
City of Fort Wayne Utilities

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



Financial Statements

December 31, 2013

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CITY OF FORT WAYNE UTILITIES
Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
FINANCIAL STATEMENTS:	
Statement of Net Position 2013.....	10
Statement of Revenues, Expenses, and Changes in Net Position 2013.....	11
Statement of Cash Flows 2013.....	12
Notes to Financial Statements	13-35

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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, as of and for the year ended December 31, 2013, 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 of material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Utilities as of December 31, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.


Emphasis of Matter

As discussed in Note 1, the financial statements of the Utilities are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Fort Wayne, as of December 31, 2013, 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, 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 5, 2014

Management's Discussion and Analysis

Introduction

As management of the City of Fort Wayne Utilities (Utilities), we offer readers of the Utilities' financial statements, this narrative overview and analysis of the financial activities of the Utilities for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements and the notes to the basic financial statements.

Financial Highlights

- The assets and deferred outflow of resources of the Utilities exceeded its liabilities (net position) as of December 31, 2013 and 2012 by \$508.5 million and \$481.6 million, respectively.
- The Utilities' net position increased (decreased) for the years ended December 31, 2013 and 2012 by \$26.9 million and (\$43.7) million, respectively.
- The Utilities' added new bonded debt and long-term loans payable for years ended December 31, 2013 and 2012 of \$101.3 million and \$100.0 million, respectively. The 2013 increase in debt consists of two new Wastewater Revenue Bonds and additional withdrawals against existing SRF loans.

The Utilities were able to take advantage of the recent low interest rate financial markets and acquire new long term debt in 2013 at rates ranging from 1.95% to 3.50%. Additionally, refunding bonds issued in early 2013 at rate averaging of 1.00% were issued to retire bonds with interest rates ranging from 1.30% to 4.55%.

- The Utilities' net investment in capital assets for the years ended December 31, 2013 and 2012 increased approximately \$7.0 million and \$11.5 million. Significantly, the Utilities continue to meet all 2009-2013 capital investment milestones required by the 2008 Federal Consent Decree.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Utilities' basic financial statements. The Utilities are governmental entities classified as enterprise funds, subsets of proprietary funds. When an entity charges a fee to cover the entire cost of its operation, these services are classified as a proprietary fund. And more specifically, when an entity is self-supported completely by providing

services to outside customers, it is an enterprise fund. An enterprise fund's financial statements are comprised of three statements and the accompanying notes to these statements. The three statements are: 1) statement of net position, 2) statement of revenues, expenses and changes in net position and 3) statement of cash flows. The notes provide additional information that is essential to a full understanding of the data provided in the Utilities' financial statements. The notes can be found on pages 13-35 of this report.

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

City of Fort Wayne Utilities
Condensed Statement of Net Position

	(\$millions)		Variance	
	December 31		2012-2013	
	2013	2012	\$millions	%
Net capital assets	\$ 756.2	\$ 701.0	\$ 55.2	7.9%
Other assets	195.2	150.7	44.5	29.5%
Total assets	\$ 951.4	\$ 851.7	\$ 99.7	11.7%
Deferred Outflow of Resources	\$ 0.4	\$ 0.2	\$ 0.2	100.0%
Current liabilities	44.2	40.9	3.3	8.1%
Long term liabilities	399.1	329.4	69.7	21.2%
Total liabilities	443.3	370.3	73.0	19.7%
Total net assets	\$ 508.5	\$ 481.6	\$ 26.9	5.6%
Net invested in capital assets	\$ 431.2	\$ 424.2	7.0	1.7%
Restricted	42.8	35.7	7.1	19.9%
Unrestricted	34.5	21.7	12.8	59.0%
Total net position	\$ 508.5	\$ 481.6	\$ 26.9	5.6%

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

	(\$millions)		Variance	
	Year Ended December 31		2012-2013	
	2013	2012	\$millions	%
Operating revenues:				
Water service revenues	\$ 39.8	\$ 33.5	\$ 6.3	18.8%
Wastewater service revenues	56.8	52.7	4.1	7.8%
Stormwater service revenues	10.1	9.8	0.3	3.1%
Electric revenues	0.0	0.0	0.0	0.0%
Yard Waste revenues	0.2	0.2	0.0	0.0%
Total operating revenues	106.9	96.2	10.7	11.1%
Operating expenses:				
Water operations	29.5	28.8	0.7	2.4%
Wastewater operations	34.1	33.3	0.8	2.4%
Stormwater operations	6.8	6.1	0.7	11.5%
Electric operations	0.0	0.0	0.0	0.0%
Yard Waste operations	0.1	0.1	0.0	0.0%
Total operating expenses	70.5	68.3	2.2	3.2%
Operating Income	36.4	27.9	8.5	30.5%
Net nonoperating revenues (expenses)	(6.0)	(5.7)	(0.3)	5.3%
Income before capital contributions and transfers out	30.4	22.2	8.2	36.9%
Capital contributions	3.8	2.5	1.3	52.0%
Net transfers out	(7.3)	(68.4)	61.1	-89.3%
Increase in net assets	26.9	(43.7)	70.6	-161.6%
Net position - January 1st	481.6	525.3	(43.7)	-8.3%
Net position - December 31st	\$ 508.5	\$ 481.6	\$ 26.9	5.6%

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial health. In the case of the Utilities, assets and deferred outflow of resources exceeded liabilities by \$508.5 million and \$481.6 million as of December 31, 2013 and 2012, respectively. The largest portion (84.8%) of the Utilities' net position in 2013 reflects its net investment in capital assets (land, buildings, machinery, equipment and distribution and collection infrastructure), less any related debt used to acquire those assets that is still outstanding.

Another significant portion of the Utilities' net position (\$42.8 million, or 8.4%) represents resources that are subject to external restrictions on how they may be used.

The Utilities net position increased/(decreased) \$26.9 million and (\$43.7) million for the years ended December 31, 2013 and 2012, respectively.

Capital Assets and Capital Improvement Program

The Utilities total capital assets in service are \$1.057 billion with an accumulated depreciation of \$301.2 million for a net book value of \$756.2 million. The statement of net position also includes \$46.8 million in construction in progress reflecting capital projects in various stages of completion. During 2013, approximately \$74.9 million was invested in capital projects (see Note 5).

Debt

At December 31, 2013, the Utilities had approximately \$420.2 million in bonds and loans payable, an increase of \$76.2 million over last year.

The Utilities closed on two new long-term bond/loan issues in 2013. The bonds' proceeds were used to fund significant capital expenditures. The new bond/loan issues in 2013 were:

- An open market wastewater revenue bond for \$33.0 million over 12 years at 1.95%.
- An open market wastewater revenue bond for \$42.3 million over 21 years at 3.50%.

In December 2013, the Utilities issued \$7.3 million in wastewater refunding revenue bonds payable over 6 years at 1.00% to advance refund \$8.0 million in 2002C and 2003 Wastewater bonds and loans. In doing this, the Utility in effect lowered its aggregate debt service payment by \$0.5 million and realized an economic gain of \$0.5 million (see Note 7).

The Utilities paid principal (including the refunding transactions) of \$25.3 million and \$55.1 million in 2013 and 2012, respectively.

Economic Factors and Next Year's Budget and Rates

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

- Mitigate assessed penalties with local investments in septic tank elimination subsidies and rain garden stipends.

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

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

At that same time, Council authorized the issuance of up to \$265 million in debt to fund a six year capital plan that will accomplish a significant portion of the infrastructure investment required to fulfill the requirements of the Consent Decree. As of December 31, 2013, the Utilities have issued \$248.0 million debt associated with the \$265 million that Council authorized.

The Utilities are in full compliance with the terms and conditions of the Consent Decree. Significantly, the Utilities completed: the upgrade to the wastewater plant primaries and completed 15 combined sewer separation projects. The Utilities also constructed a backflow process that fully treats nearly 1 billion gallons of wastewater per year that previously entered the Maumee River only partially treated. And untreated wastewater storage capacity was increased by nearly 100 million gallons through several pond enhancement projects. Additionally, the pump station utilized to fill those ponds has had its capacity increased to maximize the available storage.

The wastewater treatment plant upgrade ultimately will treat up to 85 million gallons per day (mgd), up from 60 mgd. In early 2012, the plant achieved its interim milestone and operates at 70 mgd. Construction to upgrade to the targeted 85 mgd has begun with completion by the end of 2015.

Lining wastewater pipelines significantly extends the life of the pipeline, improves overall system flow and reduces reactive maintenance. Since 2008, the Utilities have invested \$22.1 million to line approximately 85.5 miles of pipe. The replacement rate since 2008 is right at our annual goal of 1% per year.

- In June 2002, the Utilities initiated a condemnation action of Aqua Indiana's North Assets. On February 12, 2008, the Utilities paid Aqua Indiana \$16.9 million, the appraised value, and took possession of those assets. The North Assets were quickly integrated with the Utilities' water and sewer system and began generating revenues at existing rates from 8,600 new retail water customers and 1,600 new retail sewer customers. At that time, Aqua Indiana

claimed that the purchase price was inadequate and sued for unspecified damages.

On April 23, 2014, the Fort Wayne Board of Public Works (Board) approved an Asset Acquisition Agreement (AAA) between Aqua Indiana and the City wherein Aqua agrees to sell its Southwest Water assets and settle the North Asset litigation in exchange for \$67 million of which \$16.9 million had already been paid. The net amount of \$50.1 million will be funded through \$63 million revenue bonds which were also approved by the Board. The revenue bonds will also provide funds for integration and financing costs. The AAA incorporates companion agreements that provide for the treatment by Aqua's wastewater facilities of 1.5 million gallons per day of the City's wastewater flows, interim post-close transition issues and longer term shared services.

The revenue bonds require approval by Fort Wayne Common Council and the IURC. Several other regulatory approvals and permits are needed before the acquisition can be completed or the revenue bonds issued.

- The Water Utility successfully acquired SRF funding in 2011 for a ultra-violet disinfection system (UV system) valued at nearly \$20 million. The UV system was selected as the optimal incremental disinfection methodology to comply with an EPA mandate; the Long Term 2 Enhanced Surface Water Treatment Rule. This UV solution was completed and on-line December 2013, ahead of the enforcement deadline of April 2014.
- In 2012, the Indiana Utility Regulatory Commission (IURC) and Fort Wayne City Council approved a three year water rate plan increasing water revenues by 33.9%. The water rate increase will be implemented in three annual increments (Phases) starting in January 2013. The increased revenues will provide funding for many repair and replacement projects but, significantly, up to 9 miles of water main replacement each year. As our infrastructure has aged, funding for our water main replacement program has not kept pace with the increase in our water main breaks. The new revenues will allow us to approach our goal to replace 1%, or ten miles, of our water main pipelines per year.

On December 18, 2013, the IURC, based on a Cost of Service Study submitted by the City, revised Phase II and Phase III water rates that were approved in 2012 and that were to be effective January 1, 2014 and 2015, respectively. The revision did not affect the total anticipated revenues for each year but did modify slightly the sources of those revenues; most significantly for public fire protection. Prior to 2014, the City paid for public fire protection through a per hydrant fee. Effective 2014, all water customers will pay for public fire protection with fees based on the size of their water meters.

Request for Information

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

CITY OF FORT WAYNE UTILITIES

Statement of Net Position
At December 31, 2013

	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	<u>Total 2013</u>
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 9,590,403	\$ 15,920,548	\$ 5,338,733	\$ -	\$ 379,192	\$ 31,228,876
Receivables:						
Customers, net of allowance for doubtful accounts of \$32,056	3,845,278	6,677,608	1,726,520	-	30,568	12,279,974
Interest	860	39,302	-	-	-	40,162
Due from City of Fort Wayne	37,387	27,575	8,983	-	5	73,950
Materials and supplies	1,129,454	64,768	-	-	-	1,194,222
Prepaid expenses	84,977	79,054	1,625	-	16	165,672
Total current assets	<u>14,688,359</u>	<u>22,808,855</u>	<u>7,075,861</u>	<u>-</u>	<u>409,781</u>	<u>44,982,856</u>
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	20,424,569	83,286,571	548,792	-	-	104,259,932
Restricted investments	5,050,424	35,050,424	-	-	-	40,100,848
Regulatory assets	2,406,061	2,021,621	123,521	-	-	4,551,203
Assessments receivable	-	1,337,975	-	-	-	1,337,975
Capital assets:						
Land	4,687,507	1,472,274	3,606,968	75,732	-	9,842,481
Distribution and collection	146,503,888	289,904,645	123,314,304	-	-	559,722,837
Buildings and improvements	73,500,961	140,383,324	2,809,581	1,121,198	68,777	217,883,841
Equipment and other	102,335,183	115,747,366	4,653,587	342,787	52,656	223,131,579
Less: Accumulated depreciation	(106,448,128)	(154,647,248)	(38,580,508)	(1,445,756)	(99,125)	(301,220,765)
Plus: Construction in progress	7,002,689	33,795,106	6,001,448	-	4,789	46,804,032
Net capital assets	<u>227,582,100</u>	<u>426,655,467</u>	<u>101,805,380</u>	<u>93,961</u>	<u>27,097</u>	<u>756,164,005</u>
Total noncurrent assets	<u>255,463,154</u>	<u>548,352,058</u>	<u>102,477,693</u>	<u>93,961</u>	<u>27,097</u>	<u>906,413,963</u>
Total assets	<u>\$ 270,151,513</u>	<u>\$ 571,160,913</u>	<u>\$ 109,553,554</u>	<u>\$ 93,961</u>	<u>\$ 436,878</u>	<u>\$ 951,396,819</u>
DEFERRED OUTFLOW OF RESOURCES	<u>\$ -</u>	<u>\$ 435,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,085</u>
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 2,145,641	\$ 4,912,274	\$ 409,239	\$ -	\$ 17,585	\$ 7,484,739
Due to City of Fort Wayne	577,993	856,837	274,879	-	4,407	1,714,116
Interfund payable - current portion	122,045	89,793	55,216	-	64	267,118
Compensated absences payable - current portion	562,404	494,565	124,822	-	1,061	1,182,852
Other current liabilities	826,235	2,441,262	172,541	-	1,147	3,441,185
Accrued interest payable	906,122	3,856,557	172,583	-	-	4,935,262
Bonds payable - current portion	2,840,000	11,220,000	1,110,000	-	-	15,170,000
Loans payable - current portion	3,421,000	5,181,057	-	-	-	8,602,057
Customer deposits	1,441,582	-	-	-	-	1,441,582
Total current liabilities	<u>12,843,022</u>	<u>29,052,345</u>	<u>2,319,280</u>	<u>-</u>	<u>24,264</u>	<u>44,238,911</u>
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	49,841,465	201,334,346	9,271,265	-	-	260,447,076
Capital assets included in accounts payable	44,129,000	91,847,583	-	-	-	135,976,583
Capital asset contributions	194,937	99,240	92,681	-	85	386,943
Compensated absences payable	807,148	520,787	74,817	-	996	1,403,748
Net pension obligation	302,731	466,244	162,578	-	-	931,553
Total noncurrent liabilities	<u>95,275,281</u>	<u>294,268,200</u>	<u>9,601,341</u>	<u>-</u>	<u>1,081</u>	<u>399,145,903</u>
Total liabilities	<u>\$ 108,118,303</u>	<u>\$ 323,320,545</u>	<u>\$ 11,920,621</u>	<u>\$ -</u>	<u>\$ 25,345</u>	<u>\$ 443,384,814</u>
NET POSITION						
Net investment in capital assets	140,819,445	198,832,384	91,424,115	93,961	27,097	431,197,002
Restricted						
For debt service	9,345,233	31,142,043	376,209	-	-	40,863,485
For capital projects	313,247	1,578,493	-	-	-	1,891,740
Unrestricted	<u>11,555,285</u>	<u>16,722,533</u>	<u>5,832,609</u>	<u>-</u>	<u>384,436</u>	<u>34,494,863</u>
Total net position	<u>\$ 162,033,210</u>	<u>\$ 248,275,453</u>	<u>\$ 97,632,933</u>	<u>\$ 93,961</u>	<u>\$ 411,533</u>	<u>\$ 508,447,090</u>

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Revenues, Expenses, and
Changes in Net Position
For the Year Ended December 31, 2013

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2013
OPERATING REVENUES:						
Charges for goods and services	\$ 39,757,464	\$ 56,837,593	\$ 10,135,025	\$ -	\$ 159,194	\$ 106,889,276
OPERATING EXPENSES:						
Personnel services	9,170,306	8,189,940	1,653,802	-	11	19,014,059
Contractual services	1,279,365	2,141,393	144,820	-	90,514	3,656,092
Utilities	1,473,876	1,832,979	-	-	-	3,306,855
Chemicals	2,323,573	839,572	-	-	-	3,163,145
Administrative services	3,740,513	5,760,852	2,008,794	-	34,634	11,544,793
Other supplies/services	3,942,368	4,711,225	769,650	-	5,112	9,428,355
Depreciation	7,605,047	10,667,051	2,167,124	786	3,953	20,443,961
Total operating expenses	29,535,048	34,143,012	6,744,190	786	134,224	70,557,260
Operating income (loss)	10,222,416	22,694,581	3,390,835	(786)	24,970	36,332,016
NONOPERATING REVENUES (EXPENSES):						
Investment income	22,271	136,504	1,787	-	-	160,562
Interest expense	(1,512,368)	(4,756,070)	(214,151)	-	(4)	(6,482,593)
Amortization of debt issuance costs	(259,130)	(201,756)	(30,380)	-	-	(491,266)
Gain/(loss) on disposal of assets	(339,803)	(87,698)	1,276,495	-	-	848,994
Total nonoperating revenues (expenses)	(2,089,030)	(4,909,020)	1,033,751	-	(4)	(5,964,303)
Income before capital contributions and transfers	8,133,386	17,785,561	4,424,586	(786)	24,966	30,367,713
Capital contributions	2,515,663	875,500	422,851	-	-	3,814,014
Transfers in	-	-	2,587,423	-	-	2,587,423
Transfers out	(2,350,188)	(6,427,720)	(1,172,951)	-	-	(9,950,859)
Change in net position	8,298,861	12,233,341	6,261,909	(786)	24,966	26,818,291
Total net position-beginning of year	153,734,349	236,042,112	91,371,024	94,747	386,567	481,628,799
Total net position-end of year	\$ 162,033,210	\$ 248,275,453	\$ 97,632,933	\$ 93,961	\$ 411,533	\$ 508,447,090

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2013

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2013
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 39,332,607	\$ 56,032,264	\$ 9,871,052	\$ -	\$ 196,740	\$ 105,432,663
Payments to suppliers	(15,915,540)	(18,299,111)	(2,530,178)	-	(130,309)	(36,875,138)
Payments to employees	(9,128,262)	(8,143,150)	(1,651,253)	-	(11)	(18,922,676)
Other receipts (payments)	(10,273)	1,256,631	56,078	-	8	1,302,444
Net cash provided by operating activities	<u>14,278,532</u>	<u>30,846,634</u>	<u>5,745,699</u>	<u>-</u>	<u>66,428</u>	<u>50,937,293</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	(2,350,188)	(3,840,297)	(1,172,951)	-	-	(7,363,436)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(15,132,181)	(49,303,963)	(2,946,050)	-	(2,942)	(67,385,136)
Proceeds from long-term debt	-	101,389,972	-	-	-	101,389,972
Purchase of debt refunding securities	-	(8,244,890)	-	-	-	(8,244,890)
Interest paid on long-term debt	(3,339,818)	(7,794,517)	(460,687)	-	(4)	(11,595,026)
Debt issuance costs	(224,159)	(1,052,715)	-	-	-	(1,276,874)
Principal paid on long-term debt	(5,728,000)	(10,081,414)	(1,065,000)	-	-	(16,874,414)
Proceeds from sales of assets	-	-	1,276,495	-	-	1,276,495
Contribution in aid of construction	1,859,550	267,704	304,941	-	-	2,432,195
Net cash provided (used) by capital and related financing activities	<u>(22,564,608)</u>	<u>25,180,177</u>	<u>(2,890,301)</u>	<u>-</u>	<u>(2,946)</u>	<u>(277,678)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	(5,050,424)	(35,050,424)	-	-	-	(40,100,848)
Sale of investments	5,042,750	15,042,750	-	-	-	20,085,500
Investment income received	21,908	99,018	1,787	-	-	122,713
Net cash provided (used) by investing activities	<u>14,234</u>	<u>(19,908,656)</u>	<u>1,787</u>	<u>-</u>	<u>-</u>	<u>(19,892,635)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,622,030)	32,277,858	1,684,234	-	63,482	23,403,544
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	40,637,002	66,929,261	4,203,291	-	315,710	112,085,264
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 30,014,972</u>	<u>\$ 99,207,119</u>	<u>\$ 5,887,525</u>	<u>\$ -</u>	<u>\$ 379,192</u>	<u>\$ 135,488,808</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	10,222,416	22,694,581	3,390,835	(786)	24,970	36,332,016
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	7,605,047	10,667,051	2,167,124	786	3,953	20,443,961
Provision for doubtful accounts	(3,724)	(5,998)	-	-	-	(9,722)
Changes in assets and liabilities:						
Receivables	(424,857)	(805,329)	(263,973)	-	37,546	(1,456,613)
Other assets	(6,549)	1,262,629	56,078	-	8	1,312,166
Accounts payable and other liabilities	(3,113,801)	(2,966,300)	395,635	-	(49)	(5,684,515)
Net cash provided by operating activities	<u>\$ 14,278,532</u>	<u>\$ 30,846,634</u>	<u>\$ 5,745,699</u>	<u>\$ -</u>	<u>\$ 66,428</u>	<u>\$ 50,937,293</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Capital assets included in accounts payable	\$ 1,061,700	\$ 2,801,571	\$ 176,686	\$ -	\$ -	\$ 4,039,957
Capital asset contributions	656,113	624,085	117,910	-	-	1,398,108
Interfund fixed asset contribution	-	(2,587,423)	2,587,423	-	-	-
Capitalized interest added to fixed assets	1,803,095	4,028,230	222,326	-	-	6,053,651

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

(1) Nature of Operations and Significant Accounting Policies

Financial Reporting Entity

The City of Fort Wayne Utilities (the Utilities) are collectively, a division of the City of Fort Wayne, Indiana. The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Fort Wayne and the results of its operations and cash flows of its enterprise funds. The Utilities consist of Water, Wastewater, Stormwater, and Electric Utilities in addition to the Yard Waste Facility. All five areas are considered proprietary in nature. The Electric Utility generation and distribution systems were sold to a private firm in 2010.

Basis of Accounting and Financial Reporting

The Utilities prepare their financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units.

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

Cash Equivalents

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

Investments

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

Restricted Assets/Net Position

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Capital Assets

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

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

Estimated useful lives, in years, are as follows:

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

Net interest cost incurred on borrowed funds for the Water, Wastewater and Stormwater Utilities is capitalized as a component of the cost of construction. In 2013, net interest capitalized was \$1,803,095 for the Water Utility, \$4,028,230 for the Wastewater Utility and \$222,326 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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

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.

Compensated Absences

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

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

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

Classification of Revenue

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

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement section element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Wastewater utility only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. 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.

(2) Deposits and Investments

Deposits

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

Investments

Authorization for investment activity is stated in Indiana Code IC 5-13. The Utilities had the following investments at December 31, 2013.

	Investment Maturities greater than one year					
	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	
	<u>Utility</u>	<u>Utility</u>	<u>Utility</u>	<u>Utility</u>	<u>Utility</u>	<u>Total</u>
Certificate of Deposit	\$ 5,050,424	\$ 35,050,424	\$ --	\$ --	\$ --	\$ 40,100,848
Amounts reflect Fair Value						

Investment Policies

Indiana Code 5-13-9 authorizes the Utilities to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the Utilities to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years. Indiana Code also provides for

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the Federal Investment Company act of 1940, as amended. Investments in money market mutual funds may not exceed fifty percent (50%) of the funds held by the Utilities and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States, obligations issued by a federal agency, a federal instrumentality, a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of or interest in an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one (1) day.

(3) Restricted Assets

Restricted assets consisted of the following at December 31, 2013:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Yard Waste Utility</u>	<u>Total</u>
Cash and cash equivalents:						
Sinking fund	\$ 788,117	\$ 10,688,540	\$ 548,792	\$ --	\$ --	\$ 12,025,449
Debt service reserve	4,412,814	19,259,636	--	--	--	23,672,450
Construction	13,468,809	51,759,903	--	--	--	65,228,712
Airport expressway	313,247	--	--	--	--	313,247
Customer deposits	1,441,582	--	--	--	--	1,441,582
Connection fees	--	152,082	--	--	--	152,082
Septic elimination program	--	1,426,410	--	--	--	1,426,410
Total	<u>\$20,424,569</u>	<u>\$ 83,286,571</u>	<u>\$ 548,792</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$104,259,932</u>
Investments:						
Construction	\$ --	\$ 30,000,000	\$ --	\$ --	\$ --	\$ 30,000,000
Debt service reserve	<u>5,050,424</u>	<u>5,050,424</u>	--	--	--	<u>10,100,848</u>
Total	<u>\$ 5,050,424</u>	<u>\$ 35,050,424</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 40,100,848</u>

Sinking Fund

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

Monthly deposits into sinking fund accounts of both the Water and Stormwater Utilities' net revenues are required to be in an amount equal to at least 1/6 of the next semi-annual interest payments and 1/12 of the next annual principal payments. Upon meeting certain

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

minimum balance requirements, transfers may be made to unrestricted cash accounts. Surety bonds purchased by the Utilities cover the Waterworks and Stormwater Reserve Accounts requirements.

Debt Service Reserve

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

Prior to 2009, all Utility revenue bonds’ debt service reserves were funded through surety bond insurance except the Sewage Works Junior Revenue Bonds of 1998 A and 1998 B which were cash funded. As a result of the financial crisis that occurred in late 2008 – early 2009 and up to and including 2013, the surety bond insurers failed to maintain their AAA/Aaa rating. While still insured, this failure to maintain AAA/Aaa ratings required the Utilities to cash fund the debt service reserve accounts for the affected revenue bonds. As of December 31, 2013, all surety bond insurance for Waterworks and Sewage Works Revenue Bonds have been replaced with cash funded debt service reserves as required by bond ordinance.

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

Construction

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

Airport Expressway

In 2010, Water Utility entered into a tri-lateral agreement with the Redevelopment Commission and a Developer to construct a water main extension along the airport expressway. The Redevelopment Commission agreed to advance TIF funds to the Water Utility at such times so as to pay the Developer according to the contractual payment schedule. Monies received by the Water Utility prior to the Developer’s payment due date will be held in a restricted account.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Customer Deposits

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

Connection Fees

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

Septic Elimination Program

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

(4) Assessments Receivable

Assessments receivable represent assessments due from customers for sewer connections. The individual assessments range from \$2,000 to \$24,000 and are due in 60, 120 or 180 monthly principal installments plus interest on the unpaid portion at ranges from 0% to 7% per year.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

(5) Capital Assets

The following changes occurred in capital assets during the years ended December 31, 2013

<u>Water Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2013</u>
Land	\$ 4,687,507	\$ --	\$ --	\$ --	\$ 4,687,507
Distribution and collection	143,334,553	--	1,056,747	4,226,082	146,503,888
Buildings and improvement	60,497,567	2,373	--	13,001,021	73,500,961
Equipment and other	89,220,676	597,335	405,005	12,922,177	102,335,183
Construction in progress	<u>19,475,794</u>	<u>17,306,406</u>	<u>--</u>	<u>(29,779,511)</u>	<u>7,002,689</u>
	317,216,097	17,906,114	1,461,752	369,769	334,030,228
Less accumulated depreciation:					
Distribution and collection	34,297,029	2,218,480	852,266	--	35,663,243
Buildings and improvement	25,953,906	1,418,716	--	(55,490)	27,317,132
Equipment and other	<u>39,687,698</u>	<u>3,967,851</u>	<u>263,771</u>	<u>75,975</u>	<u>43,467,753</u>
	<u>99,938,633</u>	<u>7,605,047</u>	<u>1,116,037</u>	<u>20,485</u>	<u>106,448,128</u>
Net Capital Assets	<u>\$217,277,464</u>	<u>\$ 10,301,067</u>	<u>\$ 345,715</u>	<u>\$ 349,284</u>	<u>\$227,582,100</u>
<u>Wastewater Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2013</u>
Land	\$ 1,429,003	\$ --	\$ --	\$ 43,271	\$ 1,472,274
Distribution and collection	270,856,744	--	172,498	19,220,399	289,904,645
Buildings and improvement	118,654,612	--	--	21,728,712	140,383,324
Equipment and other	75,691,634	959,118	556,442	39,653,056	115,747,366
Construction in progress	<u>63,222,521</u>	<u>53,054,524</u>	<u>--</u>	<u>(82,481,939)</u>	<u>33,795,106</u>
	529,854,514	54,013,642	728,940	(1,836,501)	581,302,715
Less accumulated depreciation:					
Distribution and collection	65,776,756	4,247,153	172,498	--	69,851,411
Buildings and improvement	35,678,075	2,788,347	--	(85,461)	38,380,961
Equipment and other	<u>43,025,735</u>	<u>3,631,551</u>	<u>432,274</u>	<u>189,864</u>	<u>46,414,876</u>
	<u>144,480,566</u>	<u>10,667,051</u>	<u>604,772</u>	<u>104,403</u>	<u>154,647,248</u>
Net Capital Assets	<u>\$385,373,948</u>	<u>\$ 43,346,591</u>	<u>\$ 124,168</u>	<u>\$ (1,940,904)</u>	<u>\$426,655,467</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

<u>Stormwater Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2013</u>
Land	\$ 2,511,161	\$ --	\$ --	\$ 1,095,807	\$ 3,606,968
Distribution and collection	118,173,570	--	20,187	5,160,921	123,314,304
Buildings and improvement	2,811,065	--	--	(1,484)	2,809,581
Equipment and other	4,373,590	461,818	128,678	(53,143)	4,653,587
Construction in progress	<u>7,010,572</u>	<u>2,495,135</u>	<u>--</u>	<u>(3,504,259)</u>	<u>6,001,448</u>
	<u>134,879,958</u>	<u>2,956,953</u>	<u>148,865</u>	<u>2,697,842</u>	<u>140,385,888</u>
Less accumulated depreciation:					
Distribution and collection	32,933,232	1,800,541	20,187	--	34,713,586
Buildings and improvement	520,900	93,021	--	(29,800)	584,121
Equipment and other	<u>3,197,179</u>	<u>273,562</u>	<u>128,678</u>	<u>(59,262)</u>	<u>3,282,801</u>
	<u>36,651,311</u>	<u>2,167,124</u>	<u>148,865</u>	<u>(89,062)</u>	<u>38,580,508</u>
Net Capital Assets	<u>\$ 98,228,647</u>	<u>\$ 789,829</u>	<u>\$ --</u>	<u>\$ 2,786,904</u>	<u>\$101,805,380</u>
<u>Electric Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2013</u>
Land	\$ 75,732	\$ --	\$ --	\$ --	\$ 75,732
Distribution and collection	--	--	--	--	--
Buildings and improvement	1,121,198	--	--	--	1,121,198
Equipment and other	342,787	--	--	--	342,787
Construction in progress	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	<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	1,120,388	58	--	--	1,120,446
Equipment and other	<u>324,582</u>	<u>728</u>	<u>--</u>	<u>--</u>	<u>325,310</u>
	<u>1,444,970</u>	<u>786</u>	<u>--</u>	<u>--</u>	<u>1,445,756</u>
Net Capital Assets	<u>\$ 94,747</u>	<u>\$ (786)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 93,961</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

<u>Yard Waste Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2013</u>
Land	\$ --	\$ --	\$ --	\$ --	\$ --
Distribution and collection	--	--	--	--	--
Buildings and improvement	68,777	--	--	--	68,777
Equipment and other	52,565	--	--	91	52,656
Construction in progress	1,938	--	--	2,851	4,789
	<u>123,280</u>	<u>--</u>	<u>--</u>	<u>2,942</u>	<u>126,222</u>
Less accumulated depreciation:					
Distribution and collection	--	--	--	--	--
Buildings and improvement	44,992	3,439	--	--	48,431
Equipment and other	<u>50,180</u>	<u>514</u>	<u>--</u>	<u>--</u>	<u>50,694</u>
	<u>95,172</u>	<u>3,953</u>	<u>--</u>	<u>--</u>	<u>99,125</u>
Net Capital Assets	<u>\$ 28,108</u>	<u>\$ (3,593)</u>	<u>\$ --</u>	<u>\$ 2,942</u>	<u>\$ 27,097</u>

(6) 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 \$338,527 for Wastewater Utility in 2013. Developer notes payable were \$1,770,687 for Wastewater Utility in 2013. The debt accrues interest at prime, which as of the end of 2013 was at 3.25%, plus 1%. Developer notes payable are included in current liabilities.

(7) Long-Term Debt

Bonds Payable:

Water Utility bonds payable at December 31, 2013 are as follows:

Water Works Revenue Bonds of 2003 – original issue of \$5,800,000 – interest rates range from 2.00% to 4.250% and mature serially in amounts ranging from \$440,000 in 2014 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$3,802.	\$1,888,802
Water Works Revenue Bonds of 2005 – original issue of \$16,700,000 – interest rates range from 2.70% to 4.40% and mature serially in amounts ranging from \$1,475,000 in 2014 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$21,283.	10,861,283

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

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 \$925,000 in 2014 to \$2,975,000 in 2032, redeemable prior to maturity for bonds maturing on or after 2023, plus unamortized bond premium of \$521,380.	<u>39,931,380</u>
Total	52,681,465
Less: Current portion	<u>(2,840,000)</u>
Noncurrent Bonds payable, net	<u>\$49,841,465</u>

Water Utility bond debt service requirements to maturity as of December 31, 2013 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,840,000	\$ 1,585,343	\$ 4,425,343
2015	3,135,000	1,490,244	4,625,244
2016	3,230,000	1,387,743	4,617,743
2017	3,330,000	1,281,144	4,611,144
2018	3,430,000	1,170,181	4,600,181
2019 to 2023	12,325,000	4,519,781	16,844,781
2024 to 2028	12,460,000	2,851,200	15,311,200
2029 to 2032	<u>11,385,000</u>	<u>866,550</u>	<u>12,251,550</u>
Total	<u>\$52,135,000</u>	<u>\$15,152,186</u>	<u>\$67,287,186</u>

Wastewater Utility bonds payable at December 31, 2013 are as follows:

Sewage Works Revenue Bonds of 2007 – original issue of \$24,155,000 – interest rates range from 4.25% to 4.75% and mature serially in amounts from \$1,010,000 in 2014 to \$1,775,000 in 2027, redeemable at 100% beginning in 2017, less unamortized bond discount of \$16,390.	\$ 18,943,610
Sewage Works Revenue Bonds of 2010 – original issue of \$41,045,000 – interest rates range from 4.25% to 4.50% and mature serially in amounts from \$1,745,000 in 2014 to \$3,135,000 in 2030, redeemable at 100% beginning in 2020, less unamortized bond discount of \$194,060.	39,135,940
Sewage Works Revenue Bonds of 2011, Series A – original issue of \$38,100,000 – interest rate is 2.80% annually and mature serially in amounts from \$2,580,000 in 2014 to \$3,490,000 in 2026, redeemable at 100% beginning in 2022.	38,100,000
Sewage Works Revenue Bonds of 2012, Series B – original issue of \$15,530,000 – interest rates range from 2.00% to 3.00% and mature serially in amounts from \$1,000,000 in 2014 to \$1,295,000 in 2027, redeemable at 100% beginning in 2023, plus unamortized debt premium of \$600,485.	16,130,485
Sewage Works Refunding Revenue Bonds of 2012 – original issue of \$19,675,000 – interest rate is 1.45% annually and mature serially in amounts from \$1,905,000 in 2014 to \$2,140,000 in 2022, redeemable at 100% beginning in 2021, plus unamortized debt premium of \$54,201.	18,229,201

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Sewage Works Refunding Revenue Bonds of 2013 – original issue of \$7,335,000 – interest rate is 1.00% and mature serially in amounts from \$1,350,000 in 2014 to \$1,390,000 in 2018.	6,835,000
Sewage Works Revenue Bonds of 2013, Series A – original issue of \$32,955,000 – interest rate is 1.95% and mature serially in amounts from \$1,630,000 in 2014 to \$4,650,000 in 2024, plus unamortized debt premium of \$565,110.	32,920,110
Sewage Works Revenue Bonds of 2013, Series B – original issue of \$42,260,000 – interest rate is 3.50% and mature serially in amounts from \$4,165,000 in 2025 to \$5,295,000 in 2033, redeemable at 100% beginning in 2023.	<u>42,260,000</u>
Total	212,554,346
Less: Current portion	<u>(11,220,000)</u>
Noncurrent Bonds payable, net	<u>\$201,334,346</u>

Wastewater Utility bond debt service requirements to maturity as of December 31, 2013 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 11,220,000	\$ 6,509,923	\$ 17,729,923
2015	11,475,000	6,227,686	17,702,686
2016	11,740,000	5,935,984	17,675,984
2017	12,140,000	5,636,895	17,776,895
2018	12,435,000	5,327,606	17,762,606
2019 to 2023	65,160,000	21,456,075	86,616,075
2024 to 2028	56,370,000	11,619,272	67,989,272
2029 to 2033	<u>31,005,000</u>	<u>3,141,821</u>	<u>34,146,821</u>
Total	<u>\$211,545,000</u>	<u>\$65,855,262</u>	<u>\$277,400,262</u>

Stormwater Utility bonds payable at December 31, 2013 are as follows:

Stormwater Management District Revenue Bonds of 2006 – original issue of \$17,000,000 – interest rates range from 3.75% to 4.00% and mature serially in amounts from \$1,110,000 in 2014 to \$1,500,000 in 2021, redeemable at 100% beginning in 2016, plus unamortized bond premium of \$26,265.	\$10,381,265
Less: Current portion	<u>(1,110,000)</u>
Noncurrent Bonds payable, net	<u>\$ 9,271,265</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Stormwater Utility bond debt service requirements to maturity as of December 31, 2013 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,110,000	\$ 414,200	\$ 1,524,200
2015	1,155,000	369,800	1,524,800
2016	1,205,000	323,600	1,528,600
2017	1,260,000	275,400	1,535,400
2018	1,315,000	225,000	1,540,000
2019 to 2021	<u>4,310,000</u>	<u>349,800</u>	<u>4,659,800</u>
Total	<u>\$10,355,000</u>	<u>\$1,957,800</u>	<u>\$12,312,800</u>

On March 27, 2013 the Wastewater Utility issued \$7,335,000 in refunding revenue bonds with an average interest rate of 1.00% to advance refund \$2,295,000 of outstanding 2002C series bonds with an interest rate range from 1.30% to 4.55% and \$5,690,000 of outstanding 2003 series bonds with an interest rate range from 2.00% to 3.80%. The net proceeds of \$7,291,004 (after payment of \$40,496 in issuance costs and \$3,500 in bond discount) and local contribution of \$841,818 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002C series bonds and 2003 series bonds. As a result, these bonds are considered to be defeased and the liabilities for those bonds have been removed from the Statement of Net Position. The refunding results in the accounting loss of \$215,894, which has been recognized on the Statement of Net Position as a deferred outflow of resources. This amount will be amortized using the straight line method and charged to interest expense over the next 5 years. The Wastewater Utility in effect lowered its aggregate debt service payment by \$486,457 over the next 5 years and realized an economic gain (difference between the present values of the old and new debt service payments) of \$479,970. The 2002C series bonds and 2003 series bonds were called and paid in full in 2013.

Loans Payable:

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

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

Details of all Water Utility State Revolving Fund (SRF) loans payable at December 31, 2013 are as follows:

SRF Shared Pool loans:

Waterworks SRF Revenue Bonds of 2006 – final pool share - \$31,900,000 – the interest rate is 3.95% and mature serially in amounts ranging from \$2,100,000 in 2014 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017. \$19,325,000

Waterworks SRF Revenue Bonds of 2011, Series B – original pool share issue \$26,906,000 – the interest rate is 2.967% and matures serially in amounts ranging from \$1,000 in 2014 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2021. 26,905,000

SRF Traditional loans:

Waterworks SRF Revenue Bonds of 2011, Series A (taxable) – original issue \$3,094,000 – the interest rate is 3.746% and matures serially in amount of \$1,320,000 in 2014. 1,320,000

Total	47,550,000
Less: Current portion	<u>(3,421,000)</u>
Noncurrent Loan payable	<u>\$44,129,000</u>

Water Utility anticipated loan debt service requirements to maturity as of December 31, 2013 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,421,000	\$ 1,611,056	\$ 5,032,056
2015	3,357,000	1,478,629	4,835,629
2016	3,484,000	1,357,549	4,841,549
2017	3,618,000	1,231,864	4,849,864
2018	3,759,000	1,101,319	4,860,319
2019 to 2023	15,221,000	3,477,949	18,698,949
2024 to 2028	8,685,000	1,682,289	10,367,289
2029 to 2031	<u>6,005,000</u>	<u>360,550</u>	<u>6,365,550</u>
Total	<u>\$47,550,000</u>	<u>\$12,301,205</u>	<u>\$59,851,205</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Details of all Wastewater Utility State Revolving Fund (SRF) loans payable at December 31, 2013 are as follows:

SRF Draw-down loans:

Sewage Works SRF Revenue Bonds of 2005 – Final Draw - \$40,000,000 – the interest rate is 3.10% and mature serially in amounts ranging from \$1,880,000 in 2014 to \$2,635,000 in 2025, redeemable prior to maturity for bonds maturing after 2017. \$ 26,850,000

Sewage Works SRF Revenue Bonds of 2009, Series A – Final Draw - \$5,000,000 – the interest rate is 0.16% and mature serially in amounts ranging from \$242,271 in 2014 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020. 4,171,733

Sewage Works SRF Revenue Bonds of 2011, Series B – Draw up to \$33,576,000 – as of December 31, 2013, total draw is \$33,302,008 – the interest rate is 2.29% and matures serially in amounts ranging from \$1,411,000 in 2014 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2023. 30,723,008

Sewage Works SRF Revenue Bonds of 2012, Series A – Draw up to \$10,415,000 – as of December 31, 2013, total draw is \$9,293,921 – the interest rate is 1.78% and matures serially in amounts ranging from \$445,000 in 2014 to \$612,000 in 2032, redeemable prior to maturity for bonds maturing after 2024. 8,840,921

SRF Shared Pool loans:

Sewage Works SRF Revenue Bonds of 2009, Series B – final pool share - \$29,091,005 – the interest rate is 4.16% and mature serially in amounts ranging from \$1,085,786 in 2014 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020. 26,086,978

SRF Traditional loans:

Sewage Works SRF Revenue Bonds of 2008 - original issue of \$906,000 – the interest rates is 2.0% and mature serially in amounts from \$117,000 in 2014 to \$120,000 in 2016, redeemable prior to maturity for all outstanding bonds. 356,000

Total	97,028,640
Less: Current portion	<u>(5,181,057)</u>
Noncurrent Loans payable	<u>\$91,847,583</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Wastewater Utility anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2013 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 5,181,057	\$ 2,818,518	\$ 7,999,575
2015	5,328,612	2,672,109	8,000,721
2016	5,478,048	2,521,044	7,999,092
2017	5,509,442	2,365,245	7,874,687
2018	5,669,875	2,207,024	7,876,899
2019 to 2023	30,903,380	8,478,409	39,381,789
2024 to 2028	27,306,250	3,942,050	31,248,300
2029 to 2032	<u>13,047,047</u>	<u>645,498</u>	<u>13,692,545</u>
Total	<u>\$98,423,711</u>	<u>\$25,649,897</u>	<u>\$124,073,608</u>

Changes in Long-Term Liabilities

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2013:

<u>Water Utility</u>	<u>Balance Jan. 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2013</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 55,168,440	\$ --	\$2,486,975	\$ 52,681,465	\$2,840,000
Loans payable	<u>50,843,000</u>	<u>--</u>	<u>3,293,000</u>	<u>47,550,000</u>	<u>3,421,000</u>
Total bonds and loans	106,011,440	--	5,779,975	100,231,465	6,261,000
Other noncurrent liabilities					
Accrued compensated absences	1,432,243	971,365	1,034,056	1,369,552	562,404
Interfund payable	436,658	--	119,676	316,982	122,045
Net pension obligation	<u>202,809</u>	<u>817,026</u>	<u>717,104</u>	<u>302,731</u>	<u>--</u>
Total other noncurrent liabilities	<u>2,071,710</u>	<u>1,788,391</u>	<u>1,870,836</u>	<u>1,989,265</u>	<u>684,449</u>
	<u>\$108,083,150</u>	<u>\$1,788,391</u>	<u>\$7,650,811</u>	<u>\$102,220,730</u>	<u>\$6,945,449</u>
<u>Wastewater Utility</u>	<u>Balance Jan. 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Dec. 31, 2013</u>	<u>Current Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$142,778,430	\$ 83,139,211	\$13,363,295	\$212,554,346	\$11,220,000
Loans payable	<u>83,834,183</u>	<u>18,250,761</u>	<u>5,056,304</u>	<u>97,028,640</u>	<u>5,181,057</u>
Total bonds and loans	226,612,613	101,289,972	18,419,599	309,582,986	16,401,057
Other noncurrent liabilities					
Accrued compensated absences	926,992	1,051,904	963,544	1,015,352	494,565
Interfund payable	276,858	--	87,825	189,033	89,793
Net pension obligation	<u>308,542</u>	<u>101,262,131</u>	<u>1,104,429</u>	<u>466,244</u>	<u>--</u>
Total other noncurrent liabilities	<u>1,512,392</u>	<u>2,314,035</u>	<u>2,155,798</u>	<u>1,670,629</u>	<u>584,358</u>
	<u>\$228,125,005</u>	<u>\$103,704,007</u>	<u>\$20,575,397</u>	<u>\$311,253,615</u>	<u>\$16,985,415</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

<u>Stormwater Utility</u>	Balance <u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>Dec. 31, 2013</u>	Current <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$11,452,725	\$ --	\$1,071,460	\$10,381,265	\$1,110,000
Loans payable	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total bonds and loans	11,452,725	--	1,071,460	10,381,265	1,110,000
Other noncurrent liabilities					
Accrued compensated absences	184,435	252,955	237,751	199,639	124,822
Interfund payable	201,805	--	53,908	147,897	55,216
Net pension obligation	<u>106,970</u>	<u>447,359</u>	<u>391,751</u>	<u>162,578</u>	<u>--</u>
Total other noncurrent liabilities	<u>493,210</u>	<u>700,314</u>	<u>683,410</u>	<u>510,114</u>	<u>180,038</u>
	<u>\$11,945,935</u>	<u>\$700,314</u>	<u>\$1,754,870</u>	<u>\$10,891,379</u>	<u>\$1,290,038</u>

<u>Yard Waste Utility</u>	Balance <u>Jan. 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>Dec. 31, 2013</u>	Current <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ --	\$ --	\$ --	\$ --	\$ --
Loans payable	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total bonds and loans	--	--	--	--	--
Other noncurrent liabilities					
Accrued compensated absences	1,761	2,131	1,835	2,057	1,061
Interfund payable	211	--	62	149	64
Net pension obligation	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total other noncurrent liabilities	<u>1,972</u>	<u>2,131</u>	<u>1,897</u>	<u>2,206</u>	<u>1,125</u>
	<u>\$ 1,972</u>	<u>\$ 2,131</u>	<u>\$ 1,897</u>	<u>\$ 2,206</u>	<u>\$ 1,125</u>

(8) Related Party Transactions

During the course of operations, numerous transactions occurred between the Utilities and City for goods and services rendered. The Water Utility received public fire protection revenue from the City of \$3,529,770 in 2013. The Utilities also received \$710,271 in 2013 from the City for other water, sewer and stormwater services.

The City received the following from the Utilities in 2013:

	Water <u>Utility</u>	Wastewater <u>Utility</u>	Stormwater <u>Utility</u>	Yard Waste <u>Utility</u>	Electric <u>Utility</u>	<u>Totals</u>
Self insurance	\$2,250,856	\$2,245,952	\$ 553,742	\$ 3,957	\$ --	\$ 5,054,507
Garage services	625,932	639,403	197,090	152	--	1,462,577
Overhead charges	541,851	834,518	290,994	5,017	--	1,672,380
Office and technical services	58,427	149,791	24,200	367	--	282,785
Transfers out in lieu of taxes						
	<u>2,350,188</u>	<u>3,840,297</u>	<u>1,172,951</u>	<u>--</u>	<u>--</u>	<u>7,363,436</u>
Totals	<u>\$5,827,254</u>	<u>\$7,709,961</u>	<u>\$2,238,977</u>	<u>\$ 9,493</u>	<u>\$ --</u>	<u>\$15,785,685</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

(9) Interfund Assets and Liabilities

As of December 31, 2013, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

Due from City:

<u>Receivable Fund</u>	<u>Payable Fund</u>					<u>Total</u>
	<u>General</u>	<u>Benefits</u>	<u>Barrett Law</u>	<u>Garage</u>	<u>Solid Waste</u>	
Water	\$35,882	\$ --	\$ --	\$ 993	\$ 512	\$37,387
Wastewater	2,397	--	23,557	833	788	27,575
Stormwater	7,433	\$ 1,089	--	187	274	8,983
Electric	--	--	--	--	--	--
Yard Waste	--	--	--	--	5	5
Total	<u>\$45,712</u>	<u>\$ 1,089</u>	<u>\$23,557</u>	<u>\$ 2,013</u>	<u>\$ 1,579</u>	<u>\$73,950</u>

Due to City:

<u>Receivable Fund</u>	<u>Payable Fund</u>					<u>Total</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	
General	\$ 16,467	\$ 49,840	\$ 3,467	\$ --	\$ 22	\$ 69,362
Benefits	16,076	16,915	4,023	--	24	37,038
CSQ Parking	790	1,345	461	--	7	2,603
Garage	59,794	62,705	15,311	--	13	137,823
MVH	16,004	3,926	255	--	--	20,185
Solid Waste	<u>468,862</u>	<u>722,106</u>	<u>251,796</u>	--	<u>4,341</u>	<u>1,447,105</u>
Total	<u>\$577,993</u>	<u>\$856,837</u>	<u>\$274,879</u>	<u>\$ --</u>	<u>\$ 4,407</u>	<u>\$1,714,116</u>

Interfund Receivables / Payables

In 2011, the Utilities participated in the City's Commercial Master Lease wherein the Utilities financed the purchase of rolling stock at a not to exceed value of \$1,322,000. The Utilities will repay the City with interest over the 5 year term of the lease. The Utilities have set up interfund payables to the City for its share of the Commercial Master Lease as follows:

<u>Interfund Payable</u>	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
Water Utility	\$ 122,045	\$ 194,937	\$ 316,982
Wastewater Utility	89,793	99,240	189,033
Stormwater Utility	55,216	92,681	147,897
Yard Waste Utility	<u>64</u>	<u>85</u>	<u>149</u>
Total	<u>\$ 267,118</u>	<u>\$ 386,943</u>	<u>\$ 654,061</u>

(10) Equity Transfers

The 10-year sewer capacity improvement program includes storm sewer construction funded through the Wastewater Utility or Stormwater Utility. New storm sewers allow old combined sewers to be converted to sanitary-only lines. As projects are completed, the new storm sewers are transferred from the Wastewater Utility to the Stormwater Utility and new sanitary

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

sewers are transferred from Stormwater Utility to Wastewater Utility. The amount transferred from Wastewater Utility to Stormwater Utility was \$2,587,423 in 2013.

(11) Risk Management

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

(12) Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

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

Funding Policy and Annual Pension Cost

The INPRS Board of Trustees establishes contribution requirements for plan members. The Utilities' annual pension cost for years ended 2013 and related information as provided by the actuary, is presented in this note.

Tables of Required Information

	<u>2013</u>
Annual required contribution (ARC)	\$ 2,220,130
Interest on net pension obligation (NPO)	38,934
Adjustment to ARC	<u>(48,583)</u>
Annual pension cost	2,210,481
Contributions made	<u>(1,897,249)</u>
Increase in NPO	313,232
NPO, beginning of year	<u>618,321</u>
NPO, end of year	<u>\$ 931,553</u>

Contribution rates:		Actuarial assumptions:	
City Utilities	10.00%	Investment rate of return	6.75%
Plan members	3%	Projected future salary increases:	
Actuarial valuation date	06/30/13	Total	3.25-4.5%
Actuarial cost method	Entry Age Normal	Cost-of-living adjustments	1.0%
Amortization method	Level Dollar, Closed		
Amortization period	30 years		
Amortization period (from date)	07/01/13		

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

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/11	\$ 2,039,056	72%	\$ 197,674
06/30/12	2,169,300	81%	618,321
06/30/13	2,210,481	86%	931,553

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL As a Percentage Of Covered Payroll ((a-b)/c)
07/01/11	\$14,974,245	\$30,722,830	\$(15,748,584)	49%	\$18,732,050	84%
07/01/12	14,019,294	32,405,116	(18,385,823)	43%	19,444,237	95%
07/01/13	16,179,281	32,668,450	(16,489,169)	50%	19,548,354	84%

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

The NPO amount is for the Utility as a whole. The NPO amount is allocated between the Utilities three major funds based upon a percentage of expenditures for the three Utilities.

(13) Commitments and Contingencies

Consent Decree:

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

Condemnation of Aqua Indiana's North Assets:

In June, 2002, the Utilities initiated condemnation of Aqua Indiana's North Assets. On February 12, 2008, the Utilities paid Aqua Indiana \$16.9 million and took possession of those condemned assets. The North Assets are now fully integrated with the Utilities' water and sewer systems and generating revenues for the respective Utilities at standard system-wide tariffs.

The purchase price was established through condemnation proceedings by Fort Wayne Board of Public Works and is currently being contested by Aqua Indiana in Wells County Circuit Court. Both Aqua Indiana and the City had tentatively agreed in a Letter of Intent signed June 27, 2013 to dismiss the litigation regarding the value of the North assets in exchange for other terms and conditions. Subsequently, the Fort Wayne Board of Public Works approved the definitive "Asset Acquisition Agreement" (AAA) converting the Letter of Intent into an actionable transaction (see note 14).

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Other:

The Utilities have entered into many contracts for various construction projects. Remaining contract payments as of December 31, 2013 for each utility are as follows:

Water Utility	\$ 2,695,175
Wastewater Utility	36,983,931
Stormwater Utility	<u>396,649</u>
	<u>\$ 40,075,755</u>

Major contracts awarded subsequent to December 31, 2013:

Board of Works <u>Award Date</u>	<u>Major Contract Project Description</u>	<u>Amount</u>
<u>Water Utility</u>		
02/19/2014	2014 Water Main Replacement Package #2	\$ 1,642,551
<u>Wastewater Utility</u>		
02/12/2014	2013 Cured in Place Pipe Package #3	\$ 1,178,934
03/19/2014	Taylor-Hale Sewer Separation	<u>2,140,753</u>
	Total Wastewater	\$ 3,319,687

(14) Subsequent Events

On April 23, 2014, the Fort Wayne Board of Public Works approved the Asset Acquisition Agreement (“AAA”) between Aqua Indiana, Inc. (Aqua) and the City of Fort Wayne (City) (together the Parties) wherein Aqua agrees to sell its Southwest water assets and settle the Aqua North Asset litigation in exchange for \$67 million of which \$16.9 million has already been paid. The “AAA” has many Exhibits and three ancillary agreements. Under the first ancillary agreement, Aqua agrees to treat 1.5 million gallons of sewage from the City per day for 10 years with an additional 5 years at varying volumes at the City’s discretion. The other two agreements address post acquisition issues such as: 1) job opportunities for any displaced Aqua employees, 2) meter reading services to enable Aqua to bill its sewer customers, 3) sewer territory modifications and protection, 4) sewer rate management and other matters.

The Fort Wayne Board of Public Works also approved the issuance of \$63 million Water revenue bonds to provide funds for the remaining purchase price (total purchase price of \$67 million less the \$16.9 million already paid for the North assets), the cost of integrating Aqua’s water system with the City’s water system and bond financing costs. The term of the bond may be up to 30 years and the interest rate cannot exceed 7%.

Both the Asset Acquisition Agreement with all its companion exhibits and agreements and the proposed revenue bond require Fort Wayne Common Council approval as well as

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2013

Indiana Utility Regulatory Commission (IURC) approval. Aqua is also under the IURC jurisdiction and will require IURC approval to divest itself of its Southwest water assets, among other things.

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