

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

WATER AND WATER RECLAMATION UTILITIES

CITY OF VALPARAISO

PORTER COUNTY, INDIANA



**FILED**  
12/23/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-04 to 12-31-11
Mayor	Jon Costas	01-01-04 to 12-31-11
President of the Board of Public Works	Jon Costas	01-01-04 to 12-31-11
President of the Utilities Board	Jack Barkley Bradley Dolezal	01-01-07 to 07-09-07 07-10-07 to 12-31-08
Utilities Director	John Hardwick	01-01-07 to 12-31-08
Utilities Controller	Richard S. Freeman	01-01-07 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WATER RECLAMATION  
UTILITIES, CITY OF VALPARAISO, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Water Reclamation Utilities, Departments of the City of Valparaiso, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water and Water Reclamation Utilities, City of Valparaiso, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Valparaiso as of December 31, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water and Water Reclamation Utilities, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utilities have not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 6, 2008

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
STATEMENT OF NET ASSETS  
December 31, 2007

<u>Assets</u>	<u>Water</u>	<u>Water Reclamation</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 940,144	\$ 964,454
Accounts receivable	267,387	408,108
Other receivable	83,519	-
Interfund receivable	-	166,348
Interest receivable	-	104,012
Inventories	122,567	191,782
Prepaid items	11,694	40,991
	<u>1,425,311</u>	<u>1,875,695</u>
<b>Noncurrent assets:</b>		
<b>Restricted cash, cash equivalents and investments:</b>		
Improvement	2,687,138	-
Customer deposits	226,260	-
Revenue bond covenant account	846,347	1,204,099
Reserve for SRF loan	-	1,662,320
Collections held for others	228,662	-
Tank painting and maintenance	1,004,130	-
Construction account	-	10,949,302
Deferred debits	57,801	121,227
	<u>5,050,338</u>	<u>13,936,948</u>
<b>Capital assets:</b>		
Land, improvements to land and construction in progress	351,242	3,309,405
Other capital assets (net of accumulated depreciation)	41,061,248	39,565,774
	<u>41,412,490</u>	<u>42,875,179</u>
<b>Total noncurrent assets</b>	<u>46,462,828</u>	<u>56,812,127</u>
<b>Total assets</b>	<u>47,888,139</u>	<u>58,687,822</u>
<b><u>Liabilities</u></b>		
<b>Current liabilities:</b>		
Accounts payable	69,429	220,147
Accrued wages and benefits payable	84,747	69,611
Compensated absences payable	6,801	5,321
Taxes payable	15,124	-
<b>Unearned revenue:</b>		
Advances for construction	819,267	-
<b>Current liabilities payable from restricted assets:</b>		
Customer deposits	226,260	-
Revenue bonds payable	350,000	-
SRF loans payable	-	781,000
Accrued interest payable	79,220	420,908
Leases payable	-	56,188
<b>Interfund payables:</b>		
Interfund services provided and used	228,662	-
	<u>1,879,510</u>	<u>1,553,175</u>
<b>Total current liabilities</b>	<u>1,879,510</u>	<u>1,553,175</u>
<b>Noncurrent liabilities:</b>		
Compensated absences payable	149,201	116,726
Revenue bonds payable (net of unamortized discounts)	6,766,928	10,931,260
SRF loans payable	-	12,794,000
Leases payable	-	112,375
	<u>6,916,129</u>	<u>23,954,361</u>
<b>Total noncurrent liabilities</b>	<u>6,916,129</u>	<u>23,954,361</u>
<b>Total liabilities</b>	<u>8,795,639</u>	<u>25,507,536</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	34,353,396	18,247,780
Restricted for debt service	846,347	1,662,319
Restricted for other purposes	4,146,190	12,153,401
Unrestricted	(253,433)	1,116,786
	<u>\$ 39,092,500</u>	<u>\$ 33,180,286</u>
<b>Total net assets</b>	<u>\$ 39,092,500</u>	<u>\$ 33,180,286</u>

The notes to the financial statements are an integral part of this statement.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2007

	<u>Water</u>	<u>Water Reclamation</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 2,143,141	\$ -
Commercial	686,496	-
Industrial	191,489	-
Multiple family dwellings	605,759	-
Public authorities	159,412	-
Water reclamation collection and treatment revenue	-	6,467,103
Fire protection revenue	477,960	-
Penalties	15,647	68,332
Other revenue	<u>430,077</u>	<u>59,722</u>
Total operating revenues	<u>4,709,981</u>	<u>6,595,157</u>
Operating expenses:		
Treatment expense - operations and maintenance	527,430	1,645,588
Transmission and distribution	995,499	1,044,708
Pumping - operations and maintenance	750,392	66,157
Customer accounts	528,701	-
Administration and general	749,221	1,043,949
Depreciation	880,392	2,649,278
Payments in lieu of taxes	258,440	-
Taxes	53,537	-
Miscellaneous expenses	<u>75,651</u>	<u>-</u>
Total operating expenses	<u>4,819,263</u>	<u>6,449,680</u>
Operating income (loss)	<u>(109,282)</u>	<u>145,477</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	223,844	332,568
Rent	58,433	-
Miscellaneous revenue	36,391	-
Interest expense	(322,836)	(739,570)
Amortization expense	(9,212)	(3,548)
Proceeds from sale of an asset	<u>323</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(13,057)</u>	<u>(410,550)</u>
Loss before contributions	(122,339)	(265,073)
Capital contributions	<u>2,473,509</u>	<u>-</u>
Change in net assets	2,351,170	(265,073)
Total net assets - beginning	<u>36,741,330</u>	<u>33,445,359</u>
Total net assets - ending	<u>\$ 39,092,500</u>	<u>\$ 33,180,286</u>

The notes to the financial statements are an integral part of this statement.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2007

	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,758,762	\$ 6,545,238
Payments to suppliers, contractors and employees	<u>(3,948,799)</u>	<u>(3,846,187)</u>
Net cash provided by operating activities	<u>809,963</u>	<u>2,699,051</u>
Cash flows from noncapital financing activities:		
Nonoperating receipts	<u>94,824</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt (net of discount and premium)	-	10,929,976
Capital contributions	2,473,509	-
Acquisition and construction of capital assets	(3,852,022)	(848,943)
Principal paid on capital debt	(340,000)	(751,000)
Interest paid on capital debt	(325,813)	(551,460)
Advances on construction	130,137	-
Bond issuance costs paid	-	(123,491)
Proceeds from sales of capital assets	<u>323</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(1,913,866)</u>	<u>8,655,082</u>
Cash flows from investing activities:		
Interest received	<u>223,844</u>	<u>228,556</u>
Net increase (decrease) in cash and cash equivalents	(785,235)	11,582,689
Cash and cash equivalents, January 1	<u>6,717,916</u>	<u>3,197,486</u>
Cash and cash equivalents, December 31	<u>\$ 5,932,681</u>	<u>\$ 14,780,175</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	<u>\$ (109,282)</u>	<u>\$ 145,477</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	880,392	2,649,278
(Increase) decrease in assets:		
Accounts receivable	(6,393)	(35,065)
Other receivables	25,778	-
Inventories	1,261	(19,227)
Prepaid items	12,060	(23,874)
Due from water utility	-	(14,854)
Increase (decrease) in liabilities:		
Accounts payable	(12,404)	(52,530)
Accrued wages payable	15,446	16,831
Compensated absence payable	(17,957)	33,015
Taxes payable	840	-
Interfund payables	29,398	-
Interest payable	(2,977)	-
Customer deposits	<u>(6,199)</u>	<u>-</u>
Total adjustments	<u>919,245</u>	<u>2,553,574</u>
Net cash provided by operating activities	<u>\$ 809,963</u>	<u>\$ 2,699,051</u>
Noncash investing, capital and financing activities:		
Capital asset transferred from construction work in progress to capital assets	\$ 649,691	\$ 546,457
Purchase of equipment on account	-	168,563

The notes to the financial statements are an integral part of this statement.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Valparaiso (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

The deferred compensation plan amounts are invested with insurance carriers. The insurance carriers offer a range of investments and the participants choose how their earnings are invested.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Certain proceeds of the revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method
Water Utility:		
Buildings	\$ 500	2% Composite Rate
Improvements other than building	500	2% Composite Rate
Machinery and equipment	500	2% Composite Rate

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Capitalization Threshold	Depreciation Method
Water Reclamation Utility:		
Buildings	\$ 5,000	Straight-line 50 years
Improvements other than buildings	5,000	Straight-line 50 years
Sewer lines	5,000	Straight-line 100 years
Treatment Center	5,000	Straight-line 20 years
Pumping equipment	5,000	Straight-line 20 years
Transportation equipment	5,000	Straight-line 5 years
Office furniture and equipment	5,000	Straight-line 10 years
Machinery and equipment	5,000	Straight-line 10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

The policy on compensated absences, which includes all leave as paid time-off, was adopted by the Utilities on July 31, 2007. Paid time-off may be used for vacation, sick, family illness, and personal business. Paid time-off is accrued on the first day of the month following an employee's hire date. Utility employees earn paid time-off at rates from 96 to 264 hours per year based upon the number of years of service and regularly scheduled hours worked.

Upon termination of employment, an employee may be paid for unused accrued paid time-off. The maximum paid time-off an employee will be eligible to receive is 240 hours for an employee who is regularly scheduled to work 40 hours per week.

A liability is reported by the utilities for paid time-off.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 288,281	\$ 10,000	\$ -	\$ 298,281
Construction in progress	<u>622,626</u>	<u>80,026</u>	<u>649,691</u>	<u>52,961</u>
Total capital assets, not being depreciated	<u>910,907</u>	<u>90,026</u>	<u>649,691</u>	<u>351,242</u>
Capital assets, being depreciated:				
Buildings	4,022,896	10,290	-	4,033,186
Improvements other than buildings	26,531,467	3,740,282	63,859	30,207,890
Machinery and equipment	<u>13,465,397</u>	<u>661,117</u>	<u>446,034</u>	<u>13,680,480</u>
Totals	<u>44,019,760</u>	<u>4,411,689</u>	<u>509,893</u>	<u>47,921,556</u>
Less accumulated depreciation for:				
Buildings	403,484	80,458	-	483,942
Improvements other than buildings	4,538,799	530,629	63,859	5,005,569
Machinery and equipment	<u>1,547,526</u>	<u>269,305</u>	<u>446,034</u>	<u>1,370,797</u>
Totals	<u>6,489,809</u>	<u>880,392</u>	<u>509,893</u>	<u>6,860,308</u>
Total capital assets, being depreciated, net	<u>37,529,951</u>	<u>3,531,297</u>	<u>-</u>	<u>41,061,248</u>
Total capital assets, net	<u>\$ 38,440,858</u>	<u>\$ 3,621,323</u>	<u>\$ 649,691</u>	<u>\$ 41,412,490</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 575,915	\$ -	\$ -	\$ 575,915
Construction in progress	<u>3,129,697</u>	<u>150,250</u>	<u>546,457</u>	<u>2,733,490</u>
Total capital assets, not being depreciated	<u>3,705,612</u>	<u>150,250</u>	<u>546,457</u>	<u>3,309,405</u>

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Water Reclamation Utility (continued):				
Capital assets, being depreciated:				
Buildings	17,954,447	-	-	17,954,447
Improvements other than buildings	11,138,399	-	-	11,138,399
Sewer lines	22,568,944	124,707	-	22,693,651
Treatment center	16,870,648	-	-	16,870,648
Pumping equipment	3,302,281	134,055	-	3,436,336
Transportation equipment	1,283,300	80,099	-	1,363,399
Office furniture and equipment	15,241	15,780	-	31,021
Machinery and equipment	1,197,355	1,059,071	-	2,256,426
Totals	74,330,615	1,413,712	-	75,744,327
Less accumulated depreciation for:				
Buildings	2,213,959	359,089	-	2,573,048
Improvements other than buildings	9,730,013	222,768	-	9,952,781
Sewer lines	6,724,859	112,876	-	6,837,735
Treatment center	9,118,429	1,405,210	-	10,523,639
Pumping equipment	1,306,210	165,114	-	1,471,324
Transportation equipment	386,450	256,660	-	643,110
Office furniture and equipment	1,572,202	3,048	-	1,575,250
Machinery and equipment	2,477,153	124,513	-	2,601,666
Totals	33,529,275	2,649,278	-	36,178,553
Total capital assets, being depreciated, net	40,801,340	(1,235,566)	-	39,565,774
Total capital assets, net	\$ 44,506,952	\$ (1,085,316)	\$ 546,457	\$ 42,875,179

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water	\$ 880,392
Water Reclamation	2,649,278
Total depreciation expense	\$ 3,529,670

C. Construction Commitments

Construction work in progress is composed of the following:

Water Utility:

Project	Total Project Authorized	Expended to December 31, 2007	Committed
GIS-GPS System	\$ 75,241	\$ 52,961	\$ 22,280

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Water Reclamation:

Project	Total Project Authorized	Expended to December 31, 2007	Committed
West Side Sewer	\$ 3,300,180	\$ 2,733,490	\$ 566,690

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

Due To	Due From Water Utility
Water Reclamation Utility	\$ 166,348
Storm Water Utility	18,383
General Fund	25,210
Other governmental entities	18,721
Total	\$ 228,662

Interfund balances resulted from the time lag between the dates that payments between funds are made to distribute utility collections.

E. Leases

Capital Leases

The Water Reclamation Utility has entered into a capital lease for a vacuum truck. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2007, are as follows:

2008	\$ 63,025
2009	60,734
2010	58,461
Total minimum lease payments	182,220
Less amount representing interest	13,657
Present value of net minimum lease payments	\$ 168,563

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Water Reclamation Utility
Machinery and equipment	\$ 264,750
Accumulated depreciation	-
Total	\$ 264,750

Assets acquired through capital leases still in effect are as follows:

F. Long-Term Liabilities

1. Revenue Bonds

The Utility issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
2007 Water Reclamation Utility revenue bonds - improvements	4.0% to 5.0%	\$ 11,000,000
2002 Waterworks Utility revenue bonds - improvements	3.5% to 5.0%	7,195,000
Total		\$ 18,195,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Water Reclamation Utility	
	Principal	Interest	Principal	Interest
2008	\$ 350,000	\$ 313,825	\$ -	\$ 487,428
2009	365,000	301,488	30,000	507,150
2010	375,000	288,394	40,000	505,550
2011	395,000	274,046	10,000	504,250
2012	410,000	258,493	20,000	503,750
2013-2017	2,335,000	1,017,720	100,000	2,506,600
2018-2022	2,965,000	416,437	2,095,000	2,440,412
2023-2027	-	-	7,825,000	1,261,325
2028-2032	-	-	880,000	22,000
Totals	\$ 7,195,000	\$ 2,870,403	\$ 11,000,000	\$ 8,738,465

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Notes and Loans Payable

The Water Reclamation Utility has entered into a State Revolving Fun Loan (SRF). Annual debt service requirements to maturity for the loan are as follows:

Year Ended December 31	Water Reclamation Utility	
	Principal	Interest
2008	\$ 781,000	\$ 521,878
2009	812,000	491,127
2010	844,000	459,147
2011	877,000	425,919
2012	911,000	391,385
2013-2017	5,126,000	1,389,395
2018-2022	4,224,000	335,868
Totals	<u>\$ 13,575,000</u>	<u>\$ 4,014,719</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 7,535,000	\$ -	\$ 340,000	\$ 7,195,000	\$ 350,000
Compensated absences	173,959	-	17,957	156,002	6,801
Total long-term liabilities	<u>\$ 7,708,959</u>	<u>\$ -</u>	<u>\$ 357,957</u>	<u>\$ 7,351,002</u>	<u>\$ 356,801</u>
Water Reclamation Utility;					
Revenue bonds payable	\$ -	\$ 11,000,000	\$ -	\$ 11,000,000	\$ -
SRF loan payable	14,326,000	-	751,000	13,575,000	781,000
Capital lease	-	168,563	-	168,563	56,188
Compensated absences	89,776	32,271	-	122,047	5,321
Total long-term liabilities	<u>\$ 14,415,776</u>	<u>\$ 11,200,834</u>	<u>\$ 751,000</u>	<u>\$ 24,865,610</u>	<u>\$ 842,509</u>

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water	Water Reclamation
Improvement	\$ 2,687,138	\$ -
Customer deposits	226,260	-
Revenue bond covenant account	846,347	1,204,099
Collections held for others	228,662	-
Tank painting and maintenance	1,004,130	-
Reserve for SRF Loan	-	1,662,320
Construction account	-	10,949,302
	\$ 4,992,537	\$ 13,815,721
Total restricted assets	\$ 4,992,537	\$ 13,815,721

III. Other Information

A. Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

B. Subsequent Events

To generate revenue sufficient to repay the principal and interest for the 2007 revenue bonds, the City Council approved, on November 27, 2006, a three phase rate increase for the Water Reclamation Utility. The first phase was implemented on February 1, 2007, and included a 10% increase based on quantity of water used and the size of the meter. The second phase goes into effect July 1, 2008, and includes an 8% increase. The third phase goes into effect January 1, 2010, and includes a 4% increase.

C. Rate Structure

The current rate structures for the Utilities were approved by the City Council on September 23, 2002.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Pension Plan

Defined Contribution Pension Plan

Water Utility and Water Reclamation Utility Pension

Plan Description

The Water Utility has a defined contribution pension plan administered by Centier Bank as authorized by Indiana Code 8-1.5-3-7. The employees of both the Water Utility and Water Reclamation Utility participate in the plan, which provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the governing board of the unit and the plan administrator. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Centier Bank  
4<sup>th</sup> Floor Wealth Management  
600 East 84<sup>th</sup> Avenue  
Merrville, Indiana 46410-6366  
Ph. 219-755-6110

Funding Policy and Annual Pension Cost

The plan provides for up to 6% salary contribution per pay by the employee to be matched 100% by the employer. The employee can also make an additional voluntary contribution as allowable by applicable IRS rules. The additional contribution is not matched by the employer. Employer and employee contributions to the plan were \$92,226 and \$294,699, respectively.

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient for the Water and Water Reclamation Utilities. The receipts and disbursements are processed through a computer program. This information is then inputted into a spreadsheet. Adjustments are made by journal entry and then inputted into the spreadsheet by month. The spreadsheet does not provide an audit trail. Errors are not detected in a timely manner, thus allowing for possible misstatement of account balances. Some balances could not be verified because the spreadsheet does not allow for the user to view individual detail account activity for a specific time frame.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Water Reclamation Utility (previously known as Wastewater Utility) does not maintain a detailed listing of capital assets.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
AUDIT RESULTS AND COMMENTS  
(Continued)

RATES AND CONTRACTS FOR CONSTRUCTION

The Water Utility charges fees to developers and other customers for the costs associated with installing mains and services requiring extension of water lines. The rates charged are based upon estimates provided by local excavators who will be performing the work as subcontractors of the Utility as well as costs of meters, labor for the installation of the meters, and overhead (administration, engineering, and inspections). These charges have not been approved by the Board of Directors nor has an Ordinance been established by the City Council. Furthermore, the contracts for excavating and installation of the lines are being entered into by the Superintendent on behalf of the Water Utility. The contracts have not been approved by the Utility Services Board.

Indiana Code 8-1.5-3-4 (a) states in part:

"The board has general supervisory powers over the utilities under its control, with responsibility for the detailed supervision of each utility to be vested in its superintendent, who is responsible to the board for the business and technical operation of the utility. The board shall: . . .

- (7) recommend to the legislative body reasonable and just rates and charges for services to the patrons of each utility; . . .
- (10) award contracts for:
  - (A) the purchase of capital equipment;
  - (B) the construction of capital improvements; or
  - (C) other property or purposes that are necessary for the full and efficient construction, management, and operation of each utility; . . ."

WATER AND WATER RECLAMATION UTILITY  
CITY OF VALPARAISO  
EXIT CONFERENCE

The contents of this report were discussed on September 30, 2008, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; and William Hanna, City Administrator.

The contents of this report were discussed on October 6, 2008, with John Hardwick, Utilities Director; Richard S. Freeman, Utilities Controller; and Alina Hahn, Accountant. The official response has been made a part of this report and may be found on pages 20 and 21.



# Valparaiso City Utilities

205 Billings Street

Valparaiso, Indiana 46383-3699

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*"Water is our Most Valuable Natural Resource"*

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October 13, 2008

Indiana State Board of Accounts  
Porter County Administration Center  
155 Indiana Avenue  
Valparaiso, IN 46383

Re: Response to 2007 Audit Results and Comments

On October 6, 2008, John A. Hardwick, Utilities Director, and Richard S. Freeman, Controller, met with Karen Tetrault, State Board of Accounts Field Examiner to discuss certain written comments as a result of the Utilities' 2007 audit. Please include and print this written response when issuing the final Annual Financial Report for 2007.

The first item of discussion dealt with internal controls. The comment refers to the Utilities' various management information systems and the need to manually enter information multiple times to various spreadsheets in order to produce financial statements.

The Utility is currently in the process of identifying a windows based financial software suite. The purchase and implementation of this new software is expected to begin in fiscal year in 2009. Full implementation of the financial suite will address the internal control issues and greatly enhance future financial reporting.

The second comment pertains to the lack of a detailed listing of capital assets for Water Reclamation.

Older records need to be updated and consolidated into one central reporting system. The Water Reclamation Department is in the process of updating its capital records and recording all information about its capital assets. Water Reclamation has recently acquired a work management software system called Cartagraph. Detailed information about the department's fixed assets will be maintained by this software. Management expects the capital record update project will be completed by the end of 2008.

The third and final comment pertains to the approval for the rates and contracts for fees charged to developers and other customers for the costs associated with installing mains and services requiring extension of water lines. Up to this point, the contracts for excavating and installation of lines have been entered into by the Utilities Director on behalf of the Water Utility and contracts of this nature have not been approved by the Board of Directors.

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Phone: (219) 462-6174, Ext. 1303

Fax: (219) 477-4254

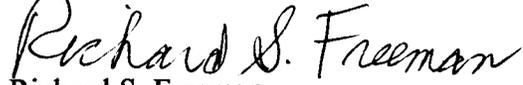
E-Mail: [vwd@netnitco.net](mailto:vwd@netnitco.net)

Visit our website at [www.valparaisoutilities.org](http://www.valparaisoutilities.org)

We agree that future contracts of this nature will be approved by the Board of Directors.

I hope you find these explanations satisfactory. If you need any additional information, please contact me.

Very truly yours,

A handwritten signature in black ink that reads "Richard S. Freeman". The signature is written in a cursive style with a large initial 'R'.

Richard S. Freeman  
Valparaiso City Utilities  
Controller