
Fort Wayne City Utilities

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



CITY UTILITIES

WATER THAT WORKS

Financial Statements

December 31, 2018

FORT WAYNE CITY UTILITIES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the City of Fort Wayne Utilities (Utilities), departments of the City of Fort Wayne (City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Utilities, as of December 31, 2018, and the respective changes in financial position and cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

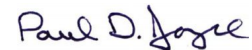
Emphasis of Matter

As discussed in Note 1, the financial statements of the Utilities are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City, as of December 31, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



Paul D. Joyce, CPA
State Examiner

June 20, 2019

FORT WAYNE CITY UTILITIES
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Introduction

As management of the Fort Wayne City Utilities (FWCU), we offer readers of the FWCU financial statements, this narrative overview and analysis of the financial activities of FWCU for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements and the notes to the basic financial statements.

Financial Highlights

- The assets and deferred outflow of resources of FWCU exceeded its liabilities and deferred inflow of resources (net position) as of December 31, 2018 and 2017 by \$649.3 million and \$602.5 million, respectively.
- The FWCU net position increased for the years ended December 31, 2018 and 2017 by \$46.8 million and \$30.0 million, respectively.
- FWCU added new bonded debt, long-term loans payable and capital lease payable for years ended December 31, 2018 and 2017 of \$6.6 million and \$66.6 million, respectively. The 2018 increase in debt is mainly due to issuance of two new Wastewater Utility revenue bonds with an interest rate of 2.86 percent, additional withdrawals against existing State Revolving Fund (SRF) loans, and a new capital lease payable for all Utilities. The 2017 increase in debt consists of two new Wastewater revenue bonds, additional withdrawals against existing SRF loans, a new Stormwater revenue bond, and new capital lease payable for all Utilities.

In 2017, the Wastewater Utility issued two refunding Sewage Works Revenue Bonds with an interest rate of 2.53 percent on both bonds to retire the 2010 Sewage Works Revenue Bond with an interest rate ranging from 4.25 percent to 4.50 percent. FWCU had an economic gain of \$1,849,198 with this refunding.

Also in 2017, the Stormwater Utility issued a new bond. This bond financed capital improvements and refunded the 2006 Stormwater Revenue Bond. The refunding bond at rates ranging from two percent to three percent issued to retire the 2006 Stormwater Revenue Bond with interest rates of four percent. FWCU had an economic gain of \$266,836 with this refunding.

The FWCU net investment in capital assets for the years ended December 31, 2018 and 2017 increased approximately \$96.0 million in 2018 after it decreased approximately \$42.3 million in 2017. Significantly, FWCU continues to meet all capital investment milestones required by the 2008 Federal Consent Decree.

FORT WAYNE CITY UTILITIES
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Continued)

Overview of the Financial Statements

This discussion and analysis is an introduction to the FWCU basic financial statements. The FWCU funds are governmental entities classified as enterprise funds, subsets of proprietary funds. When an entity charges a fee to cover the entire cost of its operation, these services are classified as a proprietary fund. And more specifically, when an entity is self-supported completely by providing services to outside customers, it is an enterprise fund. An enterprise fund's financial statements are comprised of three statements and the accompanying notes to these statements. The three statements are: 1) statement of net position, 2) statement of revenues, expenses and changes in net position, and 3) statement of cash flows. The notes provide additional information that is essential to a full understanding of the data provided in the FWCU financial statements. The notes can be found on pages 15-42 of this report.

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

Fort Wayne City Utilities
Condensed Statement of Net Position
(amounts expressed in millions)

	Year Ended		Variance	
	December 31,		2018 – 2017	
	2018	2017	Amount	Percent
Net capital assets	\$ 1,104.3	\$ 1,003.6	\$ 100.7	10.0 %
Other assets	196.9	267.6	(70.7)	(26.4)%
Total assets	<u>\$ 1,301.2</u>	<u>\$ 1,271.2</u>	<u>\$ 30.0</u>	<u>2.4 %</u>
Deferred Outflows of Resources	<u>\$ 4.0</u>	<u>\$ 7.9</u>	<u>\$ (3.9)</u>	<u>(49.4)%</u>
Current liabilities	75.2	60.5	14.7	24.3 %
Long term liabilities	577.7	614.0	(36.3)	(5.9)%
Total liabilities	<u>\$ 652.9</u>	<u>\$ 674.5</u>	<u>\$ (21.6)</u>	<u>(3.2)%</u>
Deferred Inflows of Resources	<u>\$ 3.0</u>	<u>\$ 2.1</u>	<u>\$ 0.9</u>	<u>42.9 %</u>
Total net position	<u>\$ 649.3</u>	<u>\$ 602.5</u>	<u>\$ 46.8</u>	<u>7.8 %</u>
Net investment in capital assets	545.9	449.9	96.0	21.3 %
Restricted	73.9	77.1	(3.2)	(4.2)%
Unrestricted	29.5	75.5	(46.0)	(60.9)%
Total net position	<u>\$ 649.3</u>	<u>\$ 602.5</u>	<u>\$ 46.8</u>	<u>7.8 %</u>

FORT WAYNE CITY UTILITIES
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Continued)

Fort Wayne City Utilities
Condensed Statement of Revenues, Expenses and Changes in Net Position
(amounts expressed in millions)

	Year Ended		Variance	
	December 31,		2018 – 2017	
	2018	2017	Amount	Percent
Operating revenues:				
Water service revenues	\$ 47.5	\$ 48.1	\$ (0.6)	(1.2)%
Wastewater services revenues	79.6	71.5	8.1	11.3 %
Stormwater service revenues	12.2	10.8	1.4	13.0 %
Electric revenues	0.0	0.0	0.0	0.0 %
Yard Waste revenues	0.3	0.2	0.1	50.0 %
Total operating revenues	<u>139.6</u>	<u>130.6</u>	<u>9.0</u>	<u>6.9 %</u>
Operating expenses:				
Water operations	36.0	36.0	0.0	0.0 %
Wastewater operations	39.6	41.8	(2.2)	(5.3)%
Stormwater operations	7.7	7.8	(0.1)	(1.3)%
Electric operations	0.0	0.0	0.0	0.0 %
Yard Waste operations	0.2	0.3	(0.1)	(33.3)%
Total operating expenses	<u>83.5</u>	<u>85.9</u>	<u>(2.4)</u>	<u>(2.8)%</u>
Operating Income	56.1	44.7	11.4	25.5 %
Net nonoperating revenues (expenses)	<u>(7.2)</u>	<u>(11.9)</u>	<u>4.7</u>	<u>(39.5)%</u>
Income before capital contributions and transfers out	48.9	32.8	16.1	49.1 %
Capital contributions	7.8	5.8	2.0	34.5 %
Net transfers out	<u>(9.9)</u>	<u>(8.6)</u>	<u>(1.3)</u>	<u>15.1 %</u>
Change in net position	46.8	30.0	16.8	56.0 %
Net position - January 1st	<u>602.5</u>	<u>572.5</u>	<u>30.0</u>	<u>5.2 %</u>
Net position - December 31st	<u>\$ 649.3</u>	<u>\$ 602.5</u>	<u>\$ 46.8</u>	<u>7.8 %</u>

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial health. The net position of FWCU was \$649.3 millions and \$602.5 millions as of December 31, 2018 and 2017, respectively. The largest portion (84.1%) of the FWCU net position in 2018 reflects its net investment in capital assets (land, buildings, machinery, equipment and distribution and collection infrastructure, less any related debt used to acquire those assets that is still outstanding).

FORT WAYNE CITY UTILITIES
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Continued)

Another significant portion of the FWCU net position (\$73.9 million, or 11.4%) represents resources that are subject to external restrictions on how they may be used.

The FWCU net position increased \$46.8 million and \$30.0 million for the years ended December 31, 2018 and 2017, respectively.

Capital Assets and Capital Improvement Program

The FWCU capital assets in service total \$1,559.1 million with an accumulated depreciation of \$454.8 million for a net book value of \$1,104.3 million. The statement of net position also includes \$185.1 million in construction in progress reflecting capital projects in various stages of completion. During 2018, approximately \$129.8 million was invested in capital projects (see Note 5).

Debt

At December 31, 2018, FWCU had approximately \$600.8 millions in bonds, loans and leases payable, a decrease of \$27.9 million over last year.

The 2018 decrease of \$27.9 million in debt is due to reduced issuance of new debt as follows:

- \$5.5 million withdraws against existing and new SRF loans.
- Capital lease of \$1.0 million in 2018 (see Note 8).

FWCU paid principal of \$33.8 million and \$35.3 million in 2018 and 2017, respectively.

Economic Factors and Next Year's Budget and Rates

In mid-2017, FWCU adopted a three-year stormwater rate plan, the final phase of which will take effect on July 1, 2019.

On June 26, 2018, Common Council approved updates to its miscellaneous rates and charges, as well as potable water rates that will be introduced in five annual phases. The rate plan has been approved by the Indiana Utility Regulatory Commission and will become effective on June 1, 2019. These rate adjustments will fund the protection of public health and safety through ongoing operation and maintenance of the FWCU water management system.

On December 28, 2007, FWCU agreed to a Long-Term Control Plan (LTCP), in the form of a federal Consent Decree, which will ultimately bring the FWCU combined storm and sanitary sewer system into compliance with the federal Clean Water Act. The Consent Decree became effective April 1, 2008. Through the LTCP, FWCU committed to combined sewer overflow reductions that require an investment of approximately \$240.0 million (denominated in 2005 dollars) in infrastructure solutions over the 18-year period from 2008 through 2025. This

FORT WAYNE CITY UTILITIES
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Continued)

investment is currently projected to have a total cost of approximately \$340 million, while, through value engineering, projected improvement costs to the separate sanitary sewer system have been reduced by approximately \$100 million. The Consent Decree also required FWCU to eliminate three sanitary sewer overflows, which was accomplished at a cost of \$13.5 million; maintain the entire storm and sewer systems to prescribed performance standards; and, mitigate assessed penalties with local investments in septic tank elimination subsidies and rain garden stipends.

The Consent Decree further provides for stipulated penalties for failure to achieve specified construction milestones, reporting deadlines or maintenance objectives. FWCU is in full compliance with terms and conditions of the Consent Decree, meeting or exceeding all required deadlines, milestones, and objectives.

Consistent with the long term nature of the Consent Decree, the Common Council approved a second five-year rate plan that adjusted wastewater unit rates by approximately nine percent effective January 1, 2015 and again on Jan 1, 2016-2019 of each year by 8.5 percent and eight percent for the subsequent years, respectively. FWCU is currently reviewing its sewer cost of service to develop its next five-year rate plan, anticipated to take effect in 2020. FWCU believes these five-year plans provide predictability to customers, as well as the bond markets.

In 2014, the Common Council also authorized the issuance of another wave of financing; up to \$257 million in debt to fund the 2016-2019 capital plan that will accomplish a significant portion of the infrastructure investment required to fulfill the requirements of the Consent Decree. In 2016, the Common Council authorized an amendment that increased the amount by \$55 million to fund the 2016-2019 capital plan and advance additional projects that had been scheduled for future capital improvement plans.

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

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

FORT WAYNE CITY UTILITIES
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Continued)

The single largest project associated with satisfying the requirements of the Consent Decree is a large underground tunnel that starts near Rudisill Boulevard, traversing north along the St. Marys River, past the confluence of the three rivers, and then following the Maumee River to the wastewater treatment plant. The tunnel will be approximately five miles long, 16 feet in diameter, and drilled through rock over 200 feet below ground. The cost for the tunnel is estimated at \$220 million, with the estimated completion date scheduled for 2023. Upon completion, additional sewers will be extended off the tunnel drop shafts to connect the existing combined sewer outfalls to the tunnel. All work must be completed by no later than 2025.

The Wastewater Utility capital improvement plan also supports the rehabilitation of existing pipes through cured-in-place lining. Lining wastewater pipelines significantly extends the life of the pipeline, improves overall system flow, and reduces reactive maintenance. Since 2008, FWCU has invested \$41 million to line approximately 178 miles of pipe. The annual pipe enhancement rate since 2008 is 1.2 percent which exceeds our annual goal of one percent per year.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the FWCU finances and to show accountability for the money they receive. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy Director/CFO - FWCU, Fort Wayne City Utilities, 200 E Berry Street, Suite 270, Fort Wayne, IN 46802.

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FORT WAYNE CITY UTILITIES

Statement of Net Position

At December 31, 2018

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2018
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 12,836,837	\$ 17,600,543	\$ 5,593,772	\$ —	\$ 191,114	\$ 36,222,266
Receivables:						
Customers, net of allow. for doubtful accounts of \$84,492	6,377,019	11,171,989	1,793,761	—	21,847	19,364,616
Interest	97,566	350,430	—	—	—	447,996
Due from City of Fort Wayne	19,874	11,288	219,597	—	41	250,800
Materials and supplies	1,202,530	70,287	—	—	—	1,272,817
Prepaid expenses	85,724	95,107	1,947	—	10	182,788
Total current assets	20,619,550	29,299,644	7,609,077	—	213,012	57,741,283
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	7,508,767	65,915,761	15,868,240	—	92	89,292,860
Restricted investments	7,673,220	37,645,654	—	—	—	45,318,874
Regulatory assets	2,128,498	1,609,168	384,673	—	—	4,122,339
Assessments receivable	—	417,160	—	—	—	417,160
Capital assets:						
Land	5,878,231	3,964,222	6,087,611	75,732	—	16,005,796
Distribution and collection	254,381,807	372,248,884	161,923,099	—	—	788,553,790
Buildings and improvements	87,041,392	179,999,712	2,909,958	1,121,198	68,777	271,141,037
Equipment and other	127,052,671	164,594,253	6,269,984	342,787	56,496	298,316,191
Less: Accumulated depreciation	(186,018,954)	(217,819,802)	(49,383,414)	(1,449,216)	(119,913)	(454,791,299)
Plus: Construction in progress	4,017,063	172,574,085	8,477,202	—	2,852	185,071,202
Net capital assets	292,352,210	675,561,354	136,284,440	90,501	8,212	1,104,296,717
Total noncurrent assets	309,662,695	781,149,097	152,537,353	90,501	8,304	1,243,447,950
Total assets	\$ 330,282,245	\$ 810,448,741	\$ 160,146,430	\$ 90,501	\$ 221,316	\$ 1,301,189,233
DEFERRED OUTFLOWS OF RESOURCES:						
Debt Refunding Loss	—	2,107,796	34,132	—	—	2,141,928
Outflows of Resources related to pensions	629,606	897,070	321,489	—	—	1,848,165
Total deferred outflows of resources	\$ 629,606	\$ 3,004,866	\$ 355,621	\$ —	\$ —	\$ 3,990,093
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	2,332,883	16,468,664	1,763,434	—	46,677	20,611,658
Wages and withholdings payable	324,652	299,100	77,433	—	541	701,726
Due to City of Fort Wayne	2,101,727	3,565,418	1,127,642	—	4,870	6,799,657
Compensated absences payable - current portion	648,330	667,128	180,945	—	1,553	1,497,956
Other current liabilities	379,981	54,836	25,000	—	—	459,817
Accrued interest payable	344,438	5,430,632	265,750	—	—	6,040,820
Bonds payable - current portion	4,150,000	15,215,000	1,565,000	—	—	20,930,000
Loans payable - current portion	3,901,000	12,091,080	—	—	—	15,992,080
Capital lease payable - current portion	93,478	211,043	69,016	—	19	373,556
Customer deposits	1,782,891	—	—	—	—	1,782,891
Total current liabilities	16,059,380	54,002,901	5,074,220	—	53,660	75,190,161
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	94,113,952	156,588,480	24,377,125	—	—	275,079,557
Loans payable	26,010,000	260,408,583	—	—	—	286,418,583
Capital lease payable	490,712	1,110,329	363,295	—	107	1,964,443
Compensated absences payable	301,842	255,767	34,322	—	456	592,387
Net pension liability	4,555,650	6,611,298	2,454,184	—	—	13,621,132
Total noncurrent liabilities	125,472,156	424,974,457	27,228,926	—	563	577,676,102
Total liabilities	\$ 141,531,536	\$ 478,977,358	\$ 32,303,146	\$ —	\$ 54,223	\$ 652,866,263
DEFERRED INFLOWS OF RESOURCES:						
	\$ 998,929	\$ 1,471,219	\$ 538,913	\$ —	\$ —	\$ 3,009,061
NET POSITION:						
Net investment in capital assets	163,775,879	259,321,235	122,662,263	90,501	8,212	545,858,090
Restricted						
For debt service	12,861,734	57,573,165	2,850,550	—	—	73,285,449
For capital projects	—	642,539	—	—	—	642,539
Unrestricted	11,743,773	15,468,091	2,147,179	—	158,881	29,517,924
Total net position	\$ 188,381,386	\$ 333,005,030	\$ 127,659,992	\$ 90,501	\$ 167,093	\$ 649,304,002

See accompanying notes to the financial statements.

FORT WAYNE CITY UTILITIES
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2018

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2018
OPERATING REVENUES:						
Charges for goods and services	\$ 47,517,984	\$ 79,615,906	\$ 12,139,152	\$ —	\$ 275,868	\$ 139,548,910
OPERATING EXPENSES:						
Personnel services	10,049,786	8,495,624	1,658,948	—	12	20,204,370
Contractual services	1,668,743	3,549,211	250,045	—	180,360	5,648,359
Utilities	1,776,227	1,927,524	65,371	—	4,981	3,774,103
Chemicals	2,375,763	774,407	8,861	—	—	3,159,031
Administrative services	4,767,369	7,151,053	2,572,635	—	43,604	14,534,661
Other supplies/services	4,800,640	2,624,311	296,602	—	212	7,721,765
Depreciation	10,537,572	15,115,154	2,842,401	634	3,994	28,499,755
Total operating expenses	<u>35,976,100</u>	<u>39,637,284</u>	<u>7,694,863</u>	<u>634</u>	<u>233,163</u>	<u>83,542,044</u>
Operating income (loss)	<u>11,541,884</u>	<u>39,978,622</u>	<u>4,444,289</u>	<u>(634)</u>	<u>42,705</u>	<u>56,006,866</u>
NONOPERATING REVENUES (EXPENSES):						
Investment income	394,549	2,591,533	187,297	—	—	3,173,379
Interest expense	(4,028,983)	(5,217,936)	(221,583)	—	—	(9,468,502)
Amortization of debt issuance costs	(261,482)	(225,255)	(47,188)	—	—	(533,925)
Gain/(Loss) on disposal of assets	(334,310)	(72,967)	—	—	—	(407,277)
Total nonoperating revenues (expenses)	<u>(4,230,226)</u>	<u>(2,924,625)</u>	<u>(81,474)</u>	<u>—</u>	<u>—</u>	<u>(7,236,325)</u>
Income (loss) before capital contributions and transfers	7,311,658	37,053,997	4,362,815	(634)	42,705	48,770,541
Capital contributions	3,716,387	3,736,455	318,155	—	—	7,770,997
Transfers in	—	—	4,311,066	—	—	4,311,066
Transfers out	(2,989,782)	(9,675,086)	(1,416,727)	—	—	(14,081,595)
Change in net position	<u>8,038,263</u>	<u>31,115,366</u>	<u>7,575,309</u>	<u>(634)</u>	<u>42,705</u>	<u>46,771,009</u>
Total net position-beginning of year	180,343,123	301,889,664	120,084,683	91,135	124,388	602,532,993
Total net position-end of year	<u>\$ 188,381,386</u>	<u>\$ 333,005,030</u>	<u>\$ 127,659,992</u>	<u>\$ 90,501</u>	<u>\$ 167,093</u>	<u>\$ 649,304,002</u>

See accompanying notes to the financial statements.

FORT WAYNE CITY UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2018

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2018
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 47,561,877	\$ 77,116,797	\$ 11,996,827	\$ —	\$ 277,962	\$ 136,953,463
Payments to suppliers	(15,151,532)	(14,716,846)	(3,095,490)	—	(378,387)	(33,342,255)
Payments to employees	(11,273,796)	(10,307,652)	(2,324,445)	—	18	(23,905,875)
Other receipts (payments)	1,339,012	2,405,713	559,038	—	1	4,303,764
Net cash provided (used) by operating activities	<u>22,475,561</u>	<u>54,498,012</u>	<u>7,135,930</u>	<u>—</u>	<u>(100,406)</u>	<u>84,009,097</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	(2,989,782)	(5,364,020)	(1,416,727)	—	—	(9,770,529)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(4,965,611)	(93,737,615)	(5,589,828)	—	(1,248)	(104,294,302)
Proceeds from long-term debt	255,588	6,119,622	194,348	—	92	6,569,650
Interest paid on long-term debt	(4,406,428)	(13,518,970)	(681,252)	—	—	(18,606,650)
Debt issuance costs	—	(88,100)	—	—	—	(88,100)
Principal paid on long-term debt	(7,864,180)	(24,324,376)	(1,605,189)	—	(13)	(33,793,758)
Proceeds from sales of assets	10,709	18,940	—	—	—	29,649
Contribution in aid of construction	315,195	—	—	—	—	315,195
Net cash used by capital and related financing activities	<u>(16,654,727)</u>	<u>(125,530,499)</u>	<u>(7,681,921)</u>	<u>—</u>	<u>(1,169)</u>	<u>(149,868,316)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	(7,673,220)	(95,761,582)	—	—	—	(103,434,802)
Sale of investments	7,600,404	145,680,059	—	—	—	153,280,463
Investment income received	301,266	2,431,239	187,297	—	—	2,919,802
Net cash provided by investing activities	<u>228,450</u>	<u>52,349,716</u>	<u>187,297</u>	<u>—</u>	<u>—</u>	<u>52,765,463</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,059,502	(24,046,791)	(1,775,421)	—	(101,575)	(22,864,285)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,286,102	107,563,095	23,237,433	—	292,781	148,379,411
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 20,345,604</u>	<u>\$ 83,516,304</u>	<u>\$ 21,462,012</u>	<u>\$ —</u>	<u>\$ 191,206</u>	<u>\$ 125,515,126</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 11,541,884	\$ 39,978,622	\$ 4,444,289	\$ (634)	\$ 42,705	\$ 56,006,866
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	10,537,572	15,115,154	2,842,401	634	3,994	28,499,755
Provision for doubtful accounts	6,750	(9,507)	4,698	—	—	1,941
Changes in assets and liabilities:						
Receivables	37,143	(2,489,602)	(147,023)	—	2,094	(2,597,388)
Other assets	1,339,012	2,405,713	559,038	—	1	4,303,764
Accounts payable and other liabilities	(986,800)	(502,368)	(567,473)	—	(149,200)	(2,205,841)
Net cash provided (used) by operating activities	<u>\$ 22,475,561</u>	<u>\$ 54,498,012</u>	<u>\$ 7,135,930</u>	<u>\$ —</u>	<u>\$ (100,406)</u>	<u>\$ 84,009,097</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Capital assets acquired through accounts payable	\$ 1,472,475	\$ 12,913,854	\$ 1,726,636	\$ —	\$ —	\$ 16,112,965
Capital asset contribution	3,401,192	3,736,455	318,155	—	—	7,455,802
Interfund capital asset contribution	—	(4,311,066)	4,311,066	—	—	—
Capitalized interest added to capital assets	213,236	7,981,476	403,835	—	—	8,598,547

See accompanying notes to the financial statements.

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018

(1) Nature of Operations and Significant Accounting Policies

Financial Reporting Entity:

Fort Wayne City Utilities (FWCU) is a division of the City of Fort Wayne, Indiana. The financial statements reflect only the activity of FWCU and are not intended to present fairly the position of the City of Fort Wayne and the results of its operations and cash flows of its enterprise funds. FWCU consists of Water, Wastewater, Stormwater, and Electric Utilities in addition to the Yard Waste Facility. All five areas are considered proprietary in nature. The Electric Utility generation and distribution systems were sold to a private firm in 2011.

Basis of Accounting and Financial Reporting:

FWCU prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units.

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

Cash Equivalents:

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

Investments:

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

Restricted Assets/Net Position:

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

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

Capital Assets:

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

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

Estimated useful lives, in years, are as follows:

	Water Utility	Wastewater Utility	Stormwater Utility	Electric Utility	Yard Waste Facility
Buildings and improvements	25 – 44	25 – 44	–	35	20
Heavy equipment and other	7 – 67	7 – 67	7 – 67	10 – 35	6 – 12
Computer equipment	5	5	5	–	5
Distribution and collection	67	67	67	–	–

Net interest cost incurred on borrowed funds for the Water, Wastewater, and Stormwater Utilities is capitalized as a component of the cost of construction. In 2018, net interest capitalized was \$213,236 for the Water Utility, \$7,981,476 for the Wastewater Utility, and \$403,835 for the Stormwater Utility.

Unbilled Utility Revenue:

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

Materials and Supplies:

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

Bond Issuance Costs, Discounts and Premiums:

Bond issuance costs, discounts, and premiums are amortized over the lives of the respective bond issues using the interest method. The unamortized balance of premiums/discounts is included in noncurrent bonds payable on the statement of net position. The unamortized balance of bond issuance costs is reported as regulatory assets on the statement of net position per the exception for regulated utilities.

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

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

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

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

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

Classification of Revenue:

FWCU has classified its revenue as either operating or nonoperating according to the following criteria:

- Operating revenues include activities that have the characteristics of exchange transactions, such as customer charges.
- 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.

Deferred Outflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement section element, deferred outflows of

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

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

Deferred Inflows of Resources:

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

(2) Deposits and Investments

Deposits:

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

Investments:

Authorization for investment activity is stated in Indiana Code IC 5-13. FWCU had the following investments at December 31, 2018.

	Water Utility	Wastewater Utility	Stormwater Utility	Electric Utility	Yard Waste Utility	Total
Investment Maturities less than one year Certificate of Deposit	\$ 7,673,220	\$ 37,645,654	\$ —	\$ —	\$ —	\$ 45,318,874

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

Investment Policies:

Indiana Code 5-13-9 authorizes FWCU 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 FWCU to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than five years. Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company, or investment trust registered under the provision of the Federal Investment Company act of 1940, as amended. Investments in money market mutual funds may not exceed fifty percent (50 percent) of the funds held by FWCU and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States or obligations issued by a federal agency, a federal instrumentality, or 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 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 day.

(3) Restricted Assets

Restricted assets consisted of the following at December 31, 2018:

	Water Utility	Wastewater Utility	Stormwater Utility	Electric Utility	Yard Waste Utility	Total
Cash and cash equivalents:						
Sinking fund	\$ 1,015,355	\$ 16,434,952	\$ 915,750	\$ —	\$ —	\$ 18,366,057
Debt service reserve	4,517,597	19,033,448	2,200,550	—	—	25,751,595
Construction	192,924	29,804,822	12,751,940	—	92	42,749,778
Customer deposits	1,782,891	—	—	—	—	1,782,891
Connection fees	—	69,094	—	—	—	69,094
Septic elimination program	—	573,445	—	—	—	573,445
Total	<u>\$ 7,508,767</u>	<u>\$ 65,915,761</u>	<u>\$ 15,868,240</u>	<u>\$ —</u>	<u>\$ 92</u>	<u>\$ 89,292,860</u>
Investments:						
Debt service reserve	\$ 7,673,220	\$ 27,535,397	\$ —	\$ —	\$ —	\$ 35,208,617
Construction	—	10,110,257	—	—	—	10,110,257
Total	<u>\$ 7,673,220</u>	<u>\$ 37,645,654</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 45,318,874</u>

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

Sinking Fund:

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

Monthly deposits into sinking fund accounts of both the Water and Stormwater Utilities' net revenues are required to be in an amount equal to at least 1/6 of the next semi-annual interest payments and 1/12 of the next annual principal payments. Upon meeting certain minimum balance requirements, transfers may be made to unrestricted cash accounts. Surety bonds purchased by FWCU 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 ten percent of bond proceeds, the maximum annual principal and interest required thereon, or 125 percent of the average annual principal and interest requirements thereon. The 2016 and the 2017 Series A and B Sewage Works Revenue Refunding Bonds require that the debt service reserve for those particular bonds be ten percent of par value. FWCU calculates 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 FWCU revenue bonds' debt service reserves were funded through surety bond insurance. As a result of the financial crisis that occurred in late 2008 - early 2009 and up to and including 2018, the surety bond insurers failed to maintain their AAA/Aaa rating. While still insured, this failure to maintain AAA/Aaa ratings required FWCU to cash fund the debt service reserve accounts for the affected revenue bonds. As of December 31, 2018, all surety bond insurance for Waterworks, Sewage Works and Stormwater Revenue Bonds have been replaced with cash funded debt service reserves as required by bond ordinance.

Construction:

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

Customer Deposits:

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

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Connection Fees:

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

Septic Elimination Program:

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

(4) Assessments Receivable

Assessments receivable represent assessments due from customers for wastewater connections. The individual assessments range from \$2,000 to \$24,000 and are due in 60, 120 or 180 monthly principal installments plus interest on the unpaid portion at ranges from zero percent to seven percent per year.

(5) Capital Assets

The following changes occurred in capital assets during the year ended December 31, 2018:

Water Utility

	Balance, 1/1/2018	Additions	Disposals	Adjustments/ Transfers	Balance, 12/31/2018
Land	\$ 5,878,231	\$ —	\$ —	\$ —	\$ 5,878,231
Distribution and collection	249,013,821	—	1,008,236	6,376,222	254,381,807
Buildings and improvement	85,757,803	—	—	1,283,589	87,041,392
Equipment and other	125,819,383	501,162	491,258	1,223,384	127,052,671
Construction in progress	3,593,997	9,306,261	—	(8,883,195)	4,017,063
	<u>470,063,235</u>	<u>9,807,423</u>	<u>1,499,494</u>	<u>—</u>	<u>478,371,164</u>
Less accumulated depreciation:					
Distribution and collection	71,062,515	3,868,899	772,712	—	74,158,702
Buildings and improvement	39,025,518	1,833,301	—	—	40,858,819
Equipment and other	66,500,775	4,835,372	334,714	—	71,001,433
	<u>176,588,808</u>	<u>10,537,572</u>	<u>1,107,426</u>	<u>—</u>	<u>186,018,954</u>
Net Capital Assets	<u>\$ 293,474,427</u>	<u>\$ (730,149)</u>	<u>\$ 392,068</u>	<u>\$ —</u>	<u>\$ 292,352,210</u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Wastewater Utility

	Balance, 1/1/2018	Additions	Disposals	Adjustments/ Transfers	Balance, 12/31/2018
Land	\$ 3,811,315	\$ —	\$ —	\$ 152,907	\$ 3,964,222
Distribution and collection	367,967,700	—	27,473	4,308,657	372,248,884
Buildings and improvement	177,241,761	32,314	—	2,725,637	179,999,712
Equipment and other	162,199,505	874,534	757,063	2,277,277	164,594,253
Construction in progress	75,063,943	111,285,686	—	(13,775,544)	172,574,085
	<u>786,284,224</u>	<u>112,192,534</u>	<u>784,536</u>	<u>(4,311,066)</u>	<u>893,381,156</u>
Less accumulated depreciation:					
Distribution and collection	85,188,529	5,537,588	23,078	—	90,703,039
Buildings and improvement	50,832,441	3,227,793	—	—	54,060,234
Equipment and other	67,277,494	6,349,773	570,738	—	73,056,529
	<u>203,298,464</u>	<u>15,115,154</u>	<u>593,816</u>	<u>—</u>	<u>217,819,802</u>
Net Capital Assets	<u>\$ 582,985,760</u>	<u>\$ 97,077,380</u>	<u>\$ 190,720</u>	<u>\$ (4,311,066)</u>	<u>\$ 675,561,354</u>

Stormwater Utility

	Balance, 1/1/2018	Additions	Disposals	Adjustments/ Transfers	Balance, 12/31/2018
Land	\$ 6,085,111	\$ —	\$ —	\$ 2,500	\$ 6,087,611
Distribution and collection	155,247,267	—	28,653	6,704,485	161,923,099
Buildings and improvement	2,909,958	—	—	—	2,909,958
Equipment and other	5,994,098	142,927	34,896	167,855	6,269,984
Construction in progress	3,415,900	7,625,076	—	(2,563,774)	8,477,202
	<u>173,652,334</u>	<u>7,768,003</u>	<u>63,549</u>	<u>4,311,066</u>	<u>185,667,854</u>
Less accumulated depreciation:					
Distribution and collection	41,400,818	2,254,593	28,653	—	43,626,758
Buildings and improvement	841,261	65,474	—	—	906,735
Equipment and other	4,362,483	522,334	34,896	—	4,849,921
	<u>46,604,562</u>	<u>2,842,401</u>	<u>63,549</u>	<u>—</u>	<u>49,383,414</u>
Net Capital Assets	<u>\$ 127,047,772</u>	<u>\$ 4,925,602</u>	<u>\$ —</u>	<u>\$ 4,311,066</u>	<u>\$ 136,284,440</u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Electric Utility

	Balance, 1/1/2018	Additions	Disposals	Adjustments/ Transfers	Balance, 12/31/2018
Land	\$ 75,732	\$ —	\$ —	\$ —	\$ 75,732
Distribution and collection	—	—	—	—	—
Buildings and improvement	1,121,198	—	—	—	1,121,198
Equipment and other	342,787	—	—	—	342,787
Construction in progress	—	—	—	—	—
	<u>1,539,717</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,539,717</u>
Less accumulated depreciation:					
Distribution and collection	—	—	—	—	—
Buildings and improvement	1,120,639	40	—	—	1,120,679
Equipment and other	327,943	594	—	—	328,537
	<u>1,448,582</u>	<u>634</u>	<u>—</u>	<u>—</u>	<u>1,449,216</u>
Net Capital Assets	<u>\$ 91,135</u>	<u>\$ (634)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 90,501</u>

Yard Waste Utility

	Balance, 1/1/2018	Additions	Disposals	Adjustments/ Transfers	Balance, 12/31/2018
Land	\$ —	\$ —	\$ —	\$ —	\$ —
Distribution and collection	—	—	—	—	—
Buildings and improvement	68,777	—	—	—	68,777
Equipment and other	56,153	343	—	—	56,496
Construction in progress	1,718	1,134	—	—	2,852
	<u>126,648</u>	<u>1,477</u>	<u>—</u>	<u>—</u>	<u>128,125</u>
Less accumulated depreciation:					
Distribution and collection	—	—	—	—	—
Buildings and improvement	62,186	3,439	—	—	65,625
Equipment and other	53,733	555	—	—	54,288
	<u>115,919</u>	<u>3,994</u>	<u>—</u>	<u>—</u>	<u>119,913</u>
Net Capital Assets	<u>\$ 10,729</u>	<u>\$ (2,517)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,212</u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

(6) Deferred Outflows of Resources

The following is a summary of changes in deferred outflows of resources for the year ended December 31, 2018:

<u>Water Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018
Debt refunding loss	\$ —	\$ —	\$ —	\$ —
Outflow of resources related to pensions (see note 13)	1,737,012	1,365	1,108,771	629,606
	<u>\$ 1,737,012</u>	<u>\$ 1,365</u>	<u>\$ 1,108,771</u>	<u>\$ 629,606</u>

<u>Wastewater Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018
Debt refunding loss	\$ 2,686,164	\$ —	\$ 578,368	\$ 2,107,796
Outflow of resources related to pensions (see note 13)	2,542,116	16,425	1,661,471	897,070
	<u>\$ 5,228,280</u>	<u>\$ 16,425</u>	<u>\$ 2,239,839</u>	<u>\$ 3,004,866</u>

<u>Stormwater Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018
Debt refunding loss	\$ 45,509	\$ —	\$ 11,377	\$ 34,132
Outflow of resources related to pensions (see note 13)	924,519	—	603,030	321,489
	<u>\$ 970,028</u>	<u>\$ —</u>	<u>\$ 614,407</u>	<u>\$ 355,621</u>

(7) Developer Notes Payable

Certain future revenues in newly developed areas are pledged as payment to retire developer debt associated with infrastructure installed to enable the new developments. Capital surcharges applicable only to designated new development regions and area connection fees generated from the designated new development regions will be applied to the developer debt until paid in full. Only revenue generated and collected from the new developments is available to retire the debt. Pledged revenues were \$59,135 for Water Utility and \$420,963 for Wastewater Utility in 2018. Developer notes payable were \$73,715 for Water Utility and \$49,400 for Wastewater Utility in 2018. The debt accrues interest at prime, which as of the end of 2018 was at 4.5 percent, plus one percent. The payables are included in current liabilities.

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

(8) Long-Term Debt

Bonds Payable:

Water Utility bonds payable at December 31, 2018 are as follows:

Water Works Revenue Bonds of 2005 - original issue of \$16,700,000 - interest rates range from 4.00% to 4.13% and mature at \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$809.	\$ 2,345,809
Water Works Revenue Bonds of 2012 - original issue of \$40,000,000 - interest rates range from 2.00% to 3.00% and mature serially in amounts ranging from \$1,195,000 in 2019 to \$2,975,000 in 2032, redeemable prior to maturity for bonds maturing on or after 2023, plus unamortized bond premium of \$314,338.	34,139,338
Water Works Revenue Bonds of 2014 - original issue of \$63,000,000 - interest rates range from 2.00% to 4.00% and mature serially in amounts ranging from \$610,000 in 2019 to \$5,730,000 in 2034, plus unamortized bond premium of \$1,038,805.	61,778,805
Total	98,263,952
Less: Current Portion	(4,150,000)
Noncurrent Bonds Payable, net	\$ 94,113,952

Water Utility bond debt service requirements to maturity as of December 31, 2018 are as follows:

Year Due	Principal	Interest	Total
2019	\$ 4,150,000	\$ 3,167,606	\$ 7,317,606
2020	2,820,000	3,034,775	5,854,775
2021	2,885,000	2,978,375	5,863,375
2022	5,800,000	2,918,888	8,718,888
2023	5,990,000	2,744,888	8,734,888
2024-2028	33,020,000	10,901,452	43,921,452
2029-2033	36,515,000	5,034,775	41,549,775
2034	5,730,000	171,900	5,901,900
Total	\$ 96,910,000	\$ 30,952,659	\$ 127,862,659

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Wastewater Utility bonds payable at December 31, 2018 are as follows:

Sewage Works Revenue Bonds of 2011 - Series A - original issue \$38,100,000 -interest rate is 2.80% annually and matures serially in amounts from \$2,790,000 in 2019 to \$3,490,000 in 2026, redeemable at 100% beginning in 2022.	\$ 24,880,000
Sewage Works Revenue Bond of 2012 - Series B - original issue - \$15,530,000 - interest rates from 2.00% to 3.00% and mature serially in amounts ranging from \$1,050,000 in 2019 to \$1,295,000 in 2027, redeemable at 100% beginning in 2023, plus unamortized debt premium of \$278,607.	10,738,607
Sewage Works Refunding Revenue Bonds of 2012 - original issue - \$19,675,000 -the interest rate is 1.45% annually and mature serially in amounts ranging from \$2,045,000 in 2019 to \$2,140,000 in 2022, redeemable at 100% beginning in 2021, plus unamortized debt premium of \$11,208.	8,376,208
Sewage Works Revenue Bond of 2013 - Series A - original issue - \$32,955,000 -the interest rate is 1.95% and mature serially in amounts ranging from \$3,620,000 in 2019 to \$4,060,000 in 2024, plus unamortized debt premium of \$357,364.	23,302,364
Sewage Works Revenue Bond of 2013 - Series B - original issue - \$42,260,000 -the interest rates range from 3.50% to 3.63% and mature serially in amounts ranging from \$4,165,000 in 2025 to \$5,295,000 in 2033, redeemable at 100% beginning in 2023.	42,260,000
Sewage Works Refunding Revenue Bond of 2016 - original issue - \$35,440,000 -the interest rates range from 2.00% to 4.00% and mature serially in amounts ranging from \$3,355,000 in 2019 to \$1,505,000 in 2027, redeemable at 100% beginning in 2024, plus unamortized debt premium of \$1,876,301.	30,461,301
Sewage Works Revenue Refunding Bonds of 2017 Series A - original issue of \$16,700,000 - interest rate of 2.53% and mature serially in amounts from \$1,175,000 in 2019 to \$1,500,000 in 2030. Loan obligations maturing on or after 8-1-26 are redeemable on or after 2-1-25 at 100.5% and loan obligations maturing on or after 8-1-28 are redeemable on or after 8-1-27 at 100%.	15,895,000
Sewage Works Revenue Refunding Bonds of 2017 Series B - original issue of \$16,700,000 - interest rate of 2.53% and mature serially in amounts from \$1,180,000 in 2019 to \$1,500,000 in 2030, redeemable at 100.5% beginning 8-1-25 to 7-31-27 and at 100% thereafter.	15,890,000
Total	<u>171,803,480</u>
Less: Current Portion	(15,215,000)
Noncurrent Bonds Payable, net	<u><u>\$ 156,588,480</u></u>

Wastewater Utility bond debt service requirements to maturity as of December 31, 2018 are as follows:

Year Due	Principal	Interest	Total
2019	\$ 15,215,000	\$ 4,731,146	\$ 19,946,146
2020	15,530,000	4,405,102	19,935,102
2021	15,895,000	4,037,898	19,932,898
2022	16,270,000	3,661,671	19,931,671
2023	14,535,000	3,276,118	17,811,118
2024-2028	61,040,000	10,084,915	71,124,915
2029-2033	30,795,000	2,950,471	33,745,471
Total	<u>\$ 169,280,000</u>	<u>\$ 33,147,321</u>	<u>\$ 202,427,321</u>

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

Stormwater Utility bonds payable at December 31, 2018 are as follows:

Stormwater Management District Revenue Bonds of 2017 - original issue of \$27,320,000 - interest rate range of 2.00% to 3.00% and mature serially in amounts from \$1,565,000 in 2019 to 1,065,000 in 2033, Redeemable at 100% beginning in 2025, plus unamortized bond premium of \$347,125	\$ 25,942,125
Less: Current Portion	(1,565,000)
Noncurrent Bonds Payable, net	<u>\$ 24,377,125</u>

Stormwater Utility bond debt service requirements to maturity as of December 31, 2018 are as follows:

Year Due	Principal	Interest	Total
2019	\$ 1,565,000	\$ 630,000	\$ 2,195,000
2020	1,595,000	598,550	2,193,550
2021	1,620,000	566,550	2,186,550
2022	1,570,000	534,400	2,104,400
2023	1,605,000	502,800	2,107,800
2024-2028	8,655,000	1,987,100	10,642,100
2029-2033	8,985,000	688,650	9,673,650
Total	\$ 25,595,000	\$ 5,508,050	\$ 31,103,050

Loans Payable:

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

SRF loans payable are issued on a parity basis with revenue bonds and are collateralized identically by the net revenues of the issuing utility.

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Details of all Water Utility State Revolving Fund (SRF) loans payable at December 31, 2018 are as follows:

SRF Shared Pool loans:

Waterworks SRF Revenue Bonds of 2006 - original pool share issue \$31,900,000 -the interest rate is 3.95% and mature serially in amounts ranging from \$2,550,000 in 2019 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017.	\$ 7,955,000
Waterworks SRF Revenue Bonds of 2011 Series B - original pool share issue \$26,906,000 the interest rate is 2.967% and mature serially in amounts ranging from \$1,351,000 in 2019 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2021.	<u>21,956,000</u>
Total	<u>29,911,000</u>
Less: Current Portion	<u>(3,901,000)</u>
Noncurrent Loans Payable	<u><u>\$ 26,010,000</u></u>

Water Utility anticipated loan debt service requirements to maturity as of December 31, 2018 are as follows:

Year Due	Principal	Interest	Total
2019	\$ 3,901,000	\$ 965,657	\$ 4,866,657
2020	4,051,000	824,848	4,875,848
2021	4,206,000	678,605	4,884,605
2022	1,504,000	526,732	2,030,732
2023	1,559,000	482,108	2,041,108
2024-2028	8,685,000	1,682,289	10,367,289
2029-2033	6,005,000	360,550	6,365,550
Total	<u><u>\$ 29,911,000</u></u>	<u><u>\$ 5,520,789</u></u>	<u><u>\$ 35,431,789</u></u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Details of all Wastewater Utility State Revolving Fund (SRF) loans payable at December 31, 2018 are as follows:

SRF Draw-down loans:

Sewage Works SRF Revenue Bonds of 2009, Series A - Final draw \$5,000,000 -the interest rate is 0.16% and mature serially in amounts ranging from \$244,214 in 2019 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020.	\$ 2,956,499
Sewage Works SRF Revenue Bonds of 2011, Series B - Final Draw \$33,576,000 -the interest rate is 2.29% and mature serially in amounts ranging from \$1,580,000 in 2019 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2023.	23,612,000
Sewage Works SRF Revenue Bonds of 2012, Series A - Final Draw \$10,415,000 - the interest rate is 1.78% and matures serially in amounts ranging from \$486,000 in 2019 to \$612,000 in 2032, redeemable prior to maturity for bonds maturing after 2024.	7,656,000
Sewage Works SRF Revenue Bonds of 2014, Series A - Draw up to \$17,000,000 -as of December 31, 2018, total draw is \$17,000,000 - the interest rate is 2.35% and matures serially in amounts ranging from \$790,000 in 2019 to \$1,094,000 in 2033, redeemable prior to maturity for bonds maturing after 2026.	14,017,000
Sewage Works SRF Revenue Bonds of 2016, Series A - Draw up to \$108,000,000 -as of December 31, 2018, total draw is \$6,992,054 - the interest rate is 2.00% and matures serially in amounts ranging from \$4,145,000 in 2019 to \$3,050,000 in 2039, redeemable prior to maturity for bonds maturing after 2028.	2,927,054
Sewage Works SRF Revenue Bonds of 2018, Series A - Draw up to \$742,584 as of December 31, 2018, total draw is \$742,584 - the interest rate is 2.86% and matures at \$742,584 in 2019, redeemable prior to maturity for bonds maturing after 2029.	742,584
Sewage Works SRF Revenue Bonds of 2018, Series B - Draw up to \$21,722,416 -as of December 31, 2018, total draw is \$0 - the interest rate is 2.86% and matures serially in amounts ranging from \$157,416 in 2019 to \$1,398,800 in 2039, redeemable prior to maturity for bonds maturing after 2029.	—

SRF Shared Pool loans:

Sewage Works SRF Revenue Bonds of 2009, Series B - final pool share \$29,091,005 - the interest rate is 4.16% and the principal matures serially in amounts ranging from \$1,331,217 in 2019 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020.	20,187,178
Sewage Works SRF Revenue Bonds of 2014, Series B - final pool share \$60,872,000 - the interest rate is 3.074% and matures serially in amounts ranging from \$725,000 in 2019 to \$6,160,000 in 2034, redeemable prior to maturity for bonds maturing after 2027.	58,882,000
Sewage Works SRF Revenue Bonds of 2014, Series C - Draw up to \$5,015,000 - - the interest rate is 3.074% and matures serially in amounts ranging from \$215,000 in 2019 to \$350,000 in 2034, redeemable prior to maturity for bonds maturing after 2027.	4,410,000
Sewage Works SRF Revenue Bonds of 2016, Series B - final pool share \$138,583,000 - the interest rate is 3.06% and matures serially in amounts ranging from \$1,674,649 in 2019 to \$7,325,433 in 2046, redeemable prior to maturity for bonds maturing after 2028.	137,109,348
Total	272,499,663
Less: Current Portion	(12,091,080)
Noncurrent Bonds Payable, net	<u><u>\$ 260,408,583</u></u>

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

Wastewater Utility anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2018 are as follows:

Year Due	Principal	Interest	Total
2019	\$ 12,091,080	\$ 10,527,640	\$ 22,618,720
2020	12,704,988	10,405,303	23,110,291
2021	14,238,461	10,079,218	24,317,679
2022	14,614,317	9,707,013	24,321,330
2023	17,119,112	9,324,195	26,443,307
2024-2028	97,760,305	39,344,883	137,105,188
2029-2033	104,374,879	25,117,411	129,492,290
2034-2038	65,053,931	13,115,944	78,169,875
2039-2043	35,945,955	6,034,527	41,980,482
2044-2046	21,326,997	1,156,403	22,483,400
Total	<u>\$ 395,230,025</u>	<u>\$ 134,812,537</u>	<u>\$ 530,042,562</u>

On December 22, 2017 the Wastewater Utility issued \$33,400,000 in refunding revenue bonds with an average interest rate of 2.53 percent to refund \$32,105,000 of outstanding 2010 series bonds with an average interest rate ranging from 4.25 percent to 4.5 percent. The net proceeds of \$33,528,273 (after payment of \$199,424 in issuance costs) and local contributions of \$1,126,575 purchase U.S. government securities for the 2010 Bonds. Those securities were deposited in an irrevocable trust with and escrow agent to provide for all future debt service payments on 2010 series bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position.

Capital Leases:

FWCU has entered into Capital Leases. The details of the capital leases at December 31, 2018 are as follows:

Description	Carrying Value					Total
	Water	Wastewater	Stormwater	Electric	Yard Waste	
2017 Equipment Lease	\$ 432,627	\$ 963,228	\$ 314,094	\$ —	\$ 51	\$ 1,710,000
2018 Equipment Lease	255,588	590,972	194,348	—	92	1,041,000
	<u>\$ 688,215</u>	<u>\$ 1,554,200</u>	<u>\$ 508,442</u>	<u>\$ —</u>	<u>\$ 143</u>	<u>\$ 2,751,000</u>

The anticipated loan debt service requirements to maturity as of December 31, 2018 are as follows:

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Water Utility

Year Due	Principal	Interest	Total
2019	\$ 93,478	\$ 14,333	\$ 107,811
2020	95,828	11,982	107,810
2021	98,241	9,569	107,810
2022	100,717	7,093	107,810
2023	103,258	4,552	107,810
2024-2025	92,668	2,266	94,934
Total	<u>\$ 584,190</u>	<u>\$ 49,795</u>	<u>\$ 633,985</u>

Wastewater Utility

Year Due	Principal	Interest	Total
2019	\$ 211,043	\$ 32,548	\$ 243,591
2020	216,371	27,221	243,592
2021	221,839	21,752	243,591
2022	227,452	16,139	243,591
2023	233,214	10,378	243,592
2024-2025	211,453	5,211	216,664
Total	<u>\$ 1,321,372</u>	<u>\$ 113,249</u>	<u>\$ 1,434,621</u>

Stormwater Utility

Year Due	Principal	Interest	Total
2019	\$ 69,016	\$ 10,659	\$ 79,675
2020	70,760	8,915	79,675
2021	72,550	7,125	79,675
2022	74,387	5,288	79,675
2023	76,273	3,402	79,675
2024-2025	69,325	1,712	71,037
Total	<u>\$ 432,311</u>	<u>\$ 37,101</u>	<u>\$ 469,412</u>

Yard Waste Utility

Year Due	Principal	Interest	Total
2019	\$ 19	\$ 3	\$ 22
2020	20	3	23
2021	20	2	22
2022	21	2	23
2023	21	1	22
2024-2025	25	1	26
Total	<u>\$ 126</u>	<u>\$ 12</u>	<u>\$ 138</u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Changes in Long-Term Liabilities:

The following is a summary of long-term obligations for FWCU for the year ended December 31, 2018:

<u>Water Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018	Current Portion
Bonds and loans					
Revenue bonds payable, net	\$ 102,436,390	\$ —	\$ 4,172,438	\$ 98,263,952	\$ 4,150,000
Loans payable	33,670,000	—	3,759,000	29,911,000	3,901,000
Capital lease payable	403,782	255,588	75,180	584,190	93,478
Total bonds and loans	<u>136,510,172</u>	<u>255,588</u>	<u>8,006,618</u>	<u>128,759,142</u>	<u>8,144,478</u>
Other noncurrent liabilities					
Accrued compensated absences	956,035	933,088	938,951	950,172	648,330
Net pension liability (see note 13)	6,115,960	615,165	2,175,475	4,555,650	—
Total other noncurrent liabilities	<u>7,071,995</u>	<u>1,548,253</u>	<u>3,114,426</u>	<u>5,505,822</u>	<u>648,330</u>
	<u>\$ 143,582,167</u>	<u>\$ 1,803,841</u>	<u>\$ 11,121,044</u>	<u>\$ 134,264,964</u>	<u>\$ 8,792,808</u>

<u>Wastewater Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018	Current Portion
Bonds and loans					
Revenue bonds payable, net	\$ 186,569,747	\$ —	\$ 14,766,267	\$ 171,803,480	\$ 15,215,000
Loans payable	276,911,783	5,528,650	9,940,770	272,499,663	12,091,080
Capital lease payable	899,006	590,972	168,606	1,321,372	211,043
Total bonds and loans	<u>464,380,536</u>	<u>6,119,622</u>	<u>24,875,643</u>	<u>445,624,515</u>	<u>27,517,123</u>
Other noncurrent liabilities					
Accrued compensated absences	888,640	946,394	912,139	922,895	667,128
Net pension liability (see note 13)	8,949,391	921,812	3,259,905	6,611,298	—
Total other noncurrent liabilities	<u>9,838,031</u>	<u>1,868,206</u>	<u>4,172,044</u>	<u>7,534,193</u>	<u>667,128</u>
	<u>\$ 474,218,567</u>	<u>\$ 7,987,828</u>	<u>\$ 29,047,687</u>	<u>\$ 453,158,708</u>	<u>\$ 28,184,251</u>

<u>Stormwater Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018	Current Portion
Bonds and loans					
Revenue bonds payable, net	\$ 27,535,042	\$ —	\$ 1,592,917	\$ 25,942,125	\$ 1,565,000
Loans payable	—	—	—	—	—
Capital lease payable	293,152	194,348	55,189	432,311	69,016
Total bonds and loans	<u>27,828,194</u>	<u>194,348</u>	<u>1,648,106</u>	<u>26,374,436</u>	<u>1,634,016</u>
Other noncurrent liabilities					
Accrued compensated absences	211,351	259,053	255,137	215,267	180,945
Net pension liability (see note 13)	3,298,362	332,826	1,177,004	2,454,184	—
Total other noncurrent liabilities	<u>3,509,713</u>	<u>591,879</u>	<u>1,432,141</u>	<u>2,669,451</u>	<u>180,945</u>
	<u>\$ 31,337,907</u>	<u>\$ 786,227</u>	<u>\$ 3,080,247</u>	<u>\$ 29,043,887</u>	<u>\$ 1,814,961</u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

<u>Yard Waste Utility</u>	Balance, 1/1/2018	Additions	Deductions	Balance, 12/31/2018	Current Portion
Bonds and loans					
Revenue bonds payable, net	\$ —	\$ —	\$ —	\$ —	\$ —
Loans payable	—	—	—	—	—
Capital lease payable	47	92	13	126	19
Total bonds and loans	47	92	13	126	19
Other noncurrent liabilities					
Accrued compensated absences	1,902	2,055	1,948	2,009	1,553
Net pension liability (see note 13)	—	—	—	—	—
Total other noncurrent liabilities	1,902	2,055	1,948	2,009	1,553
	<u>\$ 1,949</u>	<u>\$ 2,147</u>	<u>\$ 1,961</u>	<u>\$ 2,135</u>	<u>\$ 1,572</u>

(9) Related Party Transactions

During the course of operations, numerous transactions occurred between FWCU and various departments of the City of Fort Wayne (the City) for goods and services rendered. In 2018, FWCU received \$1,021,575 from the City for water, sewer and stormwater services.

The City received the following from FWCU in 2018:

	Water Utility	Wastewater Utility	Stormwater Utility	Yard Waste Utility	Electric Utility	Totals
Self insurance	\$ 3,061,239	\$ 2,848,722	\$ 687,603	\$ 5,121	\$ —	\$ 6,602,685
Garage services	547,868	557,217	169,582	162	—	1,274,829
Overhead charges	554,538	831,808	299,248	5,072	—	1,690,666
Office and technical services	70,161	18,574	21,893	66	—	110,694
Transfers out in lieu of taxes	2,989,782	5,364,020	1,416,727	—	—	9,770,529
Totals	<u>\$ 7,223,588</u>	<u>\$ 9,620,341</u>	<u>\$ 2,595,053</u>	<u>\$ 10,421</u>	<u>\$ —</u>	<u>\$19,449,403</u>

(10) Interfund Assets and Liabilities

As of December 31, 2018, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

Due from City:

Receivable Fund	Payable Fund				Total
	General	Redevelopment	Solid Waste	Garage	
Water	\$ 11,033	\$ —	\$ 4,280	\$ 4,561	\$ 19,874
Wastewater	—	—	6,420	4,868	11,288
Stormwater	—	215,000	2,310	2,287	219,597
Yard Waste	—	—	39	2	41
Total	<u>\$ 11,033</u>	<u>\$ 215,000</u>	<u>\$ 13,049</u>	<u>\$ 11,718</u>	<u>\$ 250,800</u>

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
(Continued)

Due to City:

Receivable Fund	Payable Fund				Total
	Water	Wastewater	Stormwater	Yard Waste	
General	\$ 1,530,989	2,710,718	\$ 718,260	\$ 164	\$ 4,960,131
Benefits	19,117	17,207	4,361	30	40,715
MVH	—	—	117,732	—	117,732
Garage	41,286	42,545	12,094	12	95,937
Parks	370	—	—	—	370
Capital Imp.	1,154	1,731	623	11	3,519
CEDIT	40	30,060	22	—	30,122
Solid Waste	508,771	763,157	274,550	4,653	1,551,131
Total	<u>\$ 2,101,727</u>	<u>\$ 3,565,418</u>	<u>\$ 1,127,642</u>	<u>\$ 4,870</u>	<u>\$ 6,799,657</u>

(11) Equity Transfers

The ten-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 \$4,311,066 in 2018.

(12) Risk Management

The City of Fort Wayne, including FWCU, 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 of Fort Wayne has established internal service funds to finance these risks. Interfund premiums are billed monthly on a cost allocation basis most appropriate to the type of risk involved. An excess policy covers individual health insurance claims in excess of \$325,000 per year and the insurance company assumes the risk when total monthly claims exceed an amount based upon an aggregate monthly factor. An excess policy for workers compensation covers individual claims in excess of \$400,000 per employee per injury. The general and auto liability is limited by Indiana government tort liability limits of \$700,000 per occurrence and \$5,000,000 per aggregate. Liabilities are the responsibility of the City of Fort Wayne's internal service funds.

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

(Continued)

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

Plan Description:

FWCU contributes to Indiana's Public Employees' Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan. PERF provides retirement, disability, and survivor benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system and give FWCU authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account (ASA). The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Benefits Provided:

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

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

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

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

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

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

Contributions:

The contribution requirements of the plan members and FWCU are established and may be amended by the INPRS Board of Trustees. The required contributions are based on actuarial investigations and valuation in accordance with IC 5-10.2. The funding policy provides for periodic employer contributions at actuarially determined rates, that expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. A contribution of three percent of covered payroll is required into the annuity savings account portion. FWCU elected to make this contribution on behalf of their members in 2018. For 2018, FWCU is required to contribute at an actuarially determined rate of 11.2 percent of annual covered payroll. FWCU contribution to the plan for the year ending December 31, 2018 was \$2,297,316 and was equal to the required contribution for each year.

Actuarial Assumptions:

The actuarial assumptions used in the June 30, 2018 valuation of the Public Employee's Pension Fund were adopted by the INPRS Board in April, 2015. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	2.50% to 4.25%
Cost-of-living increases	0.4% to 1.0%

The actuarial assumptions for the June 30, 2017 valuation were generally unchanged from the prior year, except that for active and inactive vested members, a salary load of \$400 was added to approximate the impact on average monthly earnings of unused sick leave accumulated at termination of employment. For disabled members, the mortality assumption is updated from the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality tables to the RP-2014 (with MP-2014

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improvement removed) Disability Mortality Tables. Mortality rates for healthy members were based on the RP-2014 (with MP-2014 improvement removed) Total Dataset mortality tables projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report. Mortality rates for disabled members were based on RP-2014 (with MP-2014 improvement removed) Disability Mortality Table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report.

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

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

	Target Allocation (%)	Long Term Expected Real Rate of Return (%)
Public Equity	22.0	4.4
Private Equity	14.0	5.4
Fixed Income - Ex Inflation Linked	20.0	2.2
Fixed Income - Inflation Linked	7.0	0.8
Commodities	8.0	2.3
Real Estate	7.0	6.5
Absolute Return	10.0	2.7
Risk Parity	12.0	5.2
Total	<u>100.0</u>	

Discount Rate:

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

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return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

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

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

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Proportionate share of the net pension liability	\$21,441,852	\$13,621,132	\$7,009,504

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

As of December 31, 2018, FWCU reported a liability of \$13,621,132 for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The FWCU proportion of the net pension liability was based on wages reported by employers relative to the collective wages of the plan. At June 30, 2018, the FWCU proportion was 0.0040097, which was a decrease of 0.0001063 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, FWCU recognized pension expenses of \$1,869,801. At June 30, 2018, FWCU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 178,138	\$ 930
Net difference between projected and actual investment earnings on pension plan investments	403,404	—
Changes of assumptions	32,453	2,187,062
Changes in proportion and differences between employer contributions and proportionate share of contributions	68,697	821,069
Employer contributions subsequent to the measurement date	1,165,473	—
	\$ 1,848,165	\$ 3,009,061

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Notes to Financial Statements

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(Continued)

\$1,165,473 reported as deferred outflows of resources related to pensions resulting from FWCU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2019	\$ (264,219)
2020	(711,955)
2021	(1,108,961)
2022	(241,234)
2023	—
Thereafter	—

Pension Plan Fiduciary Net Position:

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

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

Benefit Payment Policies:

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

Valuation of Pension Plan Investments:

The pooled and non-pooled investments are generally reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are generally reported at cost-based measures, which approximates fair value.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt, and commingled investment debt instruments. Equity securities consist

FORT WAYNE CITY UTILITIES

Notes to Financial Statements

December 31, 2018

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

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

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

(14) Other Post-Employment Benefits

Plan Description:

The City of Fort Wayne, including FWCU, contributes to the Fort Wayne Retiree Healthcare Plan, a single-employer defined benefit healthcare plan administered by the City of Fort Wayne in an internal service fund. The plan is funded on a pay-as-you-go basis and provides health care benefits and life insurance to eligible retirees and their spouses.

Benefits Provided:

The plan provides comprehensive medical and death benefits as well as life insurance to eligible retirees and their spouses. Participants are eligible at rule of 85, with 20 years of service. The City of Fort Wayne contributes a portion of the total medical premium. Coverage ends at Medicare eligibility date and spousal coverage continues after the death of the retiree, until the spouse is eligible for Medicare. The City of Fort Wayne also maintains a life insurance policy on all retirees which meet the same eligibility guidelines with a benefit amount of \$10,000. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the City of Fort Wayne. A separate financial report is not issued for this plan.

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Notes to Financial Statements

December 31, 2018

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Funding Policy and Annual Pension Cost:

The contribution requirements of plan members are established annually by the Common Council. The required contribution is based on pay-as-you-go financing requirements. Eligible retirees and their spouses contribute an amount equal to the amount paid by active employees for premiums. The City of Fort Wayne contributes to cover the remainder of the costs.

Information to segregate FWCU proportionate share of contributions and actuarial figures is not available. Therefore, the Net Other Post-Employment Benefits Liability is considered a liability of the City of Fort Wayne as a whole and is not presented in the FWCU financial statements.

For more information regarding the plan, please refer to the Comprehensive Annual Financial Report issued by the City of Fort Wayne.

(15) Commitments and Contingencies

Consent Decree:

The FWCU 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, FWCU committed to reduce the number of combined sewer overflow (CSO) days in a typical year to one day on the St. Joseph River and four days on the St. Mary's and Maumee Rivers. The infrastructure cost to reduce the number of CSO events is approximately \$240 million, concluding in 2025. FWCU 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, FWCU committed to maintain the entire sewer system to performance standards prescribed in the FWCU Long-Term Control Plan incorporated by reference into the Consent Decree. The Consent Decree further provides for stipulated penalties for failure to achieve specified construction milestones, reporting deadlines or maintenance objectives. FWCU is in full compliance with the Consent Decree's terms and conditions.

Aqua Agreement:

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

FORT WAYNE CITY UTILITIES
Notes to Financial Statements
December 31, 2018
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Other:

FWCU has entered into many contracts for various construction projects. Remaining contract payments as of December 31, 2018 for each utility are as follows:

Water Utility	\$	1,467,404
Wastewater Utility		123,569,799
Stormwater Utility		2,077,651
		\$ 127,114,854

Major contracts awarded subsequent to December 31, 2018:

Board of Works Award Date	Vendor	Major Contract Project Description	Amount
<u>Water Utility</u>			
02/26/2019	Underground Contractors	Lochner Road Water Main Extension	\$ 382,945
<u>Wastewater Utility</u>			
01/08/2019	Rothenberger Company	Superior St. Utility Improvements (Harrison St. to Calhoun St.)	\$ 969,688
02/05/2019	Insituform Technologies	2018 CIPP Pkg #2 - Large Diameter Cleaning & Rehabilitation	1,394,292
			\$ 2,363,980
<u>Stormwater Utility</u>			
02/12/2019	Crosby Excavating	Lawrence Drain Flood Control Project	\$ 499,844

(16) Subsequent Events

On June 26, 2018 the Common Council authorized the issuance of waterworks revenue bonds in amount not to exceed \$85,570,000 for the purpose of providing funds to pay the cost of certain additions, extensions and improvements to the municipal waterworks. FWCU plans to issue the above mentioned bonds during the 2019 fiscal year.

On March 26, 2019, the Common Council approved the financing \$2,445,000 for various vehicles and equipment items by FWCU and authorized the acceptance of the Lessor, JP Morgan Chase.

FORT WAYNE CITY UTILITIES
 Required Supplementary Information
 December 31, 2018

Schedule of Proportionate Share of the Net Pension Liability:

	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset)	0.41%	0.41%	0.45%	0.42%	0.40%
Proportionate share of the net pension liability (asset)	\$ 13,621,132	\$ 18,363,713	\$ 20,490,169	\$ 17,196,200	\$ 10,437,633
Covered employee-payroll	\$ 20,459,753	\$ 20,419,990	\$ 21,637,668	\$ 20,223,082	\$ 19,391,743
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	66.58%	89.93%	94.70%	85.03%	53.83%
Plan fiduciary net position as a percentage of the total pension liability	78.89%	76.60%	75.30%	77.30%	84.30%

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

Schedule of Contributions for Pension Plan:

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 2,297,316	\$ 2,269,585	\$ 2,647,487	\$ 2,163,471	2,196,819
Contributions in relation to the contractually required contributions	2,297,316	2,269,585	2,647,487	2,163,471	2,196,819
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	—
Covered-employee payroll	\$ 20,511,750	\$ 20,264,152	\$ 23,638,268	\$ 19,316,705	19,614,455
Contributions as a percentage of covered-employee payroll	11.2%	11.2%	11.2%	11.2%	11.2%

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

The note to the RSI is an integral part of the RSI.

FORT WAYNE CITY UTILITIES
Notes to Required Supplementary Information
December 31, 2018

(1) Financial Reporting - Pension Plans - Changes in Assumptions

For the actuarial valuation as of June 30, 2018, for active and inactive vested members, a salary load of \$400 was added to approximate the impact on average monthly earnings of unused sick leave accumulated at termination of employment. For disabled members, the mortality assumption is updated from RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Tables to the RP-2014 (with MP-2014 improvement removed) Disability Mortality Tables.