

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

EXAMINATION REPORT  
OF

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
PORTER COUNTY, INDIANA

January 1, 2008 to December 31, 2008



**FILED**  
01/26/2010



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OFFICIALS

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



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water and Water Reclamation Utilities (Utilities), a department of the City of Valparaiso, as of and for the year ended December 31, 2008. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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, 2008, 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, 2008, 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.

The Water and Water Reclamation 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

November 10, 2009

WATER AND WATER RECLAMATION UTILITY  
CITY OF VALPARAISO  
STATEMENT OF NET ASSETS  
December 31, 2008

<u>Assets</u>	2008	
	Water	Water Reclamation
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,543,512	\$ 619,467
Interest receivable	-	15,593
Accounts receivable (net of allowance)	264,113	429,567
Other receivables	4,360	-
Interfund receivables:		
Interfund services provided and used	-	179,201
Inventories	107,837	186,196
Prepaid items	11,220	5,460
Total current assets	1,931,042	1,435,484
<b>Noncurrent assets:</b>		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	845,783	-
Improvement	695,460	684,099
Reserve for SRF Loan	-	1,678,563
Construction account	-	5,021,503
Tank painting and maintenance	1,144,988	-
Customer deposits	225,702	-
Collections held for others	238,866	-
Deferred debits	53,839	115,191
Total restricted assets:	3,204,638	7,499,356
<b>Capital assets:</b>		
Land, improvements to land and construction in progress	448,541	8,737,753
Other capital assets (net of accumulated depreciation)	42,944,943	40,644,154
Total capital assets	43,393,484	49,381,907
Total noncurrent assets	46,598,122	56,881,263
Total assets	48,529,164	58,316,747
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	347,841	749,065
Interfund payables:		
Interfund services provided and used	238,866	-
Taxes payable	17,458	-
Advances for construction	129,700	-
Accrued Wages	94,759	85,178
Compensated absences	6,926	5,388
Current liabilities payable from restricted assets:		
Customer deposits	225,702	-
Revenue bonds payable	365,000	30,000
SRF loan payable	-	812,000
Leases payable	-	56,188
Accrued interest payable	76,159	422,844
Total current liabilities	1,502,411	2,160,663
<b>Noncurrent liabilities:</b>		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	6,407,183	10,904,682
SRF loan payable	-	11,982,000
Capital leases payable	-	56,188
Compensated absences	151,928	118,206
Total noncurrent liabilities	6,559,111	23,061,076
Total liabilities	8,061,522	25,221,739
<b>Net Assets</b>		
Invested in capital assets, net of related debt	36,675,146	25,144,141
Restricted for debt service	845,783	1,678,563
Restricted for other purposes	2,305,016	5,705,602
Unrestricted	641,697	566,702
Total net assets	\$ 40,467,642	\$ 33,095,008

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

WATER AND WATER RECLAMATION UTILITY  
CITY OF VALPARAISO  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2008

	2008	
	Water	Water Reclamation
Operating revenues:		
Metered water revenue:		
Residential	\$ 2,091,757	\$ -
Commercial	710,334	-
Industrial	172,923	-
Multiple family dwellings	623,628	-
Public authorities	117,645	-
Water reclamation collection and treatment revenue	-	6,709,650
Fire protection revenue	488,689	-
Penalties	16,440	68,394
Other water revenue	575,820	-
Other	-	412,471
	4,797,236	7,190,515
Total operating revenues		
Operating expenses:		
Transmission and distribution	1,014,074	-
Pumping - operations and maintenance	711,629	47,214
Treatment and disposal - operations and maintenance	531,750	-
Customer accounts	581,977	-
Administration and general	851,613	1,392,583
Reclaimed water treatment - operations and maintenance	-	1,856,195
Reclaimed water distribution - operations and maintenance	-	990,350
Depreciation and amortization	958,428	2,731,049
Taxes	52,431	-
In lieu of taxes	321,444	-
Miscellaneous expenses	83,120	-
	5,106,466	7,017,391
Total operating expenses		
Operating income (loss)	(309,230)	173,124
Nonoperating revenues (expenses):		
Interest and investment revenue	62,711	293,780
Miscellaneous revenue	104,167	-
Interest expense	(310,761)	(551,607)
Amortization expense	(9,216)	-
Miscellaneous expense	-	(575)
	(153,099)	(258,402)
Total nonoperating revenues (expenses)		
Income (loss) before contributions and transfers	(462,329)	(85,278)
Capital contributions	1,837,471	-
Change in net assets	1,375,142	(85,278)
Total net assets - beginning	39,092,500	33,180,286
Total net assets - ending	\$ 40,467,642	\$ 33,095,008

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

WATER AND WATER RECLAMATION UTILITY  
CITY OF VALPARAISO  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Year Ended December 31, 2008

	2008	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,889,873	\$ 7,156,203
Payments to suppliers and contractors	<u>(4,029,455)</u>	<u>(4,347,661)</u>
Net cash provided by operating activities	<u>860,418</u>	<u>2,808,542</u>
Cash flows from noncapital financing activities:		
Nonoperating receipts	104,167	-
Nonoperating expense	<u>-</u>	<u>(575)</u>
Net cash provided (used) by noncapital financing activities	<u>104,167</u>	<u>(575)</u>
Cash flows from capital and related financing activities:		
Capital contributions	1,147,904	-
Acquisition and construction of capital assets	(2,749,748)	(8,579,852)
Principal paid on capital debt	(350,000)	(781,000)
Interest paid on capital debt	(313,822)	(549,671)
Principal paid on capital lease	<u>-</u>	<u>(56,187)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,265,666)</u>	<u>(9,966,710)</u>
Cash flows from investing activities:		
Interest received	<u>62,711</u>	<u>382,200</u>
Net cash provided (used) by investing activities	<u>62,711</u>	<u>382,200</u>
Net increase in cash and cash equivalents	(1,238,370)	(6,776,543)
Cash and cash equivalents, January 1	<u>5,932,681</u>	<u>14,780,175</u>
Cash and cash equivalents, December 31	<u>\$ 4,694,311</u>	<u>\$ 8,003,632</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (309,230)</u>	<u>\$ 173,124</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	958,428	2,731,049
(Increase) decrease in assets:		
Accounts receivable	3,274	(21,459)
Other receivables	79,159	-
Due from water utility	-	(12,853)
Allowance for uncollectible accounts	-	-
Inventories	14,730	5,586
Prepaid items	474	35,531
Increase (decrease) in liabilities:		
Accounts payable	88,739	(119,550)
Taxes payable	2,334	-
Accrued wages payable	10,012	15,567
Compensated absence payable	2,852	1,547
Interfund payables	10,204	-
Customer deposits	<u>(558)</u>	<u>-</u>
Total adjustments	<u>1,169,648</u>	<u>2,635,418</u>
Net cash provided by operating activities	<u>\$ 860,418</u>	<u>\$ 2,808,542</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ 286,563	\$ 657,924
Contributions of capital assets transferred from unearned revenue	689,567	-
Disposal of capital assets	96,888	-
Capital assets transferred from construction in progress to capital assets	-	2,733,490
Interest expense capitalized	-	471,102

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

WATER AND WATER RECLAMATION UTILITY  
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 Other 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.

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.

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

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 buildings	500	2% Composite rate
Machinery and equipment	500	2% Composite rate
Water Reclamation Utility:		
Buildings		Straight-line 50 years
Improvements other than buildings		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. The total interest expense incurred by the Water Reclamation Utility during the current year was \$1,020,773. Of the amount, \$471,102 was included as part of the cost of capital assets under construction in connection with plant expansion phase II.

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

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 IC 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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, 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	\$ 298,281	\$ 20,000	\$ -	\$ 318,281
Construction in progress	<u>52,961</u>	<u>77,299</u>	<u>-</u>	<u>130,260</u>
 Total capital assets, not being depreciated	 <u>351,242</u>	 <u>97,299</u>	 <u>-</u>	 <u>448,541</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Capital assets, being depreciated:				
Buildings	4,033,186	-	-	4,033,186
Improvements other than buildings	30,207,890	61,221	-	30,269,111
Machinery and equipment	13,680,480	2,780,903	96,888	16,364,495
Totals	47,921,556	2,842,124	96,888	50,666,792
Less accumulated depreciation for:				
Buildings	483,942	80,663	-	564,605
Improvements other than buildings	5,005,569	604,157	-	5,609,726
Machinery and equipment	1,370,797	273,609	96,888	1,547,518
Totals	6,860,308	958,428	96,888	7,721,848
Total capital assets, being depreciated, net	41,061,248	1,883,696	-	42,944,944
Total capital assets, net	\$ 41,412,490	\$ 1,980,995	\$ -	\$ 43,393,485
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 575,915	\$ -	\$ -	\$ 575,915
Construction in progress	2,733,490	8,161,838	2,733,490	8,161,838
Total capital assets, not being depreciated	3,309,405	8,161,838	2,733,490	8,737,753
Capital assets, being depreciated:				
Buildings	17,954,447	-	-	17,954,447
Improvements other than buildings	11,138,399	27,874	-	11,166,273
Sewer lines	22,693,651	3,259,151	-	25,952,802
Treatment center	16,870,648	118,174	-	16,988,822
Pumping equipment	3,436,336	122,201	-	3,558,537
Transportation equipment	1,363,399	101,953	-	1,465,352
Office furniture and equipment	31,021	56,598	-	87,619
Machinery and equipment	2,256,426	123,478	-	2,379,904
Totals	75,744,327	3,809,429	-	79,553,756

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Reclamation Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	2,573,048	359,089	-	2,932,137
Improvements other than buildings	9,952,781	222,768	-	10,175,549
Sewer lines	6,837,735	114,123	-	6,951,858
Treatment center	10,523,639	1,405,210	-	11,928,849
Pumping equipment	1,471,324	171,817	-	1,643,141
Transportation equipment	643,110	272,686	-	915,796
Office furniture and equipment	1,575,250	6,204	-	1,581,454
Machinery and equipment	2,601,666	179,152	-	2,780,818
Totals	<u>36,178,553</u>	<u>2,731,049</u>	-	<u>38,909,602</u>
Total capital assets, being depreciated, net	<u>39,565,774</u>	<u>1,078,380</u>	-	<u>40,644,154</u>
Total capital assets, net	<u>\$ 42,875,179</u>	<u>\$ 9,240,218</u>	<u>\$ 2,733,490</u>	<u>\$ 49,381,907</u>

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

Water	\$ 958,428
Water Reclamation	2,731,049

C. Construction Commitments

Construction work in progress is composed of the following:

Water Utility

Project	Total Project Authorized	Expended to December 31, 2008	Committed
GIS-GPS	\$ 184,260	\$ 100,260	\$ 84,000
Backwash Reclaim Facilities at Airport and Flint Lake WTP's	<u>75,000</u>	<u>30,000</u>	<u>45,000</u>
Totals	<u>\$ 259,260</u>	<u>\$ 130,260</u>	<u>\$ 129,000</u>

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

Water Reclamation Utility

Project	Total Project Authorized	Expended to December 31, 2008	Committed
Phase II Plant Expansion	\$ 8,597,397	\$ 6,820,422	\$ 1,776,975
Heritage Valley Lift Station	960,000	954,682	5,318
Main Control Building	391,899	355,144	36,755
Supervisory Control and Data Aquisition (SCADA)	35,600	31,590	4,010
Totals	<u>\$ 9,984,896</u>	<u>\$ 8,161,838</u>	<u>\$ 1,823,058</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2008, is as follows:

Due To	Due From General Fund
Water Reclamation Utility	\$ 179,201
Storm Water Utility	17,467
General Fund	24,613
Other governmental entities	17,585
Total	<u>\$ 238,866</u>

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, 2008, are as follows:

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

2009	\$	60,734
2010		<u>58,461</u>
Total minimum lease payments		119,195
Less amount representing interest		<u>6,819</u>
Present value of net minimum lease payments		<u><u>\$ 112,376</u></u>

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

		<u>Water Reclamation Utility</u>
Machinery and equipment	\$	<u>264,750</u>
Accumulated depreciation		<u>26,475</u>
Total	\$	<u><u>238,275</u></u>

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
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%	<u>6,845,000</u>
Total		<u><u>\$ 17,845,000</u></u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Water Reclamation Utility	
	Principal	Interest	Principal	Interest
2009	\$ 365,000	\$ 301,487	\$ 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	425,000	241,888	20,000	502,950
2014-2018	2,445,000	913,940	100,000	2,502,375
2019-2023	2,430,000	278,330	3,505,000	2,330,500
2024-2028	-	-	7,275,000	894,513
Totals	<u>\$ 6,845,000</u>	<u>\$ 2,556,578</u>	<u>\$ 11,000,000</u>	<u>\$ 8,251,038</u>

2. Notes and Loans Payable

The Utility has entered into a State Revolving Fund Loan (SRF). Annual debt service requirements to maturity are as follows:

Year Ended December 31	Water Reclamation Utility	
	Principal	Interest
2009	\$ 812,000	\$ 491,127
2010	844,000	459,147
2011	877,000	425,919
2012	911,000	391,385
2013	947,000	355,504
2014-2018	5,328,000	1,187,531
2019-2023	<u>3,075,000</u>	<u>182,227</u>
Totals	<u>\$ 12,794,000</u>	<u>\$ 3,492,840</u>

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

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 7,195,000	\$ -	\$ 350,000	\$ 6,845,000	\$ 365,000
Less discount	(78,068)	-	(5,251)	(72,817)	-
Total bonds payable	7,116,932	-	344,749	6,772,183	365,000
Compensated absences	156,002	2,852	-	158,854	6,926
Total long-term liabilities	<u>\$ 7,272,934</u>	<u>\$ 2,852</u>	<u>\$ 344,749</u>	<u>\$ 6,931,037</u>	<u>\$ 371,926</u>
Water Reclamation Utility:					
Revenue bonds payable	\$ 11,000,000	\$ -	\$ -	\$ 11,000,000	\$ 30,000
Less discount	(68,741)	-	(3,423)	(65,318)	-
Total bonds payable	10,931,259	-	(3,423)	10,934,682	30,000
SRF loan payable	13,575,000	-	781,000	12,794,000	812,000
Capital lease	168,563	-	56,187	112,376	56,188
Compensated absences	122,047	1,547	-	123,594	5,388
	<u>\$ 24,796,869</u>	<u>\$ 1,547</u>	<u>\$ 833,764</u>	<u>\$ 23,964,652</u>	<u>\$ 903,576</u>

G. Restricted Assets

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

	Water	Water Reclamation
Improvements	\$ 695,460	684,099
Customer deposits	225,702	-
Revenue bond covenant account	845,783	-
Collections held for others	238,866	-
Tank painting and maintenance	1,144,988	-
Reserve for SRF loan	-	1,678,563
Construction account	-	5,021,503
Total restricted assets	<u>\$ 3,150,799</u>	<u>\$ 7,384,165</u>

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

III. Other Information

A. Risk Management

The Utilities are 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 went into effect July 1, 2008, and included an 8% increase. The third phase goes into effect January 1, 2010, and includes a 4% increase.

On November 10, 2009, the Utilities Board approved a two phase rate increase for the storm water with the first phase to be implemented on January 1, 2010, and the second phase on January 1, 2011.

On November 10, 2009 the Utilities Board approved a rate increase for the Water Utility to be implemented on January 1, 2010.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the City Council on September 23, 2002.

2. Water Reclamation Utility

The current rate structure was approved by the City Council on November 27, 2006.

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 IC 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

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

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  
Merriville, Indiana 46410-6366  
Ph. 219-755-6110

Funding Policy and Annual Pension Cost

The plan provides for up to 6% salary contributions per pay by the employees to be matched 100% by the employer. The employee can also make an additional voluntary contributions as allowable by applicable IRS rules. The additional contribution is not matched by the employer. Employer and employee contributions to the plan were \$151,092.58 and \$250,671.02, respectively.

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

INEFFECTIVE INTERNAL CONTROLS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient and ineffective for the Water and Water Reclamation Utilities. The receipts and disbursements are maintained through a computer program. This information from the program was transferred to an excel spreadsheet where adjustments were made by journal entry. The spreadsheet allows the user to change accounting entries without leaving an audit trail. Errors were not detected in a timely manner and some balances could not be verified because the spreadsheet did not allow for the user to view individual detail account activity for a specific time frame. The lack of effective internal controls affects the reasonable assurance regarding the reliability of the financial records. A computer software program was purchased and will be implemented during the fall of 2009 which should alleviate this issue.

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)

OFFICIAL BOND

The official bonds were not filed in the Office of the County Recorder.

IC 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2009, with Sharon Emerson Swihart, Clerk-Treasurer; Jon Costas, Mayor; and Bill Oeding, City Administrator.

The contents of this report were discussed on November 24, 2009, 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 through 22.



# 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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December 7, 2009

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

Re: Official Response to 2008 Examination Results and Comments

To Whom It May Concern:

On November 24, 2009, 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' 2008 examination. Please include and print this written response when issuing the final Annual Financial Report for 2008.

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.

Since at least 1993, the Utilities has utilized an IBM AS/400 computer (mini mainframe) to record all business related transactions (billing, accounts receivable, payroll, accounts payable, capital reporting, etc.) The AS/400 programs were written and maintained by AccuData, who have served the Utilities in that capacity for over 30 years. Excel templates and spreadsheets were used as report writers for financial statements. The Indiana State Board of Accounts had never commented on this system of reporting until the 2007 audit.

Information from the AS/400 was input manually into the Excel report writer, along with journal entries in order to produce a general ledger and the monthly financial statements. Valparaiso City Utilities reports annually on an accrual basis.

Valparaiso City Utilities recognized the limitations of its reporting system and began, in 2007, to investigate a Windows based software package.

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

In December of 2008, the Valparaiso City Utilities Board of Directors voted to appropriate \$135,000 to purchase new Windows based financial software. INCODE is the name of the product and it is produced by Tyler Technologies, a publicly traded company. As of this date, the software has been installed, training has taken place, and utility personnel are using and becoming familiar with the new system.

Tyler's software and services enable local governments—cities, counties, schools and other government entities—to become more efficient, more accessible, and more responsive to the needs of citizens.

INCODE is currently on their 7<sup>th</sup> version and is being used in Elkhart, Goshen, Peru, Greencastle, Logansport, Newburgh, Zionsville and Danville amongst other places throughout the United States. INCODE is also on the list of approved software vendors by the Indiana State Board of Accounts. INCODE runs on a sequel server and is ODBC compliant which means it is able to data share with Cartegraph.

**The following is a list of INCODE modules purchased and installed by Valparaiso City Utilities:**

- Core Financials
  - General ledger, budget preparation, bank reconciliation, journal entry import, exporter, accounts payable, report writer viewer
  - Positive pay
  - Purchase orders
  - Project accounting
  - Fixed Assets
- Human Resources Systems
  - Payroll/Personnel
  - Distributed time sheet entry
- Customer Service Relationship Management Applications
  - Customer service system, “billing” (many enhancements to bills can be made)
  - Tax LIEN process and file export (will help with sewer liens)
  - Utility payment import (for credit card payments)
  - Utility handheld meter-reader interface (compatible with current readers)
  - CASS certification (to meet Post Office regulations)
  - Service orders
  - Misc accounts receivables
- Project Management (help better track bond spending)
- Secure signatures (eliminate check signing machine – more security)
- Forms overlay (ability to create our own forms)
  - Will save us on the cost of pre-printed forms
  - Capability of printing our own checks
- Audit trails when changes are made – will help immensely with audits. Eliminates the need of manually entering data reducing margin of error. Increased productivity (eliminate redundant work functions)

**Future capabilities (available to add on at any time)**

- Online account viewing (web services similar to NIPSCO)
- Electronic delivery of bills
- Report writer
- Laser fiche interface (capability of going to a paperless office)
- Applicant/FMLA leave tracking
- Position control/budgeting
- Benefits administration
- Call center
- Mobile interface (allow employees to enter data out in the field)

The second comment pertains to the lack of a detailed listing of capital assets for Water Reclamation (previously known as Wastewater Utility).

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 Cartegraph. Detailed information about the department's fixed assets will be maintained by the Cartegraph and INCODE software. Management expects the capital record update project will be completed by the end of 2009.

The third and final comment pertains to the fact that, "official bonds were not filed in the Office of the County Recorder". IC 5-4-1-5.1(b) states, in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision... shall file the bond in the office of the county recorder...."

Valparaiso City Utilities was operating under the impression that Indiana Code 8-1-11.1 (Information Maintained by the Office of Code Revision Indiana Legislative Services Agency, Chapter 11.1 Department of Public Utilities of Consolidated City, Section 1 (n)), pertained to our particular situation. Section 1 (n) outlines the bonding requirements, but is silent on the recording of such bonds.

At any rate, Valparaiso City Utilities intends to record any future bonds of this nature.

If you need any additional information or any further explanation, please contact me.

Very truly yours,



Richard S. Freeman  
Valparaiso City Utilities  
Controller

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