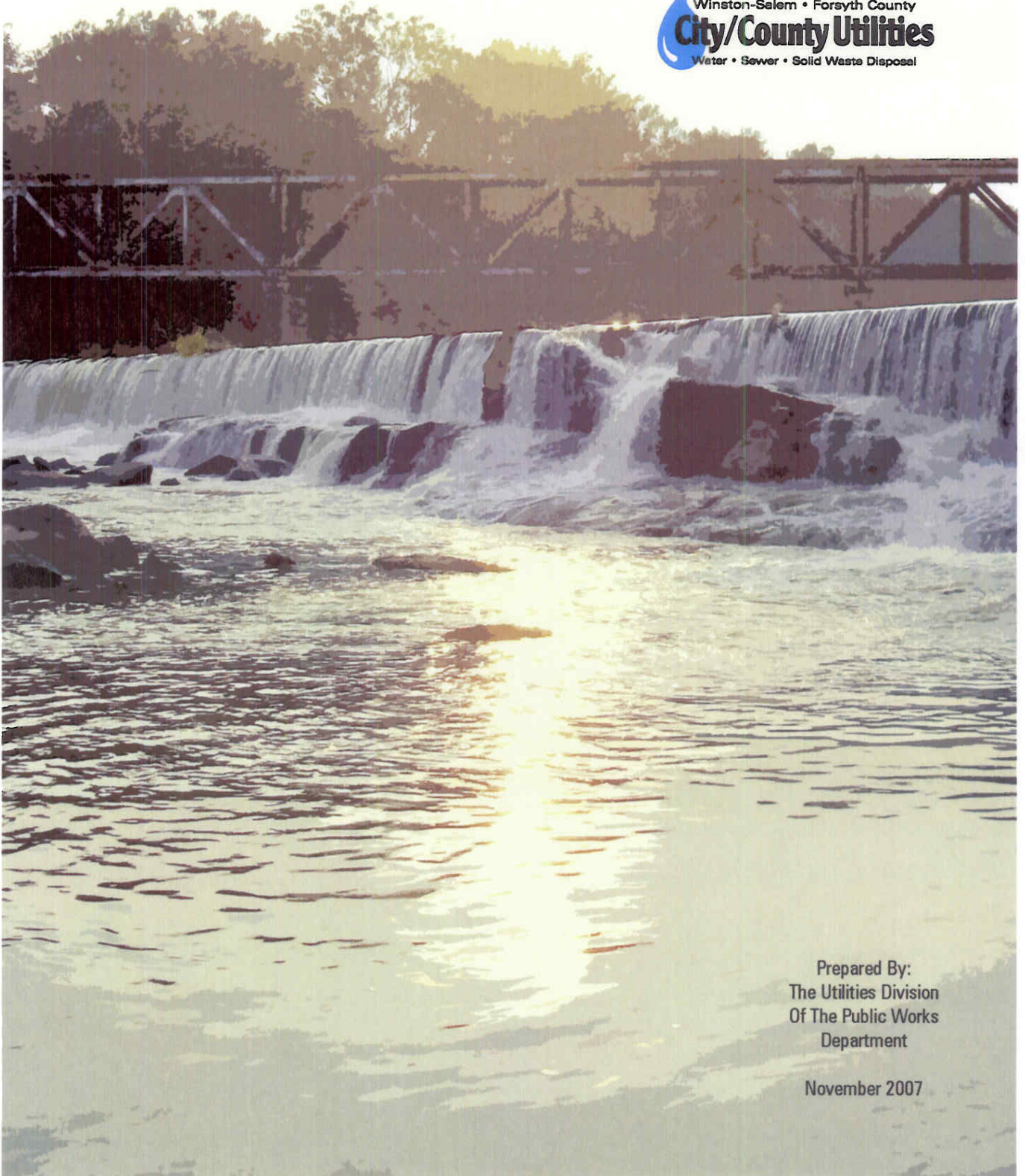


2007 ANNUAL REPORT OF THE CITY/COUNTY UTILITY COMMISSION



Prepared By:
The Utilities Division
Of The Public Works
Department

November 2007

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TABLE OF CONTENTS

Memo to the City Manager

I.	Introduction	
	Description and Purpose of the City/County Utility Commission	3
	History	4
	Ownership	5
	Governance	5
	Finances of the Commission	5
	Operations of the Commission	6
II.	Water and Wastewater Overview	
	Review of Operational and Financial Data	7
	Status of Water and Wastewater Projects	8
	Water Distribution	8
	Water Treatment	8
	Wastewater Collection	8
	Wastewater Treatment	9
	Key Data Comparisons	
	Then and Now	10
	Water and Sewer Comparison of Financial Data	10
	Water and Sewer Charges for Five Major Municipalities	11
	Future Challenges and Opportunities	
	Wastewater Treatment	12
	Wastewater Collection System Permit Compliance Process	13
	Wastewater Collection/System Performance	16
	Water and Sewer Audited Financial Statements	17
III.	Solid Waste Management and Disposal	
	Review of Solid Waste Operations and Financial Data	24
	Status of Solid Waste Projects	26
	Hanes Mill Road Landfill	26
	Landfill Gas System	26
	Forum 52 Yardwaste Facility	26
	Woodcliff Drive Homes	26
	Construction and Demolition Recycling Facility and Landfill	27
	Disposal Rate Comparison	27
	Future Challenges and Opportunities	28
	Audited Financial Statements - Solid Waste Disposal Programs	29

Memorandum

TO: Lee Garrity, City Manager

FROM: Gregory M. Turner, P.E., Assistant City Manager

SUBJECT: Annual Utility Commission Report to the City Council

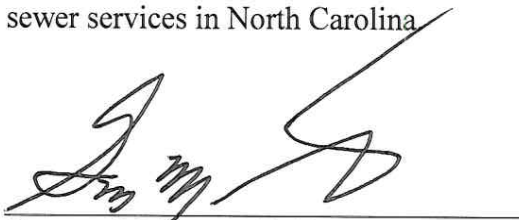
DATE: November 29, 2007

The Public Works Department is pleased to present the fifth annual City/County Utility Commission Annual Report. The goal of this report is to highlight our financial status, cost of service, service quality levels, and the status of our water, sewer, and solid waste programs.

As in the past, this report addresses the regulations on water, sewer, and solid waste operations as well as the challenges provided by more private sector competition on the solid waste programs and our strategy for meeting those challenges.

The Utilities Division will continue to maintain and upgrade our facilities, water distribution and wastewater collection systems, wastewater treatment processes, and our solid waste programs.

The City/County Utility Commission and the Utilities Division staff persists in working to deliver safe and reliable services while striving to provide some of the lowest cost water and sewer services in North Carolina.



Gregory M. Turner, P. E.
Assistant City Manager/Public Works

INTRODUCTION

The City/County Utility Commission is a self-financing enterprise with over 350 experienced professionals who are diligent in working to provide reliable services to our customers. The Commission endeavors to make sound financial decisions and exercise good business practices as evidenced by having some of the lowest water and sewer rates in the State of North Carolina. Staff has maintained over 2,036 miles of water main lines and more than 1,481 miles of collector/inceptor sewer lines during FY 2006-7. This year 15 billion gallons of water has been treated and pumped and approximately 28,136 tons of pollutants were removed from our system by regulated treatment processes. The Division's Biosolids Disposal unit annually provides local area farmers with approximately 248 tons of nutrients as part of the Commission's biosolid's land application program. The Utility Commission and the staff of the Utilities Division work to provide water, sewer, and solid waste services for more than 117,000 customers within the City of Winston-Salem, Forsyth County, and the towns of Clemmons, Kernersville, Rural Hall, Walkertown, and Lewisville.

The School Recycling Program is supported by the Solid Waste fund which provides recycling services to more than 74 school campuses in the Winston-Salem/Forsyth County school system, in addition to maintenance and administration facilities. The recycling program is one of only a few comprehensive programs in the entire state! The Solid Waste fund also supported the City of Winston-Salem's Curbside Collection Program and the County's Drop-off Program for residential recycling.

As in previous years, public education efforts were aimed at keeping our customers informed about Utility Division policies, programs, and projects. Information campaigns this year have focused on cross-connection control, sewer back-flows, and proper grease disposal to eliminate overflows. Materials were printed in both English and Spanish and were distributed to the community through ads in local newspapers and the City of Winston-Salem's cable channel, TV-13.

The division takes seriously the responsibility to maintain the training certification and skills of its employees. The staff works very hard to improve their operating knowledge and professional expertise in the areas of water, wastewater, and landfill operations.

More than 72 employees attended professional certification courses and 47 achieved new or increased levels of certification. Collectively over 1,061 hours of professional development training has been achieved. Field crews have read over 711,654 meters; responded to over 65,000 turn on/off service requests; repaired 138 main breaks; responded to 1,601 sewer main and service line stops; and provided clean-up services to 39 property owners who experienced sewer back up problems. Through our customer service team over 3,913 leak investigations including meter maintenance and field investigations have been performed. The Utilities Division has provided assistance to customers more than 333,820 times over the telephone, via the web, or in person during this fiscal year alone!

DESCRIPTION AND PURPOSE

Appointed Board: Utility Commission (City/County)

Date of Inception: Authority for establishing the Utility Commission is N.C.G.S. 160A-460 et.seq. The Utility Commission was created by an interlocal agreement between the City of Winston-Salem and Forsyth County on April 20, 1976.

Current Structure: 11 member Commission: Five members appointed by City Council upon recommendation of the Mayor; five members appointed by Forsyth County Board of Commissioners; the Chairperson of the Utility Commission appointed jointly by the Mayor and the Chairperson of the Forsyth County Board of Commissioners.

Chairperson serves two-year term; five-term limit. Remaining 10 members serve staggered five-year terms; two-term limit.

Purpose: Set policy for all publicly owned water, wastewater, and solid waste disposal facilities;

Be responsible for the long range planning, funding, operation and maintenance of the above facilities;

Fix rates, charge assessments, and provide improvements and extensions to utilities facilities;

Review utility extension policies and rate structures;

Receive comments and suggestions from the public and hold public hearings concerning matters under the authority of the Commission.

Description of Utilities Division Responsibilities:

The Utilities Division of the City of Winston-Salem Public Works Department performs all responsibilities for water treatment and distribution, sewage collection and treatment, and solid waste disposal in accordance with policies established by the Utility Commission. The Utilities Division provides day to day technical and administrative assistance to the Commission. The division is also responsible for capital improvements under the direction of the Commission. Management of the Utilities division offers information to the Commission regarding policy changes that will benefit citizens and future growth, maintenance and operation of the system.

HISTORY

The Utility Commission was created on April 20, 1976 through a joint consolidation agreement between the City and the County. Under the terms of the agreement, the Utility Commission would operate all water and sewer facilities throughout the City and the County under policies established by the Commission and subject to the provisions and guidelines of the agreement. At the beginning of fiscal year 1976-77, when the agreement went into effect, the County conveyed all real property, equipment, supplies and materials constituting a part of the County's water and sewerage facilities, including existing water and sewer lines, to the City of Winston-Salem. The City of Winston-Salem agreed to pay to the County, from utility revenues, the amount needed by the County to meet its water and sewer debt service obligations, which were all satisfied in FY1999-2000.

On February 19, 1990, the City and the County approved an amendment to the original consolidation agreement authorizing the Commission to provide solid waste disposal services as well as create a source reduction and recycling program. The responsibilities given to the Commission under this amendment includes composting, land filling and all other measures necessary to comply with North Carolina General Statute 130A, as amended, and all other applicable state and federal laws and regulations.

In October 1996, the consolidation agreement was amended once again. The second amendment authorized the Commission to charge customers outside of Forsyth County a premium rate for water and sewer treatment services and to set aside one half of the rate in excess of the Forsyth County rate in an Economic Development Fund. Additionally, the second amendment allowed customers that were members of the Region I Council of Government who were outside of Forsyth County to have separate contracts with the Commission.

A third amendment to the consolidation agreement was approved on January 6, 2003 which allowed the Commission to use monies in the utilities fund for the purchase of land. The amendment stipulated that any such purchase made by the Commission must be consistent with the Legacy Planning Guide.

Ownership

The Utility Commission operates all water and sewerage facilities of the consolidated system as originally agreed upon. It was the intent of the original agreement and subsequent amendments that the Commission maintains, operate, and improve all of the system assets. All decisions regarding the management of these assets are delegated to the Commission by the City and County except for decisions about the disposal of these assets. Ownership and the responsibility for the disposal of these assets is the City's, pursuant to the original 1976 consolidation agreement. The Utility Commission has no authority to issue bonds or incur debts without prior approval from the City Council.

Governance

The Commission has three standing committees: The Operations Committee which considers items relating to the long-term operation of both the water/wastewater and solid waste disposal programs; the Finance Committee which considers items related to the finances of both the water/wastewater and solid waste disposal programs; and the Planning and Policy Committee which considers changes to policies and procedures for the operation of the water/wastewater and solid waste disposal programs. Committee membership is as follows: four members shall belong to the Finance Committee, three members on the Operations Committee and three members shall sit on the Planning and Policy Committee. The Chair of the Commission appoints the members of each committee and designates one person as Committee Chairperson and another as Vice-Chairperson.

Finances of the Commission

Funding to operate, maintain and extend City/County water, sewer and solid waste services comes from five sources: water/sewer user fees, assessments, interest earned on the Utility Commission's reserve funds, tipping fees and from revenue bonds issued against the Commission's revenue stream.

Utility Commission policies provide that Capital Improvement Program projects like plant expansions, major facility upgrades, transmission mains, outfalls, and pump stations are funded through user fees charged bi-monthly to customers for water and sewer services. These facilities benefit all customers and therefore, all customers are expected to help fund them. Each year the Utility Commission determines if new projects in these categories should be paid for with generated balances from fund user fee funds or financed with new debt.

These decisions are made based on the cost of financing and advice from the City's Chief Financial Officer. The Commission receives no financial support from property or sales taxes paid by citizens of Winston-Salem or Forsyth County.

The local collection and distribution systems, known as street mains, are funded by the properties that are served by them. When new properties are developed, system lines are required to be installed by the developer and subsequently dedicated to the Utility Commission for ownership and operation. When owners of existing properties request service extensions, the extension requests are provided for under the Utility Commission's assessment programs.

The Utility Commission's policies for setting assessment rates follow the guidance established in the North Carolina General Statutes. Each year the Commission reviews construction costs from the previous year and sets a new assessment rate designed to recover the cost of a typical installation. New customers benefit from this process in that the rates they are assessed are from previous years' construction costs and are not adjusted upward for annual inflationary factors. In many cases, customers are not actually assessed for two to three years after the cost of the extension is established, allowing them a considerable discount against the actual cost of installation.

Operations of the Commission

The Utilities Commission and its staff adhere to the same general processes and procedures regarding the operation of its systems as all other City Departments. Day to day operations of the City/County Utility Division Systems is administered in the Utilities Division under the management of the Assistant City Manager or the City Manager. The financial assets are managed by the Finance Department and the City's Budget Office assists with the preparation of the Commission's budget. Negotiations for property acquisitions are conducted by the Real Estate Office while the Purchasing Office manages all other system asset acquisitions. The Engineering Division provides the Utilities Division with design and project management services for main line extension projects. Additionally, due to the specialized nature of the work of division operations and facilities, outside consultants may be enlisted to provide assistance in scopes of service outside of staff expertise. The City Attorney's Office provides legal assistance to the Commission and its staff when necessary. Major maintenance and repairs of the division's building facilities are handled through the Property Management Division.

Water and Wastewater Overview

REVIEW OF FY 06-07 OPERATIONAL AND FINANCIAL DATA

During FY 2006-07, approximately 15 billion gallons of water was treated and pumped, over 12 billion gallons of wastewater was treated and 28,136 tons of pollutants were removed from the waste stream. More than ninety nine percent (99.995%) of the wastewater generated by the system's customers was collected and delivered to the Commission's treatment facilities.

Two major customers on our list of top ten customers in the system ceased operation in FY 2006-07 for a combined total loss of 1.26 million gallons of water and sewer per day (MGD). The impact of the revenue loss was partially off-set by a modest growth in the number of water and sewer lines built by developers and dedicated back to our system. As a result of the loss of those two major industrial facilities, revenues for FY 06-07 were \$1,306,342 less than projected. However, a decrease in budgeted operating expenses in the amount of \$1,955,590 offset the revenue loss. Net operating income of \$20,874,675 was \$649,248 higher than projected. Nonoperating expenses included \$21,304,803 for debt service and were offset by nonoperating income in the amount of \$9,481,369 for investment income and donated assets of \$5,876,291. There was a net change in assets for the fiscal year in the amount of \$15,272,044.

The Winston-Salem/Forsyth County Utility System's revenue bonds have the following credit ratings: AAA from Standard and Poor's Rating Agency (one of sixteen ratings nationwide); Aa2 from Moody's Investor Service and AA from Fitch. High credit ratings result in debt being issued at lower interest costs when financing capital improvements. Given the projections of capital needs for the next five years, a lower cost of capital will enable the Commission to meet those needs with greater savings.

STATUS OF WATER & WASTEWATER PROJECTS

Water Distribution

The City/County Utility Commission (CCUC) oversees the operation of the water distribution system. During this fiscal year over 22 miles of new main lines have been added to the system that provides treated water to a large portion of Winston-Salem and Forsyth County.

Maintenance and repair of the existing systems assure our customers that all components of the infrastructure are in proper functioning condition.

Water Treatment

The Utilities Division has an on-going commitment to improving the efficiency and operation of its facilities. As part of those efforts, the Neilson Water Treatment Plant completed the upgrades of its chemical feed system which feeds chemicals like coagulants and disinfectants to improve the treatment process during FY 2006-07. This project modernized the current system by consolidating various existing systems into one location. The project also included upgrading the electrical systems in the chemical building and expansion of the Supervisory Control and Data Acquisition (SCADA) system to current standards. The total cost for this project was \$3.8 million. These improvements add to the level of protection needed to meet increasingly stringent federal water quality regulations.

Improvements to the Idols Dam were being constructed during this fiscal year. The remaining portion of the old power generation station has deteriorated to the point that it is a safety hazard. Additionally, sediment has built up in front of the power house and has begun to affect the City's water intake facility. The improvements to the Idols facilities will reduce the city's liability and protect our ability to draw raw water from the Yadkin River. The new design will also allow us to continue to produce potable water at two treatment facilities. This project is part of the Commission's current Capital Improvement Projects (CIP).

Wastewater Collection

During the past year, over \$8.6 million was invested in sewer main rehabilitation projects. These projects replace older less reliable infrastructure with newer sewer lines, resulting in fewer leaks and service interruptions. These improvements correct problems such as cracked pipes, misaligned joints, sagging lines, and root intrusion.

The majority of the rehabilitation projects took place in the areas of Ardmore Branch Outfall, Children's Home/Manhattan Outfall, Kernersmill sub-basin, Oaklawn and Tech Avenues, and the West End area. Other areas where improvements have been made are Wake Forest University, Hanes Mall Boulevard, and Forsyth Country Club area. Additional improvements are scheduled in FY 2007-08 for the Ardmore area sewer, Polo Road outfall and continuing with the West End area rehabilitation. These improvements total \$5.9 million.

Wastewater Treatment

The Muddy Creek Wastewater Plant is one of two wastewater treatment facilities that process wastewater generated by a variety of customers. Currently, construction of an effluent pump station to handle high flows during storm events is nearing completion at the plant. The new pump station and emergency generators that were added last year are needed to protect the treatment process during flood events. Bids on the pump station were received in August 2006 and an award was authorized in September 2006. The total contract award approved was \$2.4 million. Construction is expected to be completed by December 2007.

At the Archie Elledge Wastewater Treatment Plant, construction of the Class A Biosolids Drying facility continues. Once completed in January 2008, the facility will utilize excess methane from the existing treatment process to convert dewatered biosolids into a dried pellet much like granular fertilizer. A contract for the construction of this facility was awarded in the amount of \$15.9 million. The drying facility is a part of the Commission's Biosolids Management CIP. The total project, which includes supporting facilities like a digester mixing and additional dewatering capability, air quality scrubbers, a truck loading/weighing facility, and a biosolids transfer pipeline from the Muddy Creek plant, is anticipated to cost \$29.7 million upon completion.

The Elledge Plant has been in operation since 1959 and many parts of the plant are showing signs of deterioration. As a result of the existing conditions, an assessment of the oldest portions of the plant was made. Most notably, the intermediate pumping station that lifts the wastewater to a sufficient height so that it will flow by gravity through the rest of the treatment process has structural deficiencies that are in need of immediate attention. The improvements necessary to mitigate any deficiencies identified with the pump station and other older portions of the plant will be constructed as a part of the Commission's Primary and Preliminary Treatment Upgrade project. The total budget for this multi-year CIP is \$49 million.

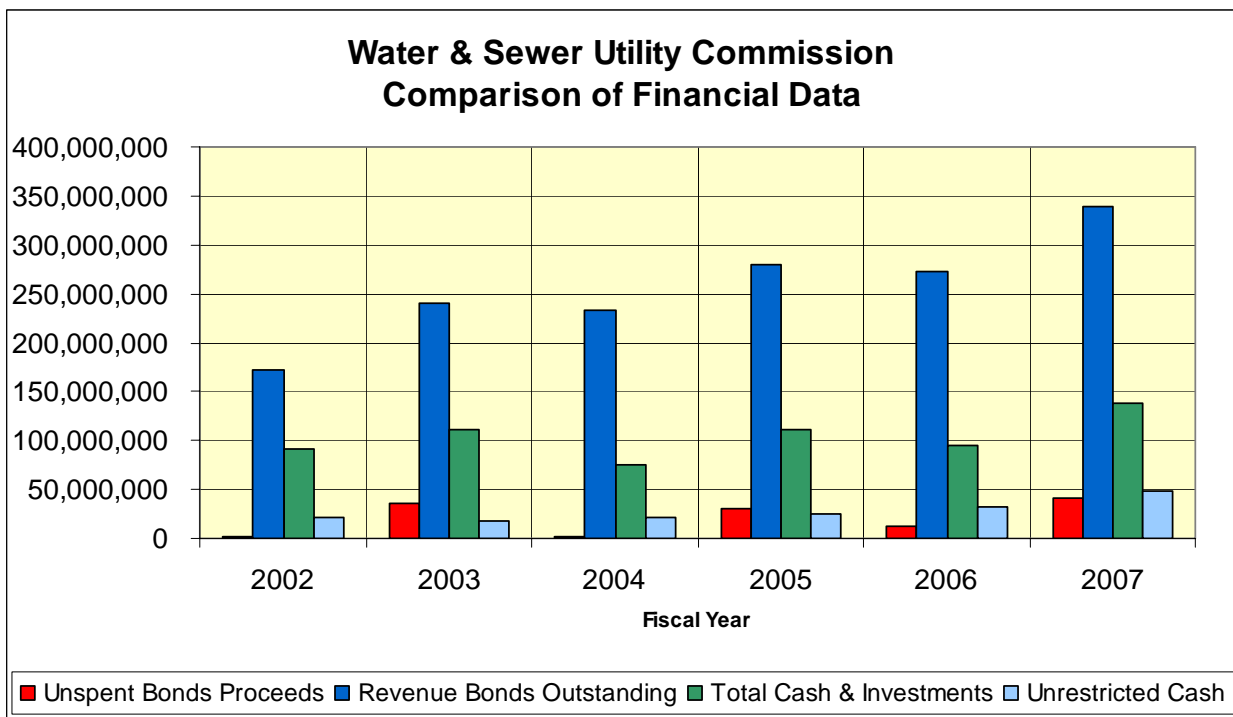
KEY DATA COMPARISONS

THEN AND NOW

Water	1976*	2007
Total Water Customers	54,985	117,484
Miles of Water Lines	1,046	2,035
Water Treated Per Day	29MGD	41 MGD
Number of Employees	126	152
Sewer	1976	2007
Total Wastewater Customers	31,385	88,901
Miles of Sewer Lines	690	1,481
WW Treated Per Day	21.5MGD	34.21 MGD
Number of Employees	134	167

(Figure A)

- The City of Winston-Salem City Council and the Forsyth County Commissioners created the joint City/County Utility Commission.



(Figure B)

WATER & SEWER CHARGES FOR FIVE MAJOR MUNICIPALITIES
(Based on 1600 cf bimonthly)

City	No. of Customers	Bimonthly Charge	Median Household Income	*TOTAL COST OF SERVICE (%)
Durham	79,000	\$87.38	\$48,280	1.08%
Charlotte	232,400	\$82.90	\$46,278	1.07%
Greensboro	92,000	\$84.46	\$50,192	.94%
Raleigh	120,000	\$64.69	\$46,612	.83%
Winston-Salem	117,000	\$53.20	\$39,536	.81%

(Figure C)

* According to EPA data, costs of water and sewer are considered affordable if the total cost of service is less than 2.5% of the Median Household Income.

Future Challenges and Opportunities

Wastewater Treatment

Residuals Management

The final stage of the 1993 Residuals Master Plan is to construct a biosolids drying facility at the Elledge Plant that would convert the current system from Class B biosolids to a new drying system that generates Class A biosolids¹. The drying facility will utilize the excess methane from the existing Class A treatment process to convert the Class B dewatered biosolids cake into a dried less regulated Class A pellet that has a consistency much like granular fertilizer. This process was selected because the end product is the most environmentally inert residual that can be used directly by consumers as an organic fertilizer or soil amendment. Also, the product volume will be five times less than the dewatered product currently being produced. The facility is expected to be completed in January 2008.

While the new facility was under construction, a survey of other drying facilities was conducted to determine if the operations, maintenance and product marketing was performed by either in-house staff or as a contracted service. The results indicated that typically the operations and maintenance was accomplished with in-house staff. Product marketing and disposal was almost always performed via contracted service. From this survey a staffing plan was developed for the operation and maintenance of the new process. The operating and maintenance staff needed for the dryer facility were included and approved with the FY 2007-08 budget. All of the positions for the new facility have been filled as of October 2007.

A marketing study was conducted that identified a mixed group of possible end users such as fertilizer manufacturers, bulk agricultural users, and bulk lawn and garden centers. The end uses identified were all beneficial reuse of the product which was the main goal of the study. In order to successfully market our Class A biosolids product, a business process was developed that centered around a contract marketer or end user. A request-for-proposal to purchase the Class A biosolids product was submitted to four interested firms who were marketers and/or end users. All four firms responded to the proposal with a price (\$/ton) to purchase the product.

¹ Class A” refers to the Environmental Protection Agency 503 regulations which describe the quality of the biosolids. Class A is the highest quality and the least regulated biosolids product.

Prices ranged from +\$3/ton to -\$27/ton for the product. Currently contract negotiations are taking place with a firm for the beneficial reuse of the Class A biosolids product. Anticipated revenue from this product will be approximately \$30,000 per year.

Archie Elledge Wastewater Treatment Plant Infrastructure Rehabilitation/Replacement

Portions of the Archie Elledge WWTP have been in service since the late 1950s and are beginning to show signs of serious deterioration. Due to prolonged exposure to the elements and hydrogen sulfide gases, corrosion of the structures has begun to take place.

The most serious conditions exist in the oldest portions of the plant such as the intermediate pumping station inside the main control building, the electrical distribution system and the underground pipe associated with the primary clarifiers. One underground 60-inch pipe has already collapsed due to corrosion effects. The most significant structural issue identified to date is the concrete floor over the intermediate pumping station. It has deteriorated to the point that it is now unsafe to walk on it. A recent engineering analysis of this facility concluded that there are only a few more years remaining in its useful life.

The current CIP has a Primary and Preliminary Treatment upgrade project that will replace the older infrastructure portions of the Elledge Plant and move it away from flood prone areas. This project has been accelerated because it appears that the conditions of some critical facilities are much worse than originally thought. The project is currently under design by two different engineering firms to expedite the design process. The first firm is currently designing a new influent pumping station and electrical distribution system for the plant. The second firm is designing four new primary clarifiers and associated facilities. The proposed cost of this project is anticipated to be approximately \$50 million. Construction is expected to start in FY 2009-10 with completion scheduled for FY 2010-11.

Wastewater Collection System Permit Compliance Process

On August 31, 2005, the Utilities Division was issued a Wastewater Collection System Permit by the NC Division of Water Quality's (DWQ). This permit sets requirements on system performance, operations, maintenance, record keeping, monitoring and reporting, and inspection expectations that have immediate impact to the Commission's operation. The action by DWQ also requires that system owners and operators demonstrate that a proactive and preventative maintenance program is in place to eliminate overflows.

Earlier this year our consultant completed Phase II of the Capacity, Management, Operations, and Maintenance evaluation which made recommendations on how to improve the maintenance and management of our collection system. The evaluation identified areas in need of improvement such as: system performance and analysis; organizational structure; information management; improved operation and maintenance; inspection of high priority lines; and planning for reinvestment into the collection system by rehabilitation and replacement.

Over the past 12 months, Utilities Division staff has been implementing a series of tactical work plans and programs to address each of the areas in need of improvement. We now have a Utilities Information Systems Project coordinator to manage and work closely with the City's Information Systems Department to develop reports designed to fully document work activities specifically addressed in the Collection System Permit. The majority of the reporting has been completed and is being used to evaluate our performance on an ongoing basis so that we may reallocate resources to meet specific permit requirements. These reports give us a better picture of the additional assets, resources and personnel that will be required to remain in compliance in the future. We have also begun utilizing new mobile technologies that will put the information at the fingertips of those who need it most while giving us the ability to gather additional data at the same time.

The recommendations also suggest that the Utilities Division make better use of the information generated by our field crews to enhance our decision making and prioritization of work efforts. With that in mind, we are gaining the ability to better utilize our Geographic Information System and work order management system to isolate "problem areas" in the collection system which helps us focus our resources and better plan our Capital Improvements Program. We have also updated our Sanitary Sewer Overflow Policies and Procedures document and distributed it among all the field staff to ensure that we follow the proper reporting procedures and that each case is handled properly. We have also updated the Good Neighbor Policy and made this information known to all citizens and more specifically, the plumbing community. The change in this policy should allow staff to spend less time dealing with property side issues and focus on our infrastructure's needs.

The division has also begun to refine preventive maintenance programs in addition to tracking work activities such as cleaning, Closed Circuit TV work, chemical root treatment, right-of-way maintenance, and mainline repair and rehabilitation.

This year we will have three different preventive sewer line maintenance contracts in place: chemical root control, hydraulic and mechanical cleaning of sewer lines and Right-of-Way maintenance. Each maintenance contract has the ability to be renewed each year for 4 years. These contracts will help supplement our own staff and help us achieve the goals required in the Permit.

There are many on-going tasks that are being performed by staff that were identified by the evaluation. One such task is the need to categorize our system by age because a significant amount of our system is in excess of 50 years old and is in need of improvement. It is anticipated that major portions of the system will need rehabilitation or replacement in upcoming years. To help address this issue, it is anticipated that we will have renewable rehabilitation construction contracts available every year.

There are several new hurdles this year that staff has been challenged to address. The Division of Water Quality (DWQ) began issuing Notice of Violations (NOV) in June for every Sanitary Sewer Overflow that is reported. Starting December 1, 2007, there will be Civil Penalties levied as a result of any overflow over 1,000 gallons. Staff has been in communication with the State as well as other municipalities to determine how to best address these issues. A secondary requirement set forth by the State is the Flow Tracking Certification statement that has been added to the Permit for new sewer extensions to the system. A Consulting Engineering company has been hired to help us evaluate and analyze potential problem areas within our system and help develop a program that will satisfy the DWQ's new requirements. Internally, we are reviewing the permitting process to see if it can be streamlined and determine what changes we may need to undertake to satisfy the State as well as protect our ability to self permit.

The implementation of new programs will require additional personnel to cover the operational requirements like annual inspections, preventive maintenance programs, system monitoring, recordkeeping, and rapid response to overflow events. Over 600 miles of our sewer system is located off-street, in wooded and overgrown areas. In most of these areas, some clearing and mowing is required to simply be able to access the sewer lines for periodic inspection. This will require labor and coordination of resources to meet this obligation, and this will be a new focus area for the Utilities operation. These new programs will also impact capital spending since they require funding of asset replacement and improvement rehabilitation projects.

Wastewater Collection/System Performance

The Commission oversees the third largest collection system in North Carolina and although the Utilities Division has more than 70 employees dedicated to operating and maintaining the system, sanitary sewer overflows will unfortunately continue to occur. Sanitary sewer overflows occur when sewer lines are obstructed or have reduced capacity due to inflow or infiltration of ground or surface water. Sewer overflows must be reported whenever more than 1,000 gallons is spilled or any amount of untreated sewer reaches a surface water body.

During FY 2006-07, the Utilities Division experienced 40 overflows greater than 1,000 gallons. Almost half, 49.1%, of all line blockages were associated with the accumulation of fats, oils, and greases in the collection system. This percentage represents a reduction in the percent of overflows attributed to fats, oils, and greases, which are down from 53.8% in FY 2005-06. This reduction is attributed to the Commission's Grease Interceptor Ordinance and public education efforts which have now been in place for three years.

In summary, the sanitary sewer system has new requirements for improving operational performance. Although effort is currently being placed on operational performance and major system improvement projects, much more effort will be required. As a result, more staff, equipment, information technology, and funding must be available and in place to ensure success.

Despite these challenges, the cost of water/sewer service in Winston-Salem/Forsyth County remains well below the affordability index set by the US Environmental Protection Agency (EPA), and the actual costs are less than any other major system in the state.

City of Winston-Salem, North Carolina

Enterprise Funds

Water and Sewer Utility Fund - Statement of Net Assets
June 30, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 49,090,453	\$ 31,906,179
Receivables, net of allowance for uncollectibles		
Accounts	8,338,862	7,646,332
Assessments	<u>1,194,325</u>	<u>1,181,060</u>
Total receivables	9,533,187	8,827,392
Inventories	<u>2,398,364</u>	<u>2,263,601</u>
Total current assets	61,022,004	42,997,172
Noncurrent Assets		
Restricted Assets		
Cash and cash equivalents		
Equipment and replacement fund		
Reserved	48,417,217	47,764,798
Unreserved	-	3,559,047
Construction		
Trustee construction fund	40,951,008	11,757,494
Capital fund	<u>-</u>	<u>-</u>
Total restricted assets	89,368,225	63,081,339
Property and Equipment		
Land	12,750,280	12,405,725
Buildings	149,698,613	149,254,450
Improvements other than buildings	503,975,726	479,550,025
Machinery and equipment	16,411,264	15,655,756
Construction in progress	<u>93,613,881</u>	<u>62,192,193</u>
Total property and equipment	776,449,764	719,058,149
Less accumulated depreciation	<u>235,780,261</u>	<u>-</u>

	<u>218,986,555</u>	
Property and equipment, net	540,669,503	500,071,594
Other		
Unamortized financing costs	<u>2,717,490</u>	<u>2,218,776</u>
Total noncurrent assets	<u>632,755,218</u>	<u>565,371,709</u>
Total assets	<u>693,777,222</u>	<u>608,368,881</u>

Liabilities	2007	2006
Current liabilities		
Accounts payable	\$ 4,474,540	\$ 3,712,092
Accrued payroll	566,134	105,639
Accrued interest payable	906,070	673,772
Prepaid assessments	329,744	224,854
Current maturities		
Contracts payable	378,965	554,188
Bonds payable	<u>9,590,000</u>	<u>8,040,000</u>
Total current liabilities	16,245,453	13,310,545
Noncurrent liabilities		
Contracts payable from restricted assets	7,981,847	1,774,876
Accrued vacation	658,698	645,768
Contracts payable	1,204,732	1,352,641
Bonds payable	<u>327,328,113</u>	<u>260,076,868</u>
Total long-term liabilities	<u>337,173,390</u>	<u>263,850,153</u>
Total liabilities	<u>353,418,843</u>	<u>277,160,698</u>
Net Assets		
Invested in capital assets, net of related debt	240,919,855	241,805,391
Restricted	<u>99,438,524</u>	<u>89,402,792</u>
Total net assets	<u>\$ 340,358,379</u>	<u>\$ 331,208,183</u>

City of Winston-Salem, North Carolina

Enterprise Funds

Statement E-5

Water and Sewer Utility Fund - Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Sales		
Water	\$ 28,723,810	\$ 27,438,192
Sewer	22,215,852	21,212,775
Industrial waste surcharge	<u>2,339,045</u>	<u>2,309,568</u>
Total sales	53,278,707	50,960,535
Charges for services		
New connections	1,699,695	1,599,923
Special area and privilege charges	525,625	292,062
Main line capital cost revenue	<u>251,088</u>	<u>176,075</u>
Total charges for services	2,476,408	2,068,060
Other	<u>2,253,633</u>	<u>2,392,046</u>
Total operating revenues	58,008,748	55,420,641
Operating Expenses		
Personal services	15,480,574	15,015,226
Maintenance and operations	<u>21,653,499</u>	<u>20,810,998</u>
Total operating expenses before depreciation	37,134,073	35,826,224
Depreciation	<u>16,975,362</u>	<u>15,964,411</u>
Total operating expenses	<u>54,109,435</u>	<u>51,790,635</u>
Operating income	3,899,313	3,630,006
Nonoperating Revenues (Expenses)		
Investment income	9,380,183	5,796,226
Gain on disposal of assets	60,287	26,391
Damage settlements	2,890	6,099
Interest and fiscal expense	(9,420,837)	(9,889,421)
Amortization of financing costs	<u>(629,253)</u>	<u>(670,681)</u>
Total nonoperating expenses, net	<u>(606,730)</u>	<u>(4,731,386)</u>

Loss before capital contributions and operating transfers	3,292,583	(1,101,380)
Capital Contributions		
Conveyances	4,731,558	5,321,135
Intergovernmental revenue	797,408	1,016,625
Other	<u>347,325</u>	<u>59,181</u>
Total capital contributions	<u>5,876,291</u>	<u>6,396,941</u>
Operating Transfers Out		
General fund	<u>(18,678)</u>	<u>-</u>
Change in net assets	9,150,196	5,295,561
Total net assets - beginning	<u>331,208,183</u>	<u>325,912,622</u>
Total net assets - ending	<u>\$340,358,379</u>	<u>\$ 331,208,183</u>

City of Winston-Salem, North Carolina

Enterprise Funds

Schedule E-7

Water and Sewer Utility Fund - Schedule of Revenues, Expenditures, and Transfers - Budget (Non-GAAP Basis) and Actual
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Sales			
Water	\$ 29,100,160	\$ 28,723,810	\$ (376,350)
Sewer	25,125,420	22,215,852	(2,909,568)
Industrial waste surcharge	<u>2,179,510</u>	<u>2,339,045</u>	<u>159,535</u>
Total sales	56,405,090	53,278,707	(3,126,383)
Charges for services			
New connections	2,110,000	1,699,695	(410,305)
Special area and privilege charges	400,000	525,625	125,625
Main line capital cost revenue	<u>400,000</u>	<u>251,088</u>	<u>(148,912)</u>
Total charges for services	2,910,000	2,476,408	(433,592)
Other	<u>-</u>	<u>2,253,633</u>	<u>2,253,633</u>
Total operating revenues	59,315,090	58,008,748	(1,306,342)
Operating Expenditures			
Personal services	15,937,460	15,480,574	456,886
Maintenance and operations	23,119,913	21,653,499	1,466,414
Capital outlay	<u>32,290</u>	<u>-</u>	<u>32,290</u>
Total operating expenditures	<u>39,089,663</u>	<u>37,134,073</u>	<u>1,955,590</u>
Operating income	20,225,427	20,874,675	649,248
Nonoperating Revenues (Expenditures)			
Investment income	1,699,110	9,481,369	7,782,259
Proceeds from sale of assets	-	60,300	60,300
Damage settlements	-	2,890	2,890
Interest and fiscal charges	(11,969,220)	(12,352,850)	(383,630)
Principal retirement	<u>(8,922,360)</u>	<u>(8,651,953)</u>	<u>270,407</u>
Total nonoperating expenditures, net	<u>(19,192,470)</u>	<u>(11,460,244)</u>	<u>7,732,226</u>
Income before capital contributions and transfers	1,032,957	9,414,431	8,381,474

Capital Contributions	-	5,876,291	5,876,291
Transfers Out			
General fund	<u>(20,000)</u>	<u>(18,678)</u>	<u>1,322</u>
Change in net assets - modified accrual basis	<u>\$ 1,012,957</u>	<u>\$ 15,272,044</u>	<u>\$ 14,259,087</u>

Reconciliation of Modified Accrual Basis to Full Accrual Basis

Change in Net Assets - Modified Accrual Basis	\$ 15,272,044
Depreciation	(16,975,362)
Unamortized financing costs	(629,253)
Principal retirement	8,651,953
Book value of disposed assets	(13)
Interest expense, net of investment income, capitalized on construction projects	<u>2,830,827</u>
Change in Net Assets - Full Accrual Basis	<u>\$ 9,150,196</u>

Solid Waste Management and Disposal

REVIEW OF FY 06-07 SOLID WASTE OPERATIONS AND FINANCIAL DATA

The Solid Waste Management program operates the Hanes Mill Road Landfill, the Old Salisbury Road Construction and Demolition Landfill, and the Overdale Road Yard Waste facility. This program is also responsible for leaf composting, scrap tire management, white goods disposal, and household hazardous waste management to meet applicable environmental and regulatory standards. This means strategically planning for future land and equipment needs, managing closed solid waste landfills and keeping up with current solid waste management regulations. This department also historically provided funding for the City's curbside recycling program, Forsyth County's drop-off recycling program, and the City/County Schools recycling program for FY 06-07.

The goal of the Solid Waste Management program is to provide, as an enterprise, environmentally and economically acceptable means of solid waste disposal for current and future wastes generated in Winston-Salem and Forsyth County. The Utility Commission is involved in an ongoing evaluation of ways to make the total solid waste disposal system more efficient while continuing to provide high quality solid waste programs in the future. Changes to the way the existing collection and disposal programs are operated and funded are all parts of the solutions being considered.

The Solid Waste program managed over 400,000 tons of municipal solid waste, construction and demolition debris, and yard waste during fiscal year 2006-2007. More than 6000 tons of scrap tires and 995 tons of appliances were recycled. The facilities serviced an average of 597 vehicles per day for a total of over 186,384 vehicles during the year, which is slightly reduced from the previous year. Historical data trends indicate that over the past few years, more waste has been hauled out of Forsyth County and disposed in privately operated landfills.

In an effort to reverse this trend of declining waste, a tiered tipping fee rate structure that discounts larger volume customers was approved by the Utility Commission in mid-2004. Implementing the new rate helped slow the trend of declining waste in FY 04-05.

In FY 05-06 tonnages at Hanes Landfill dropped below the previous year's levels, but were still higher than the lowest year (FY 03-04). In FY 06-07, tonnage increased slightly over the previous year. The following table illustrates these fluctuations in the waste stream in recent years.

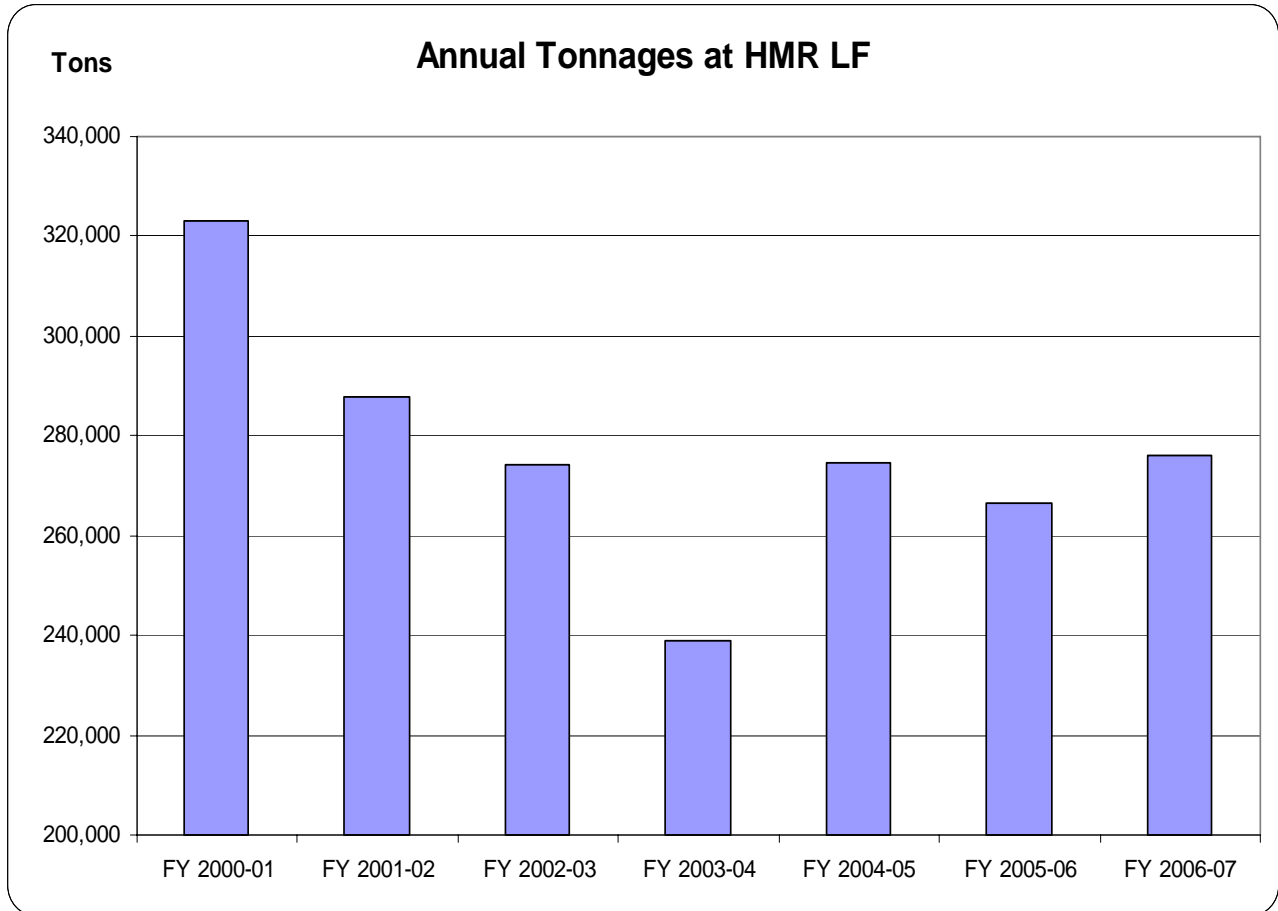


Table No. 1

Because the current solid waste funding structure relies almost entirely on tipping fee revenue to fund its programs, these fluctuations in waste stream are problematic. Revenue to fund all programs must be generated almost entirely by gate receipts at the Hanes Mill Road Landfill, which creates pressure to keep the waste stream from declining, which in turn resulted in the need for the tiered rate structure described above. Under the tiered structure, more tons of waste must be accepted to produce the same amount of revenue, thus consuming landfill space at a faster rate. Alternative funding systems would allow the landfill to set rates that reflect the true cost of providing the service, resulting in a more sustainable system in the long term. Examples of alternative funding systems include: implementation of a user fee for recycling services; implementing a recycling availability fee; or funding recycling through the City's general fund.

STATUS OF SOLID WASTE PROJECTS

Hanes Mill Road Landfill

The first cell of the landfill expansion, which consists of 22-acres, was placed into use in May 2005. Construction of the second 14 acre lined cell (located immediately adjacent to the initial 22 acre cell) was completed in late 2006, and it began receiving waste in April 2007. In conjunction with this cell construction, closure of about 40 acres of inactive landfill was completed. This closure involved construction of a final cover system consisting of compacted clay and a synthetic polyethylene cover to keep rainwater from coming in contact with waste. The area was planted with grass upon completion.

Landfill Gas System

Hanes Landfill has a landfill gas extraction system that collects gas generated by the decomposing waste. The gas is then delivered to the existing generation facility where it is converted into electrical power and sold back to the power grid. An expansion to the landfill gas extraction system was completed in 2006. In May 2007 an amendment to the landfill gas contract was executed, and the contractor that operates the gas to energy facility is now paying the CCUC for the gas harvested from the new expansion area. Over time, these payments will serve to offset the capital cost of installing the system.

Forum 52 Yardwaste Facility

On October 1, 2007, a new yardwaste/leaf composting facility was opened. This facility is located within the Forum 52 Industrial subdivision, off Highway 65 in Rural Hall. It will receive and process the same type waste as the Overdale Road facility, plus it will also receive and process leaves. Its northern location will improve the efficiency of the City's waste pickup program that occurs on the north side of the city.

Woodcliff Drive Homes

In 2002, the City Council adopted a resolution directing the Commission to offer to purchase all the homes on Woodcliff Drive as a concession to the Grassy Creek Neighborhood Association. Seventeen of the 18 houses on Woodcliff Drive were purchased by the Commission and 14 of those have been resold.

Construction and Demolition Recycling Facility and Landfill

The Utilities Division is taking the necessary steps to replace the Old Salisbury Road Landfill, which is projected to be full in 7 years. Approximately 435 acres have been purchased on the Forsyth/Stokes County line off US Highway 311 for the purpose of developing a recycling and disposal facility for construction and demolition (C&D) debris. The property was rezoned in June 2006, based on a plan that showed the entrance in Stokes County. Work is underway to relocate the entrance to Forsyth County, off of US Hwy 311. The new entrance design recently received conceptual approval from Norfolk Southern Railroad, and the rezoning plan is presently being revised to show this new entrance. Once complete, it will be re-submitted to the Planning Board and the Forsyth County Board of Commissioners for zoning approval.

Disposal Rate Comparison

As shown in Table 2 - *Solid Waste Disposal Rate Comparisons*, Winston-Salem has the second lowest tipping fee per ton at \$34.00/ton. Even so, as mentioned previously, tonnage volumes had been declining over the past several years.

SOLID WASTE DISPOSAL RATE COMPARISONS

City	Municipal Solid Waste Tipping Fee (per ton)	Construction & Demolition Disposal Fee (per ton)
Durham	\$39.50 ¹	\$39.50
High Point	\$36.00	NA
Greensboro	\$36.00	\$25.50/\$36.00 ⁴
Raleigh (Wake County)	\$29.50/\$33.50 ²	\$29.50/\$33.50 ²
Winston-Salem	\$34.00/\$30.00³	\$28.00

(Table 2- reflects rates for fiscal year 2007-2008)

¹ This rate represents the tipping fee for their transfer station.

² Residents may dispose of waste at the landfill for \$29.50 per ton or at the county transfer facility for \$33.50 per ton. This applies to loads containing less than 10% C&D debris. Loads greater than 10% C&D are charged at \$37.00/\$67.00.

³ Hanes Landfill currently offers a rate of \$30.00 to any hauler delivering a minimum of 700 tons/month.

⁴ Residents may dispose of C&D waste at the White Street Landfill at \$25.50 per ton. They may also dispose of their waste at the transfer station at \$36.00 per ton.

FUTURE CHALLENGES AND OPPORTUNITIES

The Solid Waste Management program continues to face challenges related to the method used to fund its disposal and waste reduction programs. Most of the funding for waste reduction programs in the City and County are generated via the tipping fee at Hanes Mill Road Landfill. This type of funding model is unique among North Carolina counties and municipalities similar to ours. Challenges for this program primarily come in the form of competition for the waste that has historically gone to the Hanes Mill Road Landfill. Large privately owned waste companies have the ability to offer disposal services at lower costs because they do not provide funding for waste reduction programs, and their exercising of this ability has resulted in less waste being disposed at Hanes Landfill. Reduced amounts of waste at the landfill result in reduced revenue, which puts further demands on the solid waste fund balance in order to continue funding waste reduction programs like the City of Winston-Salem curbside recycling program, the Household Hazardous Waste Management Facility, Forsyth County's drop-off facilities for recycling, and the Winston-Salem / Forsyth County School System recycling program. In recognition of this, a detailed presentation was made by the budget office at a special meeting of the City Council in August 2007. The presentation included the following information:

- A history of solid waste management programs, and how they have been administered
- Elements of the agreement authorizing the CCUC to administer solid waste programs
- Stressors on the solid waste budget and a discussion of tonnage/revenue relationship
- Increased regulatory requirements and other operational and permitting requirements
- Long term capital needs
- Financial outlook for the solid waste enterprise fund
- Options to relieve the stress on the solid waste fund and improve long term economic outlook

Utilities and budget office staff will continue to monitor the waste stream and market conditions in an effort to predict future economic conditions and be prepared to react accordingly. Staff is also evaluating alternative funding mechanisms for recycling programs, which would allow rates to be set based on the actual cost of providing the service. This approach should result in competitive and equitable rates and/or fees and a more sustainable funding system for solid waste programs in the long term.

City of Winston-Salem, North Carolina

Enterprise Funds

Statement E-8

Solid Waste Disposal Fund - Statement of Net Assets
June 30, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 16,218,569	\$ 22,009,241
Accounts receivables, net of allowance for uncollectibles	335,279	378,460
Due from other governments	<u>1,451</u>	<u> </u>
Total current assets	16,555,299	22,387,701
Noncurrent Assets		
Restricted Assets		
Cash and cash equivalents		
Landfill closure and postclosure costs	<u>9,172,673</u>	<u>9,099,274</u>
Total cash and cash equivalents	9,172,673	9,099,274
Property and Equipment		
Land	10,760,086	11,457,585
Buildings	3,561,020	3,561,020
Improvements other than buildings	29,837,316	29,837,316
Machinery and equipment	3,635,486	3,344,143
Construction in progress	<u>12,107,916</u>	<u>3,604,670</u>
Total property and equipment	59,901,824	51,804,734
Less accumulated depreciation	<u>15,960,799</u>	<u>14,727,759</u>
Property and equipment, net	43,941,025	37,076,975
Other		
Unamortized financing costs	<u>221,926</u>	<u>243,801</u>
Total noncurrent assets	<u>53,335,624</u>	<u>46,420,050</u>
Total assets	<u>69,890,923</u>	<u>68,807,751</u>
Liabilities and Fund Equity		
Liabilities		
Current liabilities		
Accounts payable	1,121,112	407,523
Accrued payroll	60,304	9,870
Accrued interest payable	127,224	134,212
Current maturities		

Contracts payable	313,756	281,501
Bonds payable	<u>1,200,000</u>	<u>1,165,000</u>
Total current liabilities	2,822,396	1,998,106
Noncurrent liabilities		
Accrued vacation	64,537	62,897
Landfill closure and postclosure costs	9,172,673	10,848,086
Contracts payable	608,785	743,638
Bonds payable	<u>13,669,321</u>	<u>14,854,206</u>
Total noncurrent liabilities	<u>23,515,316</u>	<u>26,508,827</u>
Total liabilities	26,337,712	28,506,933
Net Assets		
Investment in capital assets, net of related debt	28,149,163	20,032,630
Unrestricted	<u>15,404,048</u>	<u>20,268,188</u>
Total net assets	<u>\$ 43,553,211</u>	<u>\$ 40,300,818</u>

City of Winston-Salem, North Carolina

Enterprise Funds

Statement E-10

Solid Waste Disposal Fund - Statement of Cash Flows
For the Fiscal Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Cash received from sales	\$ 12,601,152	\$ 11,861,586
Cash payments to suppliers for goods and services	(8,499,118)	(5,718,856)
Cash payments to employees for services	<u>(1,582,148)</u>	<u>(1,780,799)</u>
Net cash provided by operating activities	2,519,886	4,361,931
Cash Flows from Noncapital Financing Activities		
Intergovernmental revenue	472,852	486,500
Transfers out	<u>(2,274,684)</u>	<u>(2,168,332)</u>
Net cash used by noncapital financing activities	(1,801,832)	(1,681,832)
Cash Flows from Capital Financing Activities		
Proceeds from issuance of bonds	-	4,413,823
Acquisition of property and equipment	(8,015,119)	(2,198,539)
Retirement of bonds	(1,165,000)	(1,150,000)
Retirement of refunded bonds	-	(4,325,000)
Retirement of contracts payable	(326,227)	(324,799)
Interest and fiscal expense paid on bonds	(642,424)	(667,056)
Interest and fiscal expense paid on contracts payable	(68,682)	(74,247)
Debt issuance costs	-	(83,131)
Proceeds from sale of assets	713,592	774,141
Damage settlements	<u>34,468</u>	<u>-</u>
Net cash used by capital financing activities	(9,469,392)	(3,634,808)
Cash Flows from Investing Activities		
Investment income	<u>3,034,065</u>	<u>1,607,378</u>
Net increase in cash	(5,717,273)	652,669
Cash and Cash Equivalents July 1	<u>31,108,515</u>	<u>30,455,846</u>
Cash and Cash Equivalents June 30	<u>\$ 25,391,242</u>	<u>\$ 31,108,515</u>
Reconciliation of Cash and Cash Equivalents		

Cash and cash equivalents - current	\$ 16,218,569	\$ 22,009,241
Cash and cash equivalents - restricted	<u>9,172,673</u>	<u>9,099,274</u>
Cash and Cash Equivalents June 30	<u><u>\$ 25,391,242</u></u>	<u><u>\$ 31,108,515</u></u>

**Reconciliation of Operating Income to
Net Cash Provided by Operating Activities**

Operating income	\$ 2,675,918	\$ 2,803,745
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	1,245,326	1,075,057
Change in assets and liabilities		
(Increase) decrease in receivables	43,181	(38,179)
Decrease in prepaid expense	-	2,381
Increase in accounts payable	178,800	114,028
Increase (decrease) in accrued payroll	50,434	(41,795)
Increase in accrued vacation	1,640	44
Increase (decrease) in landfill closure and postclosure costs	<u>(1,675,413)</u>	<u>446,650</u>
Total adjustments	<u>(156,032)</u>	<u>1,558,186</u>
Net cash provided by operating activities	<u><u>\$ 2,519,886</u></u>	<u><u>\$ 4,361,931</u></u>

City of Winston-Salem, North Carolina

Enterprise Funds

Schedule E-11

Solid Waste Disposal Fund - Schedule of Revenues, Expenditures, and Transfers - Budget (Non-GAAP Basis) and Actual
For the Fiscal Year Ended June 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Charges for services	\$ 12,095,170	\$ 12,557,971	\$ 462,801
Operating Expenditures			
Personal services	1,750,920	1,634,222	116,698
Maintenance and operations	7,872,387	7,002,505	869,882
Capital outlay	80,000	80,000	-
Total operating expenditures	<u>9,703,307</u>	<u>8,716,727</u>	<u>986,580</u>
Operating income	2,391,863	3,841,244	1,449,381
Nonoperating Revenues (Expenditures)			
Intergovernmental revenue	473,140	474,303	1,163
Investment income	427,640	3,034,065	2,606,425
Proceeds from sale of assets	-	713,592	713,592
Damages settlements	-	34,468	34,468
Interest and fiscal charges	(739,420)	(704,118)	35,302
Principal retirement	(1,596,800)	(1,491,227)	105,573
Total nonoperating revenues, net	<u>(1,435,440)</u>	<u>2,061,083</u>	<u>3,496,523</u>
Income before transfers	956,423	5,902,327	4,945,904
Transfers Out			
General fund	(2,441,550)	(2,274,684)	166,866
Change in net assets - modified accrual basis	<u>\$ (1,485,127)</u>	<u>\$ 3,627,643</u>	<u>\$ 5,112,770</u>
Reconciliation of Modified Accrual Basis to Full Accrual Basis			
Change in Net Assets - Modified Accrual Basis		\$ 3,627,643	
Depreciation		(1,245,326)	
Amortization of financing costs			

	(36,989)
Capital outlay	80,000
Principal retirement	1,491,227
Book value of disposed assets	(697,500)
Interest expense, net of investment income, capitalized on construction projects	<u>33,338</u>
Change in Net Assets - Full Accrual Basis	<u>\$ 3,252,393</u>

CITY/COUNTY UTILITY COMMISSION COMMITTEES

FINANCE

Raymond D. Thomas - Chairman
J. Hill Stockton - Vice Chairman
Paul S. McGill

OPERATIONS

David Neill - Chairman
Stephen M. Shelton – Vice Chairman
Donald R. Stewart

PLANNING & POLICY

Toy Beaty – Chairman
Al H. Seymour – Vice Chairman
James E. Lowe

Information provided under separate cover.