
City of Fort Wayne Utilities

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



Financial Statements

December 31, 2014

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	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	13-34



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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, 2014, 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 statements.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

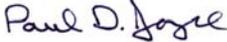
Emphasis of Matter

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, as of December 31, 2014, 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 18, 2015

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, 2014. 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 Utilities acquired water assets serving approximately 12,500 customers and settled litigation regarding the condemnation of water and sewer assets serving 9,600 customers. The purchase price of \$67 million, less \$16.9 million paid in 2008, was financed through revenue bonds issued in December 2014.
- The assets and deferred outflow of resources of the Utilities exceeded its liabilities (net position) as of December 31, 2014 and 2013 by \$528.0 million and \$508.5 million, respectively.
- The Utilities' net position increased for the years ended December 31, 2014 and 2013 by \$18.6 million before prior period adjustment of \$0.9 million and \$26.9 million, respectively.
- The Utilities' added new bonded debt and long-term loans payable for years ended December 31, 2014 and 2013 of \$72.7 million and \$101.3 million, respectively. The 2014 increase in debt consists of one new Water Revenue Bond, three new Wastewater SRF loans 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, 2014 and 2013 increased approximately \$10.6 million and \$7.0 million. Significantly, the Utilities continue to meet all 2009-2014 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 13-34 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		2013-2014	
	2014	2013	\$millions	%
Net capital assets	\$ 853.0	\$ 756.2	\$ 96.8	12.8%
Other assets	166.4	195.2	(28.8)	-14.8%
Total assets	\$ 1,019.4	\$ 951.4	\$ 68.0	7.1%
Deferred Outflow of Resources	\$ 0.4	\$ 0.4	\$ -	0.0%
Current liabilities	47.4	44.2	3.2	7.2%
Long term liabilities	444.4	399.1	45.3	11.4%
Total liabilities	491.8	443.3	48.5	10.9%
Total net position	\$ 528.0	\$ 508.5	\$ 19.5	3.8%
Net invested in capital assets	\$ 441.8	\$ 431.2	10.6	2.5%
Restricted	54.5	42.8	11.7	27.3%
Unrestricted	31.7	34.5	(2.8)	-8.1%
Total net position	\$ 528.0	\$ 508.5	\$ 19.5	3.8%

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

	(\$millions)		Variance	
	Year Ended December 31		2013-2014	
	2014	2013	\$millions	%
Operating revenues:				
Water service revenues	\$ 39.6	\$ 39.8	\$ (0.2)	-0.5%
Wastewater service revenues	57.4	56.8	0.6	1.1%
Stormwater service revenues	9.8	10.1	(0.3)	-3.0%
Electric revenues	0.0	0.0	0.0	0.0%
Yard Waste revenues	0.1	0.2	(0.1)	-50.0%
Total operating revenues	106.9	106.9	0.0	0.0%
Operating expenses:				
Water operations	33.6	29.5	4.1	13.9%
Wastewater operations	38.3	34.1	4.2	12.3%
Stormwater operations	6.5	6.8	(0.3)	-4.4%
Electric operations	0.0	0.0	0.0	0.0%
Yard Waste operations	0.1	0.1	0.0	0.0%
Total operating expenses	78.5	70.5	8.0	11.3%
Operating Income	28.4	36.4	(8.0)	-22.0%
Net nonoperating revenues (expenses)	(9.1)	(6.0)	(3.1)	51.7%
Income before capital contributions and transfers out	19.3	30.4	(11.1)	-36.5%
Capital contributions	6.9	3.8	3.1	81.6%
Net transfers out	(7.6)	(7.3)	(0.3)	4.1%
Increase in net position	18.6	26.9	(8.3)	-30.9%
Net position - January 1st	508.5	481.6	26.9	5.6%
Prior period adjustment - see note 12	0.9	0.0	0.9	100.0%
Net position - January 1st (restated)	509.4	481.6	27.8	5.8%
Net position - December 31st	\$ 528.0	\$ 508.5	\$ 19.5	3.8%

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 \$528.0 million and \$508.5 million as of December 31, 2014 and 2013, respectively. The largest portion (83.8%) of the Utilities' net position in 2014 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 (\$54.5 million, or 10.3%) represents resources that are subject to external restrictions on how they may be used.

The Utilities net position increased \$18.6 million and \$26.9 million for the years ended December 31, 2014 and 2013, respectively.

Capital Assets and Capital Improvement Program

The Utilities total capital assets in service are \$1.213 billion with an accumulated depreciation of \$360.2 million for a net book value of \$853.0 million. The statement of net position also includes \$78.3 million in construction in progress reflecting capital projects in various stages of completion. During 2014, approximately \$122.5 million was invested in capital projects (see Note 5).

Debt

At December 31, 2014, the Utilities had approximately \$468.9 million in bonds and loans payable, an increase of \$48.7 million over last year.

The Utilities closed on four new long-term bond/loan issues in 2014. The bonds' proceeds were used to fund significant capital expenditures. The new bond/loan issues in 2014 were:

- An open market water revenue bond for \$63.0 million payable over 20 years at range of rates of 2.00% to 4.00%.
- A traditional SRF wastewater loan for up to \$17.0 million over 20 years at 2.35%.
- A traditional SRF wastewater loan for up to \$60.9 million over 20 years at 3.074%.
- A taxable traditional SRF wastewater loan for up to \$5.0 million over 20 years at 3.074%

The Utilities paid principal of \$24.0 million and \$25.3 million in 2014 and 2013, respectively.

Economic Factors and Next Year's Budget and Rates

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

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

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

Council also authorized the issuance of another wave of bond financing; up to \$257 million in debt to fund the 2016-2019 capital plan that will accomplish a significant portion of the infrastructure investment required to fulfill the requirements of the Consent Decree. As of December 31, 2014, the Utilities have issued \$65.9 million debt associated with the \$257 million that Council authorized. In 2009, Council approved the issuance of up to \$265 million. Through December 31, 2014, the Utilities had exhausted the full amount authorized by Council in 2009.

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 21 combined sewer separation projects. The Utilities also constructed a CSO pond bleedback process that fully treats over 1 billion gallons of wastewater each year that previously entered the Maumee River only partially treated. Untreated wastewater storage capacity was increased by nearly 100 million gallons through several pond enhancement projects and the pump station used to fill those ponds has had its capacity increased to maximize the available storage.

The wastewater treatment plant upgrade is substantially complete and can treat up to 85 million gallons per day (mgd), which is our target capacity and is up from 60 mgd.

Lining wastewater pipelines significantly extends the life of the pipeline, improves overall system flow and reduces reactive maintenance. Since 2008, the Utilities have invested \$35 million to line approximately 153 miles of pipe. The annual pipe enhancement rate since 2008 is 1.4% which exceeds our annual goal of 1% per year.

The City of Fort Wayne has three rivers and each has its own control limits. The St Joe river expects to achieve its control limits in 2015, a full year earlier than planned.

The single largest project associated with satisfying the requirements of the Consent Decree is a large underground tunnel that swings north along the St

Mary's river, past the convergence of the three rivers and then follows along the Maumee to the Wastewater Plant. Preliminary design is substantially complete. The tunnel will be approximately 5 miles long, drilled through rock over 100 feet below ground and between 12 and 14 feet in diameter. The total project cost is estimated at \$180 million and the estimated completion date is planned for 2022.

- On December 4, 2014, the Utilities acquired from Aqua Indiana all of the water assets and a portion of the sewer assets that are located in Allen County Indiana. The terms of the acquisition included the settlement of litigation regarding the 2002 condemnation of a portion of the acquired assets. Aqua's assets were adjacent to the Utilities and over half of the customers have been integrated with the Utilities pre-acquisition systems. The total purchase price was \$67 million, of which \$16.9 million was paid in 2008. The net purchase price of \$50.1 million was funded by proceeds from a \$63 million bond issued in December 2014. Bond proceeds in excess of the net purchase price were used for financing and integration costs. The acquired utility assets include 312 miles of water pipe, 20 miles of wastewater pipe, 6 treatment plants, 5 water towers and 1,500 hydrants; servicing 1,600 sewer customers and 22,000 water customers consuming approximately 1.5 billion gallons of water per year.
- 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 the sources of those revenues; most significantly for public fire protection. Prior to 2014, the City paid City Utilities for public fire protection through a per hydrant

fee. Effective 2014, all water customers now 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, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Electric</u>	<u>Yard Waste</u>	<u>Total 2014</u>
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 9,982,379	\$ 3,141,470	\$ 6,035,413	\$ -	\$ 448,334	\$ 19,607,596
Investments	-	10,000,000	-	-	-	10,000,000
Receivables:						
Customers, net of allowance for doubtful accounts of \$25,450	3,820,415	5,839,075	972,708	-	5,364	10,637,562
Interest	17,400	20,662	-	-	-	38,062
Due from City of Fort Wayne	15,973	14,607	5,144	-	2	35,726
Materials and supplies	1,376,883	78,273	-	-	-	1,455,156
Prepaid expenses	82,616	76,046	1,614	-	9	160,285
Total current assets	15,295,666	19,170,133	7,014,879	-	453,709	41,934,387
NONCURRENT ASSETS:						
Restricted cash and cash equivalents	22,231,443	84,973,106	558,292	-	-	107,762,841
Restricted investments	5,050,424	5,050,424	-	-	-	10,100,848
Regulatory assets	3,257,811	2,021,126	96,141	-	-	5,375,078
Assessments receivable	-	1,168,048	-	-	-	1,168,048
Capital assets:						
Land	5,666,314	1,645,032	6,228,812	75,732	-	13,615,890
Distribution and collection	221,878,417	301,914,996	127,535,559	-	-	651,328,972
Buildings and improvements	84,113,909	140,296,720	2,840,743	1,121,198	68,777	228,441,347
Equipment and other	117,044,034	119,352,914	4,727,183	342,787	46,858	241,513,776
Less: Accumulated depreciation	(149,477,532)	(168,471,296)	(40,696,285)	(1,446,509)	(97,465)	(360,189,087)
Plus: Construction in progress	5,989,934	69,471,606	2,855,980	-	2,844	78,320,364
Net capital assets	285,215,076	464,209,972	103,491,992	93,208	21,014	853,031,262
Total noncurrent assets	315,754,754	557,422,676	104,146,425	93,208	21,014	977,438,077
Total assets	\$ 331,050,420	\$ 576,592,809	\$ 111,161,304	\$ 93,208	\$ 474,723	\$ 1,019,372,464
DEFERRED OUTFLOW OF RESOURCES	\$ -	\$ 370,750	\$ -	\$ -	\$ -	\$ 370,750
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	\$ 2,838,175	\$ 5,910,655	\$ 398,666	\$ -	\$ 16,519	\$ 9,164,015
Wages and withholdings payable	666,558	696,492	163,895	-	798	1,527,743
Due to City of Fort Wayne	589,761	799,405	301,027	-	2,938	1,693,131
Interfund payable - current portion	124,898	91,430	56,517	-	43	272,888
Compensated absences payable - current portion	584,977	521,239	140,097	-	790	1,247,103
Other current liabilities	821,560	1,352,586	25,000	-	-	2,199,146
Accrued interest payable	247,405	3,708,224	154,083	-	-	4,109,712
Bonds payable - current portion	3,620,000	11,475,000	1,155,000	-	-	16,250,000
Loans payable - current portion	3,357,000	6,048,612	-	-	-	9,405,612
Customer deposits	1,560,623	-	-	-	-	1,560,623
Total current liabilities	14,410,957	30,603,643	2,394,285	-	21,088	47,429,973
NONCURRENT LIABILITIES:						
Bonds payable, net of unamortized bond discount/premium	110,615,892	189,754,490	8,110,443	-	-	308,480,825
Loans payable	40,772,000	94,014,862	-	-	-	134,786,862
Interfund payable	70,323	7,412	36,306	-	14	114,055
Compensated absences payable	543,152	345,423	49,839	-	464	938,878
Total noncurrent liabilities	152,001,367	284,122,187	8,196,588	-	478	444,320,620
Total liabilities	\$ 166,412,324	\$ 314,725,830	\$ 10,590,873	\$ -	\$ 21,566	\$ 491,750,593
NET POSITION						
Net investment in capital assets	139,060,304	208,435,520	94,226,550	93,208	21,014	441,836,596
Restricted						
For debt service	12,950,472	39,111,490	404,209	-	-	52,466,171
For capital projects	313,247	1,685,304	-	-	-	1,998,551
Unrestricted	12,314,073	13,005,415	5,939,672	-	432,143	31,691,303
Total net position	\$ 164,638,096	\$ 262,237,729	\$ 100,570,431	\$ 93,208	\$ 453,157	\$ 527,992,621

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, 2014

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2014
OPERATING REVENUES:						
Charges for goods and services	\$ 39,569,738	\$ 57,375,547	\$ 9,780,647	\$ -	\$ 165,656	\$106,891,588
OPERATING EXPENSES:						
Personnel services	9,715,668	8,298,632	1,607,025	-	11	19,621,336
Contractual services	1,833,713	2,738,812	190,052	-	90,360	4,852,937
Utilities	1,504,565	2,156,675	-	-	-	3,661,240
Chemicals	2,465,615	819,944	-	-	-	3,285,559
Administrative services	4,250,054	6,171,486	2,277,724	-	25,449	12,724,713
Other supplies/services	4,944,414	5,168,413	183,946	-	4,454	10,301,227
Depreciation	8,861,325	12,903,192	2,214,644	753	3,758	23,983,672
Total operating expenses	33,575,354	38,257,154	6,473,391	753	124,032	78,430,684
Operating income (loss)	5,994,384	19,118,393	3,307,256	(753)	41,624	28,460,904
NONOPERATING REVENUES (EXPENSES):						
Investment income	50,853	185,019	8,941	-	-	244,813
Interest expense	(1,790,266)	(5,353,519)	(307,089)	-	-	(7,450,874)
Amortization of debt issuance costs	(254,161)	(216,142)	(27,380)	-	-	(497,683)
Loss on disposal of assets	(289,858)	(93,161)	(1,044,759)	-	-	(1,427,778)
Total nonoperating revenues (expenses)	(2,283,432)	(5,477,803)	(1,370,287)	-	-	(9,131,522)
Income before capital contributions and transfers	3,710,952	13,640,590	1,936,969	(753)	41,624	19,329,382
Capital contributions	955,594	5,869,748	32,947	-	-	6,858,289
Transfers in	-	-	2,028,330	-	-	2,028,330
Transfers out	(2,364,391)	(6,014,306)	(1,223,326)	-	-	(9,602,023)
Change in net position	2,302,155	13,496,032	2,774,920	(753)	41,624	18,613,978
Total net position-beginning of year	162,033,210	248,275,453	97,632,933	93,961	411,533	508,447,090
Restatement-change in accounting principle (note 12)	302,731	466,244	162,578	-	-	931,553
Total net position-beginning of year (restated)	162,335,941	248,741,697	97,795,511	93,961	411,533	509,378,643
Total net position-end of year	\$ 164,638,096	\$ 262,237,729	\$ 100,570,431	\$ 93,208	\$ 453,157	\$527,992,621

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2014

	Water	Wastewater	Stormwater	Electric	Yard Waste	Total 2014
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers	\$ 39,618,020	\$ 58,400,835	\$ 10,538,298	\$ -	\$ 190,863	\$ 108,748,016
Payments to suppliers	(13,496,983)	(15,619,004)	(2,555,582)	-	(124,042)	(31,795,611)
Payments to employees	(9,695,790)	(8,266,414)	(1,604,302)	-	(11)	(19,566,517)
Other receipts (payments)	(247,073)	(14,357)	11	-	7	(261,412)
Net cash provided by operating activities	<u>16,178,174</u>	<u>34,501,060</u>	<u>6,378,425</u>	<u>-</u>	<u>66,817</u>	<u>57,124,476</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers out	(2,364,391)	(3,985,976)	(1,223,326)	-	-	(7,573,693)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(65,596,378)	(44,110,537)	(2,962,702)	-	2,311	(112,667,306)
Proceeds from long-term debt	63,000,000	8,215,891	-	-	-	71,215,891
Bond discount & premium addition	1,487,625	-	-	-	-	1,487,625
Interest paid on long-term debt	(3,202,072)	(9,349,744)	(416,737)	-	-	(12,968,553)
Debt issuance costs	(1,105,911)	(215,647)	-	-	-	(1,321,558)
Principal paid on long-term debt	(6,261,001)	(16,401,057)	(1,110,000)	-	-	(23,772,058)
Proceeds from sales of assets	19,478	36,765	23,632	-	14	79,889
Contribution in aid of construction	9,013	13,043	7,947	-	-	30,003
Net cash provided (used) by capital and related financing activities	<u>(11,649,246)</u>	<u>(61,811,286)</u>	<u>(4,457,860)</u>	<u>-</u>	<u>2,325</u>	<u>(77,916,067)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	-	(10,000,000)	-	-	-	(10,000,000)
Sale of investments	-	30,000,000	-	-	-	30,000,000
Investment income received	34,313	203,659	8,941	-	-	246,913
Net cash provided by investing activities	<u>34,313</u>	<u>20,203,659</u>	<u>8,941</u>	<u>-</u>	<u>-</u>	<u>20,246,913</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,198,850	(11,092,543)	706,180	-	69,142	(8,118,371)
CASH AND CASH EQUIVALENTS, BEGINNING 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>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 32,213,822</u>	<u>\$ 88,114,576</u>	<u>\$ 6,593,705</u>	<u>\$ -</u>	<u>\$ 448,334</u>	<u>\$ 127,370,437</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	5,994,384	19,118,393	3,307,256	(753)	41,624	28,460,904
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	8,861,325	12,903,192	2,214,644	753	3,758	23,983,672
Provision for doubtful accounts	(2,005)	(3,860)	-	-	-	(5,865)
Changes in assets and liabilities:						
Receivables	48,282	1,025,288	757,651	-	25,207	1,856,428
Other assets	(245,068)	(10,497)	11	-	7	(255,547)
Accounts payable and other liabilities	1,521,256	1,468,544	98,863	-	(3,779)	3,084,884
Net cash provided by operating activities	<u>\$ 16,178,174</u>	<u>\$ 34,501,060</u>	<u>\$ 6,378,425</u>	<u>\$ -</u>	<u>\$ 66,817</u>	<u>\$ 57,124,476</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Capital assets acquired through accounts payable	\$ 1,464,897	\$ 3,954,656	\$ 310,388	\$ -	\$ -	\$ 5,729,941
Capital asset contributions	946,580	5,856,705	25,000	-	-	6,828,285
Interfund fixed asset contribution	-	(2,028,330)	2,028,330	-	-	-
Capitalized interest added to fixed assets	659,892	3,802,897	85,326	-	-	4,548,115

See accompanying notes to the financial statements.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

(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, 2014

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 2014, net interest capitalized was \$659,892 for the Water Utility, \$3,802,897 for the Wastewater Utility and \$85,326 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, 2014

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.

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

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

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

Classification of Revenue

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

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

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 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, 2014.

	Investment Maturities greater than one year					
	<u>Water</u> <u>Utility</u>	<u>Wastewater</u> <u>Utility</u>	<u>Stormwater</u> <u>Utility</u>	<u>Electric</u> <u>Utility</u>	<u>Yard Waste</u> <u>Utility</u>	<u>Total</u>
Certificate of Deposit	\$ 5,050,424	\$ 15,050,424	\$ --	\$ --	\$ --	\$ 20,100,848
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

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2014

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

(3) Restricted Assets

Restricted assets consisted of the following at December 31, 2014:

	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Stormwater Utility</u>	<u>Electric Utility</u>	<u>Yard Waste Utility</u>	<u>Total</u>
Cash and cash equivalents:						
Sinking fund	\$ 1,007,060	\$ 11,344,198	\$ 558,292	\$ --	\$ --	\$ 12,909,550
Debt service reserve	7,140,393	26,425,092	--	--	--	33,565,485
Construction	12,210,120	45,518,512	--	--	--	57,728,632
Airport expressway	313,247	--	--	--	--	313,247
Customer deposits	1,560,623	--	--	--	--	1,560,623
Connection fees	--	193,066	--	--	--	193,066
Septic elimination program	--	1,492,238	--	--	--	1,492,238
Total	<u>\$22,231,443</u>	<u>\$ 84,973,106</u>	<u>\$ 558,292</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$107,762,841</u>
Investments:						
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>\$ 5,050,424</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 10,100,848</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.

CITY OF FORT WAYNE UTILITIES

Notes to Financial Statements

December 31, 2014

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

Debt Service Reserve

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

Prior to 2009, all Utility revenue bonds' debt service reserves were funded through surety bond insurance except the Sewage Works Junior Revenue Bonds of 1998 A and 1998 B which were cash funded. As a result of the financial crisis that occurred in late 2008 – early 2009 and up to and including 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, 2014, 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, the 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, 2014

Customer Deposits

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

Connection Fees

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

Septic Elimination Program

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

(4) Assessments Receivable

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

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

(5) Capital Assets

The following changes occurred in capital assets during the years ended December 31, 2014

<u>Water Utility</u>	Balance		Adjustments/		Balance
	<u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2014</u>
Land	\$ 4,687,507	\$ --	\$ --	\$ 978,807	\$ 5,666,314
Distribution and collection	146,503,888	--	887,329	76,261,858	221,878,417
Buildings and improvement	73,500,961	2,689	--	10,610,259	84,113,909
Equipment and other	102,335,183	885,041	368,762	14,192,572	117,044,034
Construction in progress	<u>7,002,689</u>	<u>65,349,067</u>	<u>1,368,177</u>	<u>(64,993,645)</u>	<u>5,989,934</u>
	334,030,228	66,236,797	2,624,268	37,049,851	434,692,608
Less accumulated depreciation:					
Distribution and collection	35,663,243	2,574,822	715,927	24,676,273	62,198,411
Buildings and improvement	27,317,132	1,745,376	--	4,561,109	33,623,617
Equipment and other	<u>43,467,753</u>	<u>4,541,127</u>	<u>226,810</u>	<u>5,873,434</u>	<u>53,655,504</u>
	<u>106,448,128</u>	<u>8,861,325</u>	<u>942,737</u>	<u>35,110,816</u>	<u>149,477,532</u>
Net Capital Assets	<u>\$227,582,100</u>	<u>\$ 57,375,472</u>	<u>\$ 1,681,531</u>	<u>\$ 1,939,035</u>	<u>\$285,215,076</u>
<u>Wastewater Utility</u>	Balance		Adjustments/		Balance
	<u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2014</u>
Land	\$ 1,472,274	\$ --	\$ --	\$ 172,758	\$ 1,645,032
Distribution and collection	289,904,645	--	301,330	12,311,681	301,914,996
Buildings and improvement	140,383,324	--	--	(86,604)	140,296,720
Equipment and other	115,747,366	647,747	457,715	3,415,516	119,352,914
Construction in progress	<u>33,795,106</u>	<u>52,627,335</u>	<u>1,069,333</u>	<u>(15,881,502)</u>	<u>69,471,606</u>
	581,302,715	53,275,082	1,828,378	(68,151)	632,681,268
Less accumulated depreciation:					
Distribution and collection	69,851,411	4,543,938	301,330	1,533,900	75,627,919
Buildings and improvement	38,380,961	3,105,527	--	(743)	41,485,745
Equipment and other	<u>46,414,876</u>	<u>5,253,727</u>	<u>328,262</u>	<u>17,291</u>	<u>51,357,632</u>
	<u>154,647,248</u>	<u>12,903,192</u>	<u>629,592</u>	<u>1,550,448</u>	<u>168,471,296</u>
Net Capital Assets	<u>\$426,655,467</u>	<u>\$ 40,371,890</u>	<u>\$ 1,198,786</u>	<u>\$ (1,618,599)</u>	<u>\$464,209,972</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

<u>Stormwater Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2014</u>
Land	\$ 3,606,968	\$ --	\$ 1,064,922	\$ 3,686,766	\$ 6,228,812
Distribution and collection	123,314,304	--	--	4,221,255	127,535,559
Buildings and improvement	2,809,581	31,162	--	--	2,840,743
Equipment and other	4,653,587	148,204	116,895	42,287	4,727,183
Construction in progress	<u>6,001,448</u>	<u>2,757,456</u>	<u>--</u>	<u>(5,902,924)</u>	<u>2,855,980</u>
	140,385,888	2,936,822	1,181,817	2,047,384	144,188,277
Less accumulated depreciation:					
Distribution and collection	34,713,586	1,855,619	--	--	36,569,205
Buildings and improvement	584,121	63,702	--	--	647,823
Equipment and other	<u>3,282,801</u>	<u>295,323</u>	<u>113,426</u>	<u>14,559</u>	<u>3,479,257</u>
	<u>38,580,508</u>	<u>2,214,644</u>	<u>113,426</u>	<u>14,559</u>	<u>40,696,285</u>
Net Capital Assets	<u>\$ 101,805,380</u>	<u>\$ 722,178</u>	<u>\$ 1,068,391</u>	<u>\$ 2,032,825</u>	<u>\$103,491,992</u>
<u>Electric Utility</u>	Balance			Adjustments/	Balance
	<u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Dec. 31, 2014</u>
Land	\$ 75,732	\$ --	\$ --	\$ --	\$ 75,732
Distribution and collection	--	--	--	--	--
Buildings and improvement	1,121,198	--	--	--	1,121,198
Equipment and other	342,787	--	--	--	342,787
Construction in progress	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	1,539,717	--	--	--	1,539,717
Less accumulated depreciation:					
Distribution and collection	--	--	--	--	--
Buildings and improvement	1,120,446	54	--	--	1,120,500
Equipment and other	<u>325,310</u>	<u>699</u>	<u>--</u>	<u>--</u>	<u>326,009</u>
	<u>1,445,756</u>	<u>753</u>	<u>--</u>	<u>--</u>	<u>1,446,509</u>
Net Capital Assets	<u>\$ 93,961</u>	<u>\$ (753)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 93,208</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

<u>Yard Waste Utility</u>	Balance		Adjustments/		Balance
	Jan. 1, 2014	Additions	Disposals	Transfers	Dec. 31, 2014
Land	\$ --	\$ --	\$ --	\$ --	\$ --
Distribution and collection	--	--	--	--	--
Buildings and improvement	68,777	--	--	--	68,777
Equipment and other	52,656	--	--	(5,798)	46,858
Construction in progress	4,789	--	--	(1,945)	2,844
	<u>126,222</u>	<u>--</u>	<u>--</u>	<u>(7,743)</u>	<u>118,479</u>
Less accumulated depreciation:					
Distribution and collection	--	--	--	--	--
Buildings and improvement	48,431	3,439	--	--	51,870
Equipment and other	<u>50,694</u>	<u>319</u>	<u>--</u>	<u>(5,418)</u>	<u>45,595</u>
	<u>99,125</u>	<u>3,758</u>	<u>--</u>	<u>(5,418)</u>	<u>97,465</u>
Net Capital Assets	<u>\$ 27,097</u>	<u>\$ (3,758)</u>	<u>\$ --</u>	<u>\$ (2,325)</u>	<u>\$ 21,014</u>

(6) Asset Purchase and Settlement of Litigation

On December 4, 2014, the City (Utilities) acquired all of the water assets and a portion of the wastewater assets in Allen County, Indiana of Utility Center, Inc., doing business as Aqua, Indiana, Inc. (Aqua). The December 4th Asset Acquisition Agreement (AAA) also settled the outstanding litigation regarding the 2002 condemnation of a portion of Aqua's water and wastewater utility assets, provides for the treatment, by Aqua, of 1.5 million gallons per day of wastewater from the City spanning a 10 year period with an option for 5 additional years at volumes to be determined by the City and other 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) wastewater territory modifications and protection, 4) wastewater rate management and 5) other matters.

The total purchase price was \$67 million, of which \$16.9 million was paid in 2008. The entire purchase price was funded through bonds; the 2008 portion temporarily through a series of bond anticipation notes and permanently financed by the Water Revenue Bonds of 2012. The remaining balance of \$50.1 million was financed by the Water Revenue Bonds of 2014. The acquired utility assets included 312 miles of water pipe, 20 miles of wastewater pipe, 6 treatment plants and 5 water towers and 1,500 hydrants; servicing 1,600 sewer customers and 22,000 water customers annually consuming approximately 1.5 billion gallons of water.

Governmental Accounting Standards Board Statement 69 require the assets acquired be recorded at their acquisition price which is assumed to be the market-based entry price. An outside appraisal firm was utilized to assist with the valuation of individual assets. Individual assets were valued at fair market value and recorded at purchase price or fair market value,

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

whichever was less. The allocation of the \$67 million purchase price resulted in \$21,725,585 being allocated to the water assets acquired in 2008, \$1,868,168 to the wastewater assets acquired in 2008 and \$43,406,247 to the water assets acquired in 2014. Non-current wastewater assets were reduced from a net fair market value of \$3,228,513 to the purchase price of \$1,868,168. Net water assets' fair market value exceeded the purchase price by \$302,334, resulting in a reduction of non-current water assets acquired in 2014 of \$81,069 and the recognition of a deferred outflow of revenues for water assets acquired in 2008 of \$383,403. The Utilities elected to amortize fully the deferred outflow of revenues in 2014.

The Utilities have retired or will retire all but one of the newly acquired water treatment plants including supply wells and connecting appurtenances by the end of 2015. A reserve for obsolescence of \$7,975,505 was recorded in 2014 in anticipation of these retirements.

The Utilities assumed liabilities of \$581,835 for incentive contracts with developers that reimburse back to the developers a portion of the cost of their donated capital. The typical contract spans 10 years and the reimbursement occurs as residences connect to the water distribution system. No other liabilities were assumed as part of this Purchase Agreement.

(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 \$362,852 for Wastewater Utility in 2014. Developer notes payable were \$1,930,047 for Wastewater Utility in 2014. The debt accrues interest at prime, which as of the end of 2014 was at 3.25%, plus 1%. Developer notes payable are included in current liabilities.

(8) Long-Term Debt

Bonds Payable:

Water Utility bonds payable at December 31, 2014 are as follows:

Water Works Revenue Bonds of 2003 – original issue of \$5,800,000 – interest rates range from 4.00% to 4.250% and mature serially in amounts ranging from \$460,000 in 2015 to \$505,000 in 2017, redeemable prior to maturity for bonds maturing on or after 2014, plus unamortized bond premium of \$2,214.	\$1,447,214
Water Works Revenue Bonds of 2005 – original issue of \$16,700,000 – interest rates range from 4.00% to 4.13% and mature serially in amounts ranging from \$1,530,000 in 2015 to \$2,345,000 in 2019, redeemable prior to maturity for bonds maturing on or after 2015, plus unamortized bond premium of \$15,377.	9,380,377

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

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 \$1,145,000 in 2015 to \$2,975,000 in 2032, redeemable prior to maturity for bonds maturing on or after 2023, plus unamortized bond premium of \$478,180.	38,963,180
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 \$485,000 in 2015 to \$5,730,000 in 2034, redeemable prior to maturity for bonds maturing on or after 2024, plus unamortized bond premium of \$1,445,121.	<u>64,445,121</u>
Total	114,235,892
Less: Current portion	<u>(3,620,000)</u>
Noncurrent Bonds payable, net	<u>\$110,615,892</u>

Water Utility bond debt service requirements to maturity as of December 31, 2014 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,620,000	\$ 3,640,479	\$ 7,260,479
2016	3,815,000	3,534,268	7,349,268
2017	3,920,000	3,415,969	7,335,969
2018	4,030,000	3,293,206	7,323,206
2019	4,150,000	3,167,606	7,317,606
2020 to 2024	23,660,000	14,242,113	37,902,113
2025 to 2029	34,190,000	9,889,138	44,079,138
2030 to 2034	<u>34,910,000</u>	<u>3,653,800</u>	<u>38,563,800</u>
Total	<u>\$112,295,000</u>	<u>\$44,836,579</u>	<u>\$157,131,579</u>

Wastewater Utility bonds payable at December 31, 2014 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 \$1,055,000 in 2015 to \$1,775,000 in 2027, redeemable at 100% beginning in 2017, less unamortized bond discount of \$14,357.	\$ 17,935,644
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 \$1,780,000 in 2015 to \$3,135,000 in 2030, redeemable at 100% beginning in 2020, less unamortized bond discount of \$174,178.	37,410,822
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 \$2,605,000 in 2015 to \$3,490,000 in 2026, redeemable at 100% beginning in 2022.	35,520,000

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

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 \$1,005,000 in 2015 to \$1,295,000 in 2027, redeemable at 100% beginning in 2023, plus unamortized debt premium of \$527,772.	15,057,772
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 \$1,935,000 in 2015 to \$2,140,000 in 2022, redeemable at 100% beginning in 2021, plus unamortized debt premium of \$43,123.	16,313,122
Sewage Works Refunding Revenue Bonds of 2013 – original issue of \$7,335,000 – interest rate is 1.00% and mature serially in amounts from \$1,355,000 in 2015 to \$1,390,000 in 2018.	5,485,000
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 \$1,740,000 in 2015 to \$4,060,000 in 2024, plus unamortized debt premium of \$522,130.	31,247,130
Sewage Works Revenue Bonds of 2013, Series B – original issue of \$42,260,000 – interest rates range from 3.50% to 3.63% and mature serially in amounts from \$4,165,000 in 2025 to \$5,295,000 in 2033, redeemable at 100% beginning in 2023.	<u>42,260,000</u>
Total	201,229,490
Less: Current portion	<u>(11,475,000)</u>
Noncurrent Bonds payable, net	<u>\$189,754,490</u>

Wastewater Utility bond debt service requirements to maturity as of December 31, 2014 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	12,755,000	5,004,935	17,759,935
2020 to 2024	64,875,000	19,640,499	84,515,499
2025 to 2029	51,570,000	9,589,465	61,159,465
2030 to 2034	<u>23,335,000</u>	<u>1,982,270</u>	<u>25,317,270</u>
Total	<u>\$200,325,000</u>	<u>\$59,345,340</u>	<u>\$259,670,340</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

Stormwater Utility bonds payable at December 31, 2014 are as follows:

Stormwater Management District Revenue Bonds of 2006 – original issue of \$17,000,000 – interest rate is 4.00% and mature serially in amounts from \$1,155,000 in 2015 to \$1,500,000 in 2021, redeemable at 100% beginning in 2016, plus unamortized bond premium of \$20,443.	\$ 9,265,443
Less: Current portion	<u>(1,155,000)</u>
Noncurrent Bonds payable, net	<u>\$ 8,110,443</u>

Stormwater Utility bond debt service requirements to maturity as of December 31, 2014 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,375,000	172,400	1,547,400
2020 to 2021	<u>2,935,000</u>	<u>177,400</u>	<u>3,112,400</u>
Total	<u>\$9,245,000</u>	<u>\$1,543,600</u>	<u>\$10,788,600</u>

Loans Payable:

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

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, 2014 are as follows:

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

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 \$2,185,000 in 2015 to \$2,755,000 in 2021, redeemable prior to maturity for bonds maturing after 2017. \$17,225,000

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 \$1,172,000 in 2015 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2021. 26,904,000

Total 44,129,000
Less: Current portion (3,357,000)
Noncurrent Loan payable \$40,772,000

Water Utility anticipated loan debt service requirements to maturity as of December 31, 2014 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,901,000	965,657	4,866,657
2020 to 2024	12,935,000	2,948,145	15,883,145
2025 to 2029	9,001,000	1,424,605	10,425,605
2030 to 2031	<u>4,074,000</u>	<u>182,382</u>	<u>4,256,382</u>
Total	<u>\$44,129,000</u>	<u>\$10,690,150</u>	<u>\$54,819,150</u>

Details of all Wastewater Utility State Revolving Fund (SRF) loans payable at December 31, 2014 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 \$1,940,000 in 2015 to \$2,635,000 in 2025, redeemable prior to maturity for bonds maturing after 2017. \$ 24,970,000

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 \$242,658 in 2015 to \$248,547 in 2030, redeemable prior to maturity for bonds maturing after 2020. 3,929,462

Sewage Works SRF Revenue Bonds of 2011, Series B – Draw up to \$33,576,000 – the interest rate is 2.29% and matures serially in amounts ranging from \$1,443,000 in 2015 to \$2,073,000 in 2031, redeemable prior to maturity for bonds maturing after 2023. 29,586,000

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

Sewage Works SRF Revenue Bonds of 2012, Series A – Draw up to \$10,415,000 – as of December 31, 2014, total draw is \$9,920,302 – the interest rate is 1.78% and matures serially in amounts ranging from \$453,000 in 2015 to \$612,000 in 2032, redeemable prior to maturity for bonds maturing after 2024.	9,022,302
Sewage Works SRF Revenue Bonds of 2014, Series A – Draw up to \$17,000,000 – as of December 31, 2014, total draw is \$2,227,199 – the interest rate is 2.35% and matures serially in amounts ranging from \$720,000 in 2015 to \$1,094,000 in 2033, redeemable prior to maturity for bonds maturing after 2026.	2,227,199
Sewage Works SRF Revenue Bonds of 2014, Series B – Draw up to \$60,872,000 – as of December 31, 2014, total draw is \$73,319 – the interest rate is 3.074% and matures serially in amounts ranging from \$625,000 in 2016 to \$2,012,000 in 2034, redeemable prior to maturity for bonds maturing after 2027.	73,319
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 \$195,000 in 2016 to \$350,000 in 2034, redeemable prior to maturity for bonds maturing after 2027.	5,015,000
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 \$1,130,954 in 2015 to \$2,084,297 in 2030, redeemable prior to maturity for bonds maturing after 2020.	25,001,192
SRF Traditional loans:	
Sewage Works SRF Revenue Bonds of 2008 - original issue of \$906,000 – the interest rate is 2.0% and mature serially in amounts from \$119,000 in 2015 to \$120,000 in 2016, redeemable prior to maturity for all outstanding bonds.	<u>239,000</u>
Total	100,063,474
Less: Current portion	<u>(6,048,612)</u>
Noncurrent Loans payable	<u>\$ 94,014,862</u>

Wastewater Utility anticipated loan debt service requirements to maturity, after all remaining loan principal has been drawn down, as of December 31, 2014 are as follows:

<u>Year Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,048,612	\$ 4,285,875	\$ 10,334,487
2016	7,035,048	4,928,991	11,964,039
2017	7,133,442	4,730,664	11,864,106
2018	7,346,875	4,527,982	11,874,857
2019	7,561,431	4,318,699	11,880,130
2020 to 2024	45,524,250	18,147,117	63,671,367
2025 to 2029	55,304,152	10,754,146	66,058,298
2030 to 2034	<u>40,175,844</u>	<u>2,857,640</u>	<u>43,033,484</u>
Total	<u>\$176,129,654</u>	<u>\$54,551,114</u>	<u>\$230,680,768</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

Changes in Long-Term Liabilities

The following is a summary of long-term obligations for the Utilities for the year ended December 31, 2014:

<u>Water Utility</u>	Balance <u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>Dec. 31, 2014</u>	Current <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$ 52,681,465	\$64,487,625	\$2,933,198	\$114,235,892	\$3,620,000
Loans payable	<u>47,550,000</u>	<u>--</u>	<u>3,421,000</u>	<u>44,129,000</u>	<u>3,357,000</u>
Total bonds and loans	100,231,465	64,487,625	6,354,198	158,364,892	6,977,000
Other noncurrent liabilities					
Accrued compensated absences	1,369,552	642,525	883,948	1,128,129	584,977
Interfund payable	316,982	--	121,761	195,221	124,898
Net pension obligation (see note 12)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total other noncurrent liabilities	<u>1,686,534</u>	<u>642,525</u>	<u>1,005,709</u>	<u>1,323,350</u>	<u>709,875</u>
	<u>\$101,917,999</u>	<u>\$65,130,150</u>	<u>\$7,359,907</u>	<u>\$159,688,242</u>	<u>\$7,686,875</u>
<u>Wastewater Utility</u>	Balance <u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>Dec. 31, 2014</u>	Current <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$212,554,346	\$ --	\$11,324,856	\$201,229,490	\$11,475,000
Loans payable	<u>97,028,640</u>	<u>8,215,891</u>	<u>5,181,057</u>	<u>100,063,474</u>	<u>6,048,612</u>
Total bonds and loans	309,582,986	8,215,891	16,505,913	301,292,964	17,523,612
Other noncurrent liabilities					
Accrued compensated absences	1,015,352	706,515	855,205	866,662	521,239
Interfund payable	189,033	--	90,191	98,842	91,430
Net pension obligation (see note 12)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total other noncurrent liabilities	<u>1,204,385</u>	<u>706,515</u>	<u>945,396</u>	<u>965,504</u>	<u>612,669</u>
	<u>\$310,787,371</u>	<u>\$8,922,406</u>	<u>\$17,451,309</u>	<u>\$302,258,468</u>	<u>\$18,136,281</u>
<u>Stormwater Utility</u>	Balance <u>Jan. 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>Dec. 31, 2014</u>	Current <u>Portion</u>
Bonds and loans					
Revenue bonds payable, net	\$10,381,265	\$ --	\$1,115,822	\$9,265,443	\$1,155,000
Loans payable	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total bonds and loans	10,381,265	--	1,115,822	9,265,443	1,155,000
Other noncurrent liabilities					
Accrued compensated absences	199,639	199,063	208,766	189,936	140,097
Interfund payable	147,897	--	55,074	92,823	56,517
Net pension obligation (see note 12)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total other noncurrent liabilities	<u>347,536</u>	<u>199,063</u>	<u>263,840</u>	<u>282,759</u>	<u>196,614</u>
	<u>\$10,728,801</u>	<u>\$199,063</u>	<u>\$1,379,662</u>	<u>\$9,548,202</u>	<u>\$1,351,614</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

<u>Yard Waste Utility</u>	Balance Jan. 1, 2014	<u>Additions</u>	<u>Deductions</u>	Balance Dec. 31, 2014	Current Portion
Bonds and loans					
Revenue bonds payable, net	\$ --	\$ --	\$ --	\$ --	\$ --
Loans payable	--	--	--	--	--
Total bonds and loans	--	--	--	--	--
Other noncurrent liabilities					
Accrued compensated absences	2,057	286	1,089	1,254	790
Interfund payable	149	--	92	57	43
Net pension obligation (see note 12)	--	--	--	--	--
Total other noncurrent liabilities	<u>2,206</u>	<u>286</u>	<u>1,181</u>	<u>1,311</u>	<u>833</u>
	<u>\$ 2,206</u>	<u>\$ 286</u>	<u>\$ 1,181</u>	<u>\$ 1,311</u>	<u>\$ 833</u>

(9) Related Party Transactions

During the course of operations, numerous transactions occurred between the Utilities and City for goods and services rendered. The Utilities received \$752,375 in 2014 from the City for water, sewer and stormwater services.

The City received the following from the Utilities in 2014:

	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	\$2,412,350	\$2,321,952	\$ 559,240	\$ 2,871	\$ --	\$ 5,296,413
Garage services	659,737	644,276	185,273	111	--	1,489,397
Overhead charges	567,584	824,186	304,184	3,399	--	1,699,353
Office and technical services	194,835	310,155	115,616	318	--	620,924
Transfers out in lieu of taxes	<u>2,364,391</u>	<u>3,985,976</u>	<u>1,223,326</u>	--	--	<u>7,573,693</u>
Totals	<u>\$6,198,897</u>	<u>\$8,086,545</u>	<u>\$2,387,639</u>	<u>\$ 6,699</u>	<u>\$ --</u>	<u>\$16,679,780</u>

(10) Interfund Assets and Liabilities

As of December 31, 2014, amounts due from/to other funds of the City resulting from various interfund transactions were as follows:

Due from City:

<u>Receivable Fund</u>	<u>Payable Fund</u>		<u>Total</u>
	<u>General</u>	<u>Garage</u>	
Water	\$14,953	\$ 1,020	\$15,973
Wastewater	13,725	882	14,607
Stormwater	4,978	166	5,144
Electric	--	--	--
Yard Waste	<u>2</u>	<u>--</u>	<u>2</u>
Total	<u>\$33,658</u>	<u>\$ 2,068</u>	<u>\$35,726</u>

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

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	\$ 31,178	\$ 26,931	\$ 26,255	\$ --	\$ 44	\$ 84,408
Benefits	9,005	7,921	1,794	--	9	18,729
CSQ Parking	866	1,322	488	--	4	2,680
Garage	58,100	66,903	15,495	--	10	140,508
MVH	11,079	--	--	--	--	11,079
Solid Waste	<u>479,533</u>	<u>696,328</u>	<u>256,995</u>	--	<u>2,871</u>	<u>1,435,727</u>
Total	<u>\$589,761</u>	<u>\$799,405</u>	<u>\$301,027</u>	<u>\$ --</u>	<u>\$ 2,938</u>	<u>\$1,693,131</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	\$ 124,898	\$ 70,323	\$ 195,221
Wastewater Utility	91,430	7,412	98,842
Stormwater Utility	56,517	36,306	92,823
Yard Waste Utility	<u>43</u>	<u>14</u>	<u>57</u>
Total	<u>\$ 272,888</u>	<u>\$ 114,055</u>	<u>\$ 386,943</u>

(11) Equity Transfers

The 10-year sewer capacity improvement program includes storm sewer construction funded through the Wastewater Utility or Stormwater Utility. New storm sewers allow old combined sewers to be converted to sanitary-only lines. As projects are completed, the new storm sewers are transferred from the Wastewater Utility to the Stormwater Utility and new sanitary sewers are transferred from Stormwater Utility to Wastewater Utility. The amount transferred from Wastewater Utility to Stormwater Utility was \$2,028,330 in 2014.

(12) Restatements – Change in Accounting Principle

Effective July 1, 2013, the Indiana Public Retirement System (INPRS), which is the administrator of the Utilities' PERF, changed PERF from an agent multiple-employer retirement plan to a cost-sharing multiple employer retirement plan. This change is effective for the Utilities beginning January 1, 2014. Due to this change, the Statement of Net Position does not include a net pension obligation for the fiscal year ended December 31, 2014 and a restatement for change in accounting principle was implemented to eliminate the net pension obligation reported December 31, 2013 by increasing Total Net Position as of January 1, 2014 by \$931,553. This restatement is reflected in the Statement of Revenues, Expenses,

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

and Changes in Net Position for the year ended December 31, 2014 as a restatement of Total net position – beginning of year.

(13) 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.

(14) Pension Plan

Public Employees' Retirement Fund

Plan Description

The Utilities contribute to the Public Employees' Retirement Fund (PERF), a defined-benefit pension plan. On July 1, 2013 PERF changed from an agent multiple-employer public employee retirement system to a cost-sharing multiple employer retirement plan. PERF 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, through the Indiana Public Retirement System (INPRS) Board, 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.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information of 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 Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

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

PERF members are required to contribute three percent of their annual covered salary. The Utility is required to contribute at an actuarially determined rate; the rate for 2014 is 11.2 percent of the annual covered payroll. The contribution requirements of plan members and the Utility are established and may be amended by the INPRS Board of Trustees. The Utilities' contributions to the plan for the years ending December 31, 2014, 2013 and 2012 were \$2,196,819, \$1,912,301 and \$1,913,087 respectively, which were equal to the required amount for each year.

(15) 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.

CITY OF FORT WAYNE UTILITIES
Notes to Financial Statements
December 31, 2014

Aqua Agreement:

As part of the Asset Acquisition Agreement (AAA) executed December 4, 2014, the City shall pay \$2.75 per thousand gallons of sewage conveyed to Aqua Indiana, Inc. and a minimum of \$1,505,625 per year for each of the first 5 years after the 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. Items 1 and 3 have transpired and item 2 is pending approval. The rate and minimum shall be adjusted by a consumer price index (CPI) escalator and will cover an additional 5 years. For years 11 through 15, the rate will escalate by a CPI escalator and the annual minimum shall be \$120,000 per year.

Other:

The Utilities have entered into many contracts for various construction projects. Remaining contract payments as of December 31, 2014 for each utility are as follows:

Water Utility	\$ 4,135,307
Wastewater Utility	31,459,430
Stormwater Utility	<u>36,961</u>
	<u>\$ 35,631,698</u>

Major contracts awarded subsequent to December 31, 2014:

Board of Works <u>Award Date</u>	<u>Major Contract Project Description</u>	<u>Amount</u>
<u>Water Utility</u>		
03/04/2015	Gaywood-Warsaw Area Main Replacement	<u>\$ 1,637,901</u>
<u>Stormwater Utility</u>		
01/07/2015	Beckett's Run Stream Relocation	\$ 2,447,499
01/28/2015	Spy Run Channel Improvements	<u>1,250,386</u>
	Total Wastewater	<u>\$ 3,697,885</u>