,168</b>	<b>21,640,031</b>	<b>3,842,661</b>	<b>1,419,967</b>	<b>49,531</b>	<b>40,743,358</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers out	(1,383,247)	(2,195,274)	(668,479)	(900,000)	-	(5,147,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(8,898,403)	(18,507,328)	(4,606,894)	-	(2,279)	(32,014,904)
Proceeds from long-term debt	17,840,000	31,381,391	-	-	-	49,221,391
Interest paid on long-term debt	(2,299,918)	(4,483,495)	(656,642)	-	-	(7,440,055)
Debt issuance costs	(104,961)	(197,684)	-	-	-	(302,645)
Principal paid on long-term debt	(21,155,000)	(8,588,000)	(854,909)	-	-	(30,597,909)
<b>Net cash used by capital and related financing activities</b>	<b>(14,618,282)</b>	<b>(395,116)</b>	<b>(6,118,445)</b>	<b>-</b>	<b>(2,279)</b>	<b>(21,134,122)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of investments	-	-	-	(3,706,785)	-	(3,706,785)
Sale of investments	-	-	-	2,973,059	-	2,973,059
Investment income received	91,765	226,507	23,973	870,159	-	1,212,404
<b>Net cash provided by investing activities</b>	<b>91,765</b>	<b>226,507</b>	<b>23,973</b>	<b>136,433</b>	<b>-</b>	<b>478,678</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,118,596)</b>	<b>19,276,148</b>	<b>(2,920,290)</b>	<b>656,400</b>	<b>47,252</b>	<b>14,940,914</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>13,507,563</b>	<b>30,775,891</b>	<b>4,919,244</b>	<b>252,005</b>	<b>179,234</b>	<b>49,633,937</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 11,388,967</b>	<b>\$ 50,052,039</b>	<b>\$ 1,998,954</b>	<b>\$ 908,405</b>	<b>\$ 226,486</b>	<b>\$ 64,574,851</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating income	6,038,500	9,670,653	1,305,108	1,120,487	27,566	18,162,314
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	6,196,518	8,791,779	1,894,465	108,260	5,633	16,996,655
Provision for doubtful accounts	(29,590)	(46,380)	(3,755)	-	-	(79,725)
Changes in assets and liabilities:						
Receivables	(148,115)	(527,154)	(5,785)	-	(5,035)	(686,089)
Other assets	(21,960)	3,923	46,752	-	44	28,759
Accounts payable and other liabilities	1,755,815	3,747,210	605,876	191,220	21,323	6,321,444
<b>Net cash provided by operating activities</b>	<b>\$ 13,791,168</b>	<b>\$ 21,640,031</b>	<b>\$ 3,842,661</b>	<b>\$ 1,419,967</b>	<b>\$ 49,531</b>	<b>\$ 40,743,358</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>						
Fixed assets included in accounts payable	\$ 646,617	\$ 2,594,525	\$ 404,694	\$ -	\$ -	\$ 3,645,836
Fixed asset contributions	392,815	1,373,053	285,507	-	-	2,051,375
Interfund fixed asset contribution	-	(952,401)	952,401	-	-	-
Capitalized interest added to fixed assets	1,203,801	1,193,701	338,413	-	-	2,735,915
Unrealized gain on investments	-	-	-	7,694,212	-	7,694,212

See accompanying notes to the financial statements.



**CITY OF FORT WAYNE UTILITIES**  
Statement of Cash Flows  
For the Year Ended December 31, 2008

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers	\$ 30,141,847	\$ 34,507,853	\$ 9,738,932	\$ (0.00)	\$ 145,443	\$ 74,534,075
Receipts from leases	-	-	-	1,740,000	-	1,740,000
Payments to suppliers	(11,090,919)	(9,344,598)	(5,820,530)	(308,277)	(145,003)	(26,709,326)
Payments to employees	(7,513,584)	(5,602,080)	(1,559,785)	(9,913)	-	(14,685,361)
Other receipts (payments)	198,632	12,678	(40,851)	-	(130)	170,329
Net cash provided by operating activities	<u>11,735,977</u>	<u>19,573,853</u>	<u>2,317,766</u>	<u>1,421,811</u>	<u>310</u>	<u>35,049,717</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers out	(1,345,437)	(2,099,208)	-	(1,200,000)	-	(4,644,645)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(40,597,611)	(24,021,930)	(6,797,516)	-	(260)	(71,417,317)
Proceeds from long-term debt	17,788,366	5,447,964	-	-	-	23,236,330
Bond discount & premium addition	-	-	-	-	-	-
Interest paid on long-term debt	(2,126,050)	(4,602,876)	(634,362)	-	-	(7,363,289)
Debt issuance costs	-	-	-	-	-	-
Principal paid on long-term debt	(3,195,000)	(8,118,000)	(875,000)	-	-	(12,187,999)
Net cash used by capital and related financing activities	<u>(28,130,295)</u>	<u>(31,294,842)</u>	<u>(8,306,878)</u>	<u>-</u>	<u>(260)</u>	<u>(67,732,275)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of investments	-	-	-	(6,104,571)	-	(6,104,571)
Sale of investments	-	-	-	4,279,014	-	4,279,014
Investment income received	675,219	1,140,621	237,234	1,583,337	-	3,636,411
Net cash provided (used) by investing activities	<u>675,219</u>	<u>1,140,621</u>	<u>237,234</u>	<u>(242,220)</u>	<u>-</u>	<u>1,810,854</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(17,064,537)</b>	<b>(12,679,576)</b>	<b>(5,751,878)</b>	<b>(20,409)</b>	<b>50</b>	<b>(35,516,349)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>30,572,099</b>	<b>43,455,467</b>	<b>10,671,122</b>	<b>272,414</b>	<b>179,184</b>	<b>85,150,286</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 13,507,563</b>	<b>\$ 30,775,891</b>	<b>\$ 4,919,244</b>	<b>252,005</b>	<b>\$ 179,234</b>	<b>49,633,936</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating income	7,419,807	10,322,450	494,504	1,145,860	(13,819)	19,368,802
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	5,586,009	7,423,766	1,780,575	201,928	5,652	14,997,930
Provision for doubtful accounts	36,871	3,145	(8,993)	-	-	31,023
Changes in assets and liabilities:						
Receivables	(1,450,869)	398,907	99,490	-	4,740	(947,732)
Other assets	161,761	9,533	(31,858)	-	(130)	139,306
Accounts payable and other liabilities	(17,602)	1,416,052	(15,953)	74,023	3,867	1,460,388
Net cash provided by operating activities	<u>\$ 11,735,977</u>	<u>\$ 19,573,853</u>	<u>\$ 2,317,766</u>	<u>1,421,811</u>	<u>\$ 310</u>	<u>35,049,717</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>						
Fixed assets included in accounts payable	\$ 754,489	\$ 1,783,068	\$ 643,497	\$ -	\$ -	3,181,054
Fixed asset contributions	1,646,533	1,661,827	734,328	-	-	4,042,688
Interfund fixed asset contribution	-	(1,829,163)	1,829,163	-	-	-
Capitalized interest added to fixed assets	1,392,548	1,777,826	505,908	-	-	3,676,282
Unrealized gain (loss) on investments	-	-	-	(11,385,207)	-	(11,385,207)

See accompanying notes to the financial statements.

**CITY OF FORT WAYNE UTILITIES**  
Notes to Financial Statements  
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**(1) Nature of Operations and Significant Accounting Policies**

Financial Reporting Entity

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

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

Basis of Accounting and Financial Reporting

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

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

Cash Equivalents

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

Investments

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

Restricted Assets

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

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements

December 31, 2009 and 2008

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

#### Capital Assets

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

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

Estimated useful lives, in years, are as follows:

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

Net interest cost incurred on borrowed funds for the Water, Wastewater and Stormwater Utilities is capitalized as a component of the cost of construction. Net interest capitalized for the Water Utility was \$1,203,801 and \$1,392,548 in 2009 and 2008, respectively. Net interest capitalized for the Wastewater Utility was \$1,193,701 and \$1,777,825 in 2009 and 2008, respectively. Net interest capitalized for the Stormwater Utility was \$338,413 and \$505,908 in 2009 and 2008, respectively.

#### Unbilled Utility Revenue

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

#### Materials and Supplies

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

**CITY OF FORT WAYNE UTILITIES**  
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Bond Issuance Costs, Discounts and Premiums

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

Compensated Absences

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

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

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

Classification of Revenue

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

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

## CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements  
December 31, 2009 and 2008

### Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the results of the operations.

### (2) Deposits and Investments

#### Deposits

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

#### Investments

Authorization for investment activity is stated in Indiana Code IC 5-13. The Utilities had the following investments at December 31, 2009 and 2008.

December 31, 2009	Fair Value	Investment Maturities (in years) Less than one
	Mutual Funds	<u>\$32,490,225</u>
December 31, 2008	Fair Value	Investment Maturities (in years) Less than one
	Mutual Funds	<u>\$25,610,438</u>

#### Investment Policies

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years. Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the Federal Investment Company act of 1940, as amended. Investments in money market mutual funds may not exceed fifty percent (50%) of the funds

## CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements  
December 31, 2009 and 2008

held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States, obligations issued by a federal agency, a federal instrumentality, a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of or interest in an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one (1) day.

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

### Interest Rate Risk

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

### Credit Risk

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

<u>Morningstar Rating</u>	<u>2009</u>	<u>2008</u>
Below Average	\$ 10,286,169	\$ 4,927,989
Average	11,873,148	10,053,341
Above Average	8,581,873	9,316,528
Not Rated	<u>1,749,035</u>	<u>1,312,580</u>
Total	<u>\$32,490,225</u>	<u>\$25,610,438</u>

### Concentration of Credit Risk

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

## CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements  
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### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utilities will not be able to recover the value of their investment or collateral securities that are in the possession of an outside party. The Utilities do not have a policy in regard to custodial credit risk.

### Foreign Currency Risk

This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The Utilities' exposure to foreign currency risk derives from their investment at December 31, 2009 in foreign mutual funds with a fair value of \$8,787,276 and at December 31, 2008 in foreign mutual funds with a fair value of \$6,346,240. The Utilities do not have a policy in regard to foreign currency risk.

### Other

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

For the year ending December 31, 2009, the Community Trust had net investment income of \$7,053,360. The Trust incurred realized losses of \$1,548,151, unrealized gain of \$7,694,213 and cash net income of \$907,298. For the year ending December 31, 2008, the Community Trust had a net investment loss of \$9,761,312. The Trust incurred realized losses of \$134,015, unrealized loss of \$11,385,207 and cash net income of \$1,757,910.

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

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

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

Restricted assets consisted of the following at December 31, 2008:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Total</u>
Cash and cash equivalents:					
Sinking fund	\$ 734,434	\$ 8,584,863	\$ 629,813	\$ --	\$ 9,949,110
Construction	9,709,607	8,476,740	1,396,199	--	19,582,546
Replacement	--	5,294,609	--	--	5,294,609
Depreciation	1,000,000	--	--	--	1,000,000
Customer deposits	1,135,930	--	--	--	1,135,930
Connection fees	--	4,158,206	--	--	4,158,206
Tank painting	537,176	--	--	--	537,176
Community Trust	--	--	--	37,483	37,483
Total	<u>\$ 13,117,147</u>	<u>\$ 26,514,418</u>	<u>\$ 2,026,012</u>	<u>\$ 37,483</u>	<u>\$ 41,695,060</u>
Investments					
Community Trust	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 25,610,438</u>	<u>\$ 25,610,438</u>



**CITY OF FORT WAYNE UTILITIES**  
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Sinking Fund

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

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

Debt Service Reserve

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

Prior to 2009, all Utility revenue bonds 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, several 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.

Surety bond insurance is still in effect for the Sewage Works Junior Revenue Bonds of 2002C and the Sewage Works Revenue Bonds of 2005. Sewage Works Junior Revenue Bonds of 1998A, 1998B, 2003 and Sewage Works Revenue Bonds of 2002, 2005, 2007 and 2009A and 2009B have all been cash funded as required.

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

Surety bond insurance is still in effect for the Stormwater Management District Revenue Bonds of 2006.

**CITY OF FORT WAYNE UTILITIES**  
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Construction

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

Replacement

Funds previously held in the replacement account were reappropriated to cover debt service requirements as outlined in the debt service reserve accounts footnote. The Utilities' bond ordinances define the funding sequence from net revenues as follows: first fund the bond sinking account, then the debt service reserve account, and then net revenues set aside to fund the operations and maintenance fund. Net revenues available after satisfying the aforementioned funds may be set aside and paid into a special utility fund which is designated as the "replacement account". The replacement account balance was \$204,000 and \$5,294,609 as of December 31, 2009 and 2008, respectively.

Depreciation

The Water Utility is required to maintain a Depreciation Account in an amount not less than \$1,000,000. However, in the event moneys are withdrawn from the Depreciation Account leaving a balance of less than \$1,000,000, the deficiency shall be restored within eighteen months.

Customer Deposits

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

Connection Fees

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

Tank Painting

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

**(4) Assessments Receivable**

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

## CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements  
December 31, 2009 and 2008

### (5) Community Trust

The City Council established the Community Trust in 1975 to account for a portion of the proceeds received from a private utility leasing the assets of the Electric Utility (see Note 6). The Community Trust receives \$270,000 annually from rents in addition to income earned on the investment of the funds. The funds are meant to enable the City to reclaim its Electric Utility by reimbursing the private utility for additions and extensions upon default of its obligations under the lease or upon termination of the lease.

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

### (6) Lease of Electric Utility

The Electric Utility has leased its entire utility system, including power plant, substations, and transmissions and distribution system, to a private electric utility serving the surrounding area. The lease term commenced March 1, 1975, and expired in February 2010. There is a 15-year renewal option at that time. Lease payments of \$1,740,000 and \$1,740,000 were received for the years ended December 31, 2009 and 2008, respectively. The following table shows rental income on the noncancelable lease for the term of the lease:

<u>Annual Amount</u>	<u>Five –Year Period</u>	<u>Five –Year Totals</u>	<u>Received</u>	<u>Future Rentals</u>
\$1,440,000	3/1/75 to 2/29/80	\$ 7,200,000	\$ 7,200,000	\$ --
1,490,000	3/1/80 to 2/28/85	7,450,000	7,450,000	--
1,540,000	3/1/85 to 2/28/90	7,700,000	7,700,000	--
1,590,000	3/1/90 to 2/28/95	7,950,000	7,950,000	--
1,640,000	3/1/95 to 2/28/00	8,200,000	8,200,000	--
1,690,000	3/1/00 to 2/28/05	8,450,000	8,450,000	--
1,740,000	3/1/05 to 2/25/10	8,700,000	8,410,000	290,000
	Totals	<u>\$55,650,000</u>	<u>\$55,360,000</u>	<u>\$ 290,000</u>

Under the terms of the agreement, the lessee may make improvements and retire assets in the system as long as such improvements and retirements do not exceed 5% of the original cost of the leased property in any one given year. The City of Fort Wayne Common Council must approve amounts in excess of 5% in any year. Depreciation expense for the leased assets was \$93,663 and \$187,331 for 2009 and 2008, respectively. Upon termination of the lease, the Electric Utility has the first option to purchase those improvements at a cost of approximately net book value. The City and Lessee are currently negotiating renewal of the lease or repurchase of the leased assets (see Note 17).

**CITY OF FORT WAYNE UTILITIES**  
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A historical cost summary of the Electric Utility Plant at December 31, 2009:

	<u>Utility Plant on Operating Lease</u>	<u>Other</u>	<u>Total</u>
Land	\$ 69,102	\$ 41,601	\$ 110,703
Buildings and improvements	158,564	1,036,272	1,194,836
Equipment	1,132,777	155,975	1,288,752
Distribution and collection	<u>5,870,453</u>	<u>--</u>	<u>5,870,453</u>
Gross capital assets	7,230,896	1,233,848	8,464,744
Less:			
Accumulated depreciation	<u>(7,068,142)</u>	<u>(1,169,562)</u>	<u>(8,237,704)</u>
Net capital assets	<u>\$ 162,754</u>	<u>\$ 64,286</u>	<u>\$ 227,040</u>

A historical cost summary of the Electric Utility Plant at December 31, 2008:

	<u>Utility Plant on Operating Lease</u>	<u>Other</u>	<u>Total</u>
Land	\$ 69,102	\$ 41,601	\$ 110,703
Buildings and improvements	158,564	1,036,272	1,194,836
Equipment	1,547,892	155,975	1,703,867
Distribution and collection	<u>6,024,300</u>	<u>--</u>	<u>6,024,300</u>
Gross capital assets	7,799,858	1,233,848	9,033,706
Less:			
Accumulated depreciation	<u>(7,543,441)</u>	<u>(1,154,965)</u>	<u>(8,698,406)</u>
Net capital assets	<u>\$ 256,417</u>	<u>\$ 78,883</u>	<u>\$ 335,300</u>

**CITY OF FORT WAYNE UTILITIES**  
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**(7) Capital Assets**

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

<b><u>2009</u></b>	Balance <u>Jan. 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	Adjustments/ <u>Transfers</u>	Balance <u>Dec. 31, 2009</u>
Land	\$ 5,682,920	\$ --	\$ --	\$ 62,135	\$ 5,745,055
Distribution and collection	439,981,672	154,699	918,898	21,125,392	460,342,865
Buildings and improvement	156,796,854	34,397	--	25,849,631	182,680,882
Equipment and other	154,624,552	2,047,797	1,565,655	6,938,816	162,045,510
Construction in progress	<u>55,613,460</u>	<u>33,492,685</u>	<u>--</u>	<u>(53,238,741)</u>	<u>35,867,404</u>
	812,699,458	35,729,578	2,484,553	737,233	846,681,716
Less accumulated depreciation:					
Distribution and collection	112,288,368	6,678,427	855,739	--	118,111,056
Buildings and improvement	50,254,988	3,529,889	--	--	53,784,877
Equipment and other	<u>78,177,898</u>	<u>6,788,339</u>	<u>943,556</u>	<u>155,331</u>	<u>84,178,012</u>
	<u>240,721,254</u>	<u>16,996,655</u>	<u>1,799,295</u>	<u>155,331</u>	<u>256,073,945</u>
Net Capital Assets	<u>\$571,978,204</u>	<u>\$18,732,923</u>	<u>\$ 685,258</u>	<u>\$ 581,902</u>	<u>\$590,607,771</u>
<b><u>2008</u></b>	Balance <u>Jan. 1, 2008</u>	<u>Additions</u>	<u>Disposals</u>	Adjustments/ <u>Transfers</u>	Balance <u>Dec. 31, 2008</u>
Land	\$ 4,324,827	\$ --	\$ --	\$ 1,358,093	\$ 5,682,920
Distribution and collection	403,428,831	86,391	120,416	36,586,866	439,981,672
Buildings and improvement	114,606,834	3,703	559,943	42,746,260	156,796,854
Equipment and other	134,568,628	2,615,268	1,724,478	19,165,134	154,624,552
Construction in progress	<u>79,025,524</u>	<u>74,155,752</u>	<u>--</u>	<u>(97,567,817)</u>	<u>55,613,460</u>
	735,954,644	76,861,114	2,404,837	2,288,537	812,699,458
Less accumulated depreciation:					
Distribution and collection	106,020,262	6,377,741	109,640	5	112,288,368
Buildings and improvement	48,095,085	2,629,165	469,257	(5)	50,254,988
Equipment and other	<u>73,262,324</u>	<u>5,991,024</u>	<u>1,234,365</u>	<u>158,915</u>	<u>78,177,898</u>
	<u>227,377,671</u>	<u>14,997,930</u>	<u>1,813,262</u>	<u>158,915</u>	<u>240,721,254</u>
Net Capital Assets	<u>\$508,576,973</u>	<u>\$61,863,184</u>	<u>\$ 591,575</u>	<u>\$ 2,129,622</u>	<u>\$571,978,204</u>

## CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements  
December 31, 2009 and 2008

### **(8) Developer Notes Payable**

Certain future revenues in newly developed areas are pledged as payment to retire developer debt associated with infrastructure installed to enable the new developments. Capital surcharges applicable only to designated new development regions and area connection fees generated from the designated new development regions will be applied to the developer debt until paid in full. Only revenue generated and collected from the new developments is available to retire the debt. Pledged revenues were \$267,909 and \$204,578 in 2009 and 2008, respectively. Developer notes payable were \$2,802,570 and \$3,233,467 for 2009 and 2008, respectively. The debt accrues interest at prime, which as of the end of 2009, was at 4.25%, plus 1%. Developer notes payable are included in current liabilities.

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

In 2008, the Waterworks Utility financed the acquisition of Aqua Indiana asset with Waterworks Utility Revenue Bond Anticipation Notes, Series 2008 (BAN1) issued February 5, 2008 for \$17,840,000. BAN1 had an interest rate of 1.81% and was payable on or before February 11, 2009. BAN1 was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2009 (BAN2). BAN2 was issued on February 11, 2009 in the amount of \$17,840,000. BAN2 has an interest rate of 4.25% and is payable on February 11, 2010.

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

#### Bonds Payable:

Details of all Utilities' bonds payable at December 31, 2009 are as follows:

Water Works Revenue Bonds of 1997 – original issue of \$7,100,000 – interest rates range from 4.50% to 4.75% and mature serially in amounts ranging from \$645,000 in 2010 to \$680,000 in 2011, redeemable at 100% beginning in 2005, less unamortized bond discount of \$2,872.	\$ 1,322,128
Water Works Revenue Bonds of 2003 – original issue of \$5,800,000 – interest rates range from 2.00% to 4.250% and mature serially in amounts ranging from \$375,000 in 2010 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$13,874.	3,493,874
Water Works Revenue Bonds of 2006 – original issue of \$16,700,000 – interest rates range from 2.70% to 4.40% and mature serially in amounts ranging from \$625,000 in 2010 to \$2,345,000 in 2019, redeemable	

**CITY OF FORT WAYNE UTILITIES**  
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prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$51,673.	14,941,673
Sewage Works Junior Revenue Bonds of 1998, Series A – original issue of \$10,640,000 – interest rates range from 4.25% to 5.00% and mature serially in amounts ascending from \$880,000 in 2010 to \$975,000 in 2012, redeemable at 100% beginning in 2007, less unamortized bond discount of \$1,226.	2,778,774
Sewage Works Junior Revenue Bonds of 1998, Series B – original issue of \$16,760,000 – interest rates range from 4.00% to 4.50% and mature serially in amounts ascending from \$1,400,000 in 2010 to \$1,535,000 in 2012, redeemable at 100% beginning in 2007, less unamortized bond discount of \$1,174.	4,398,826
Sewage Works Junior Refunding and Revenue Bonds of 2002, Series B – original issue of \$19,080,000 – interest rates range from 3.50% to 5.50% and mature serially in amounts from \$1,345,000 in 2010 to \$1,100,000 in 2017, redeemable at 100% beginning in 2013, plus unamortized bond premium of \$157,801.	9,262,801
Sewage Works Junior Revenue Bonds of 2002, Series C – original issue of \$5,750,000 – interest rates range from 1.30% to 4.55% and mature serially in amounts from \$370,000 in 2010 to \$500,000 in 2017, redeemable at 100% beginning in 2014.	3,455,000
Sewage Works Junior Revenue Bonds of 2003 – original issue of \$12,350,000 – interest rates range from 2.00% to 3.80% and mature serially in amounts from \$770,000 in 2010 to \$1,045,000 in 2018, plus unamortized bond premium of \$19,976.	8,104,976
Sewage Works Revenue Bonds of 2007 – original issue of \$24,155,000 – interest rates range from 4.25% to 4.75% and mature serially in amounts from \$860,000 in 2010 to \$1,775,000 in 2027, redeemable at 100% beginning in 2017, less unamortized bond discount of \$25,476.	22,589,524
Stormwater Management District Revenue Bonds of 2006 – original issue of \$17,000,000 – interest rates range from 3.75% to 4.00% mature serially in amounts from \$945,000 in 2010 to \$1,500,000 in 2021, plus unamortized bond premium of \$55,507.	<u>14,425,507</u>
Total	84,773,083
Less: Current portion	<u>(8,215,000)</u>
Noncurrent Bonds payable, net	<u>\$ 76,558,083</u>

**CITY OF FORT WAYNE UTILITIES**

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Total bond debt service requirements to maturity as of December 31, 2009 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 8,215,000	\$ 3,591,191	\$ 11,806,191
2011	8,160,000	3,253,310	11,413,310
2012	8,505,000	2,913,868	11,418,868
2013	6,260,000	2,565,956	8,825,956
2014	6,515,000	2,308,800	8,823,800
2015 to 2019	31,705,000	7,268,155	38,973,155
2020 to 2024	10,050,000	2,424,388	12,474,388
2025 to 2027	5,095,000	491,150	5,586,150
Total	<u>\$84,505,000</u>	<u>\$24,816,817</u>	<u>\$109,321,817</u>

Loans Payable

During 2009, 2005 and 2002, the Utilities entered into finance assistance agreements with the State of Indiana's Wastewater Revolving Loan program that allows for a maximum of \$5,000,000, \$40,000,000 and \$23,500,000 in 2009, 2005 and 2002, respectively, for improvements at the Wastewater treatment facility. At December 31, 2009, \$812,129, \$40,000,000 and \$23,454,351 had been drawn against the 2009, 2005 and 2002 agreements, respectively, with a principal balance of \$812,129, \$33,825,000 and \$18,219,351, respectively. At December 31, 2008, \$39,374,743 and \$23,454,351 had been drawn against the 2005 and 2002 agreements, respectively, with a principal balance of \$34,814,743 and \$19,179,351, respectively. The Utilities do not intend to draw any more funds against the 2002 agreement.

During 2009, the Utilities entered into a finance assistance agreement with the State of Indiana's Wastewater Revolving Loan program in which the Utility received \$906,000 for the purchase of wastewater assets from the Town of Zanesville. The interest rate is 2.0% and the principal matures serially in amounts ranging from \$108,000 in 2010 to \$120,000 in 2016. At December 31, 2009 the outstanding principal balance was \$800,000.

During 2009 and 2006, the Utilities participated in a shared loan arrangement through State of Indiana's State Revolving Fund Pooled Loan program. This program allows Indiana municipalities to collectively borrow funds under the AAA rating of the State of Indiana's creditworthiness as well as receive other financial benefits. Under this program the Wastewater Utility received \$29,091,005 in 2009 to invest in improvements in the Wastewater Utility's infrastructure. The interest rate is 4.16% and the principal matures serially in amounts ranging from \$960,818 in 2011 and \$2,084,297 in 2030. At December 31, 2009 the outstanding principal balance was \$29,091,005. In 2006 the Water Utility received \$31,900,000 to invest in improvements to the Water Utility's infrastructure. The interest rate is 3.95% and the principal matures serially in amounts ranging from \$1,800,000 in 2010 to \$2,755,000 in 2021. At December 31, 2009 and 2008, the outstanding principal balance was \$26,960,000 and \$28,690,000, respectively.



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The total anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2009 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,675,776	\$ 3,725,451	\$ 8,401,227
2011	5,934,929	3,913,280	9,848,209
2012	6,148,285	3,702,174	9,850,459
2013	6,367,304	3,483,037	9,850,341
2014	6,593,057	3,255,701	9,848,758
2015 to 2019	36,316,408	12,564,651	48,881,059
2020 to 2024	32,417,601	5,849,925	38,267,526
2025 to 2029	13,109,152	1,707,275	14,816,427
2030	2,332,884	87,104	2,419,948
	<u>\$ 113,895,356</u>	<u>\$ 38,288,598</u>	<u>\$ 152,183,954</u>

Changes in Long-Term Liabilities

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

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

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2008:

	<u>Balance Jan. 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2008</u>	<u>Current Portion</u>
<b>Bonds and loans</b>					
Revenue bonds payable, net	\$ 101,387,496	\$ --	\$ 8,100,464	\$ 93,287,032	\$ 8,455,000
Loans payable	81,389,130	5,447,964	4,153,000	82,684,094	4,305,000
Total bonds and loans	182,776,626	5,447,964	12,253,464	175,971,126	12,760,000
<b>Other noncurrent liabilities</b>					
Accrued compensated absences	2,066,277	1,702,449	1,582,385	2,186,341	1,085,012
Other long-term liabilities	25,629	3,913	5,145	24,397	5,145
Total other noncurrent liabilities	2,091,906	1,706,362	1,587,530	2,210,738	1,090,157
	<u>\$ 184,868,532</u>	<u>\$ 7,154,326</u>	<u>\$ 13,840,994</u>	<u>\$ 178,181,864</u>	<u>\$ 13,850,157</u>

**CITY OF FORT WAYNE UTILITIES**

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**(11) Related Party Transactions**

During the course of operations, numerous transactions occurred between the Utilities and City for goods and services rendered. The Water Utility received hydrant rental revenue from the City of \$2,911,185 and \$2,805,309 in 2009 and 2008, respectively. The Utilities also received \$554,532 and \$529,680 in 2009 and 2008, respectively from the City for other water, sewer and stormwater services.

The City received the following from the Utilities in 2009:

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

The City received the following from the Utilities in 2008:

	Water Utility	Wastewater Utility	Stormwater Utility	Yard Utility	Electric Utility	Totals
Self insurance	\$2,119,072	\$ 1,881,939	\$ 565,161	\$ 3,211	\$ --	\$4,569,383
Garage services	574,298	490,278	191,889	105	--	1,256,570
Overhead charges	675,573	917,155	538,748	6,414	--	2,137,890
Office and technical services	<u>35,870</u>	<u>240,564</u>	<u>89,679</u>	<u>165</u>	<u>5,145</u>	<u>371,423</u>
	2,404,813	3,529,936	1,385,477	9,895	5,145	8,335,266
Transfers out to the Redevelopment Commission	--	--	--	--	1,200,000	1,200,000
Transfers out in lieu of taxes	<u>1,345,437</u>	<u>2,099,208</u>	--	--	--	<u>3,444,645</u>
Totals	<u>\$4,750,250</u>	<u>\$ 5,629,144</u>	<u>\$ 1,385,477</u>	<u>\$ 9,895</u>	<u>\$1,205,145</u>	<u>\$12,979,911</u>

**CITY OF FORT WAYNE UTILITIES**

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**(12) Interfund Assets and Liabilities**

As of December 31, 2009 and 2008, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2009</u>	<u>2008</u>
Due from City:			
Water	City's General	\$ 259,283	\$ 670
Wastewater		22,671	226,088
Stormwater		10,362	540
Yard Waste		138	--
Total Due from City		<u>\$ 292,454</u>	<u>\$ 227,298</u>
Due to City:			
City's General	Water	\$ 1,533,070	\$ 68,009
	Wastewater	1,772,104	92,087
	Stormwater	947,751	122,094
	Electric	429	429
	Yard Waste	1,527	27
City's Solid Waste	Water	507,498	508,393
	Wastewater	735,160	690,192
	Stormwater	333,589	405,427
	Yard Waste	4,743	4,826
Total Due to City		<u>\$ 5,835,871</u>	<u>\$ 1,891,484</u>

**Interfund Receivables/Payables**

In 2008, the Water Utility financed the acquisition of the Aqua Indiana assets with Waterworks Utility Revenue Bond Anticipation Notes, Series 2007. With this acquisition of assets the Wastewater Utility also obtained assets. The value of the Wastewater Utility assets that were acquired from Aqua Indiana was estimated to be \$1,407,780. An interfund receivable on the Water Utility was set up and an interfund payable on the Wastewater Utility for this amount.

**(13) Equity Transfers**

The 10-year sewer capacity improvement program includes storm sewer construction funded through the Wastewater Utility or Stormwater Utility. New storm sewers allow old combined sewers to be converted to sanitary-only lines. As projects are completed, the new storm sewers are transferred from the Wastewater Utility to the Stormwater Utility and new sanitary sewers are transferred from Stormwater Utility to Wastewater Utility. The amount transferred from Wastewater Utility to Stormwater Utility was \$952,401 and \$2,158,482 in 2009 and

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2008, respectively. The amount transferred from Stormwater Utility to Wastewater Utility was \$329,319 in 2008.

**(14) Risk Management**

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

**(15) Pension Plans**

A. Public Employees' Retirement Fund

Plan Description

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

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

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by writing the Indiana Public Employees' Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204 or by calling (317) 233-4162.

Retirement benefits vest after 10 years of service. Normal retirement is defined as the earliest of: (1) age 65 with 10 years of creditable service; (2) age 60 with 15 years of creditable service; or (3) the sum of age and creditable service equal to 85, but not earlier than age 55. A reduced benefit will be received if an employee takes early retirement between the ages of 50 and 65

## CITY OF FORT WAYNE UTILITIES

### Notes to Financial Statements December 31, 2009 and 2008

and has had 15 or more years of creditable service. Employees may elect to either receive a lump-sum distribution of their annuity savings account balance upon retirement or receive an annuity amount as a monthly supplement to the retirement benefits described above. PERF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and ordinance.

#### Funding Policy and Annual Pension Cost

The PERF Board of Trustees establishes contribution requirements for plan members. The Utilities' annual pension cost for years ended 2009 and 2008, and related information as provided by the actuary, is presented in this note.

#### Tables of Required Information

	<u>2009</u>	<u>2008</u>
Annual required contribution (ARC)	\$ 1,308,667	\$ 1,168,474
Interest on net pension obligation (NPO)	(50,904)	(58,431)
Adjustment to ARC	<u>58,009</u>	<u>66,587</u>
Annual pension cost	1,315,772	1,176,630
Contributions made	<u>(1,254,096)</u>	<u>(1,072,803)</u>
Increase in NPO	61,676	103,827
NPO, beginning of year	<u>(702,124)</u>	<u>(805,951)</u>
NPO, end of year	<u>\$ (640,448)</u>	<u>\$ (702,124)</u>

#### Contribution rates:

City Utilities	7.5%
Plan members	3%
Actuarial valuation date	07/01/09
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Projected Payroll, Closed
Amortization period	30 years
Amortization period (from date)	07/01/97

#### Actuarial assumptions:

Investment rate of return	7.25%
Projected future salary increases:	
Total	4%
Cost-of-living adjustments	1.5%

Asset Valuation Method: 75% of expected actuarial value plus 25% of market value

#### Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/07	1,215,472	86%	(805,951)
06/30/08	1,176,630	91%	(702,124)
06/30/09	1,315,772	95%	(604,448)

**CITY OF FORT WAYNE UTILITIES**  
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Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL As a Percentage Of Covered Payroll ((a-b)/c)
07/01/07	20,555,950	24,021,178	(3,465,228)	86%	15,678,814	22%
07/01/08	22,374,520	27,085,752	(4,711,232)	83%	16,358,332	29%
07/01/09	20,424,192	27,583,771	(7,159,579)	74%	17,626,408	41%

**B. Municipal Pension Plan**

The Utilities also have a defined benefit pension plan (funded on a pay-as-you-go basis) covering employees who started receiving retirement or disability benefits before July 1976. For each of the years ended December 31, 2009 and 2008, the Utilities paid annual benefits of \$5,145 to four former employees or survivors. The accrued pension cost for this plan is \$23,022 and \$24,397 at December 31, 2009 and 2008, respectively.

**(16) Commitments and Contingencies**

Consent Decree:

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

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

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Condemnation of Aqua Indiana's North Assets:

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

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

Light Lease Revenues:

By ordinance, light lease revenues (see Note 6) in excess of operating expenses and the contribution to the Community Trust (see Note 5) are required to be transferred to the City's Cumulative Capital Fund. As of December 31, the Electric Utility maintained operating cash balances of \$464,490 and \$214,522 for 2009 and 2008, respectively. Such amounts are withheld from the City to cover near term operating expenses and, if unspent, will be summarily remitted to the City.

Other:

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

	<u>2009</u>	<u>2008</u>
Water	\$ 2,113,786	\$ 2,905,712
Wastewater	5,106,225	2,306,277
Stormwater	613,841	27,837
	<u>\$ 7,833,852</u>	<u>\$ 5,239,826</u>

## CITY OF FORT WAYNE UTILITIES

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Major contracts awarded subsequent to December 31, 2009:

<u>Major Contract Project Description</u>	<u>Amount</u>
Anthony Wayne Village-Mount Vernon Water Main Replacement	\$ 1,380,947
Rothman Area CIPP I/I Removal	584,668
Upper Ely Run Interceptor, Phase 2	4,626,807
Westlawn Addition Sanitary Sewer Extension	2,171,834
WPCP Digester Gas Handling Improvements	774,000

### (17) Subsequent Events

#### Bank Anticipation Notes – Refinanced:

The Waterworks Utility Revenue Bond Anticipation Notes, Series 2009 (BAN2) (see note 9) was retired from the proceeds of the Waterworks Utility Revenue Bond Anticipation Notes, Series 2010 (BAN3). BAN3 was issued on February 11, 2010 in the amount of \$17,840,000. BAN3 has an interest rate of 0.60% and the principle and interest is payable on February 11, 2011.

#### Bond Issuance:

On April 13, 2010, the Wastewater Utility issued a bond for \$41,045,000. The average interest rate is 4.55%. It matures serially in amounts ranging from \$1,715,000 in 2013 to \$3,135,000 in 2030.

#### Termination of Electric Light Lease:

On February 28, 2010, the electric light lease terminated. Prior to the lease termination date, Indiana & Michigan (Lessee) filed a lawsuit on October 15, 2009 in Allen County Superior Court asking the court to block the city from taking over the electric service. The city filed a countersuit claiming that the lessee broke its lease with the city and the city has the right to take back control of the former City Light and Power Works. At this time, the Utilities are unable to form a conclusion as to whether the assertion of action by either party is either probable or remote, nor as to the amount of damages if assessed, nor to the possible costs of any outcome, legal or agreed.

Prior to the October 15, 2009 lawsuit by Lessor, both parties were engaged in formal mediation and continue to be so beyond the lease termination date.