

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, 2010 to December 31, 2010



FILED
06/03/2011

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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	John Costas	01-01-08 to 12-31-11
President of the Board of Public Works	John Costas	01-01-08 to 12-31-11
President of the Utilities Board	Bradley Dolezal	01-01-10 to 12-31-11
Utilities Director	John Hardwick	01-01-10 to 12-31-11
Utilities Controller	Richard S. Freeman	01-01-10 to 12-31-11



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AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, a department of the City of Valparaiso, as of and for the year ended December 31, 2010. 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, 2010, 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, 2010, 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

April 12, 2011

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET ASSETS
December 31, 2009 and December 31, 2010

<u>Assets</u>	2009 (Per Unit)		2010 (Per Unit)	
	Water	Water Reclamation	Water	Water Reclamation
Current assets:				
Cash and cash equivalents	\$ 1,023,548	\$ 1,007,511	\$ 283,372	\$ 919,455
Interest receivable	-	-	-	-
Accounts receivable (net of allowance)	370,597	679,723	369,093	539,785
Other receivables	25,915	-	156,782	-
Collections held for others	102,140	-	71,001	-
Interfund receivables:				
Interfund receivable for services provided and used	-	24,568	-	17,756
Inventories	128,004	178,844	110,569	206,932
Prepaid items	1,449	1,446	1,250	1,488
Total current assets	1,651,653	1,892,092	992,067	1,685,416
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Revenue bond covenant account	845,091	770,520	978,604	756,972
Improvement	-	831,767	5,522	1,719,849
Reserve for SRF Loan	-	924,349	-	924,349
Construction account	-	2,443,544	1,884,622	1,547,160
Tank painting and maintenance	116,181	-	-	-
Customer deposits	225,844	-	217,681	-
Interest receivable	-	-	-	-
Deferred debits	40,670	109,155	106,307	125,165
Total restricted assets:	1,227,786	5,079,335	3,192,736	5,073,495
Capital assets:				
Land, improvements to land and construction in progress	648,092	10,112,716	706,677	766,009
Other capital assets (net of accumulated depreciation)	43,978,982	38,109,339	44,388,877	45,981,665
Total capital assets	44,627,074	48,222,055	45,095,554	46,747,674
Total noncurrent assets	45,854,860	53,301,390	48,288,290	51,821,169
Total assets	\$ 47,506,513	\$ 55,193,482	\$ 49,280,357	\$ 53,506,585
Liabilities				
Current liabilities:				
Accounts payable	\$ 154,469	\$ 187,543	\$ 102,670	\$ 324,327
Interfund payables:				
Interfund payable for services provided and used	164,617	-	17,756	-
Taxes payable	21,113	-	19,426	-
Advances for construction	23,723	-	57,479	-
Accrued Wages and Benefits Payable	89,501	29,653	41,458	34,847
Compensated absences	6,990	4,707	6,907	4,286
Current liabilities payable from restricted assets:				
Customer deposits payable	216,180	-	203,933	-
Revenue bonds payable	375,000	40,000	415,000	10,000
SRF loan	-	844,000	-	877,000
Leases payable	-	56,189	235,000	67,601
Accrued interest payable	72,966	407,301	99,926	391,562
Total current liabilities	1,124,559	1,569,393	1,199,555	1,709,623
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	6,037,428	10,868,105	7,836,092	10,861,528
SRF loan payable	-	11,138,000	-	10,261,000
Capital leases payable	-	-	-	-
Compensated absences payable	153,339	103,273	151,513	94,023
Total noncurrent liabilities	6,190,767	22,109,378	7,987,605	21,216,551
Total liabilities	\$ 7,315,326	\$ 23,678,771	\$ 9,187,160	\$ 22,926,174
Net assets				
Invested in capital assets, net of related debt	\$ 38,255,321	\$ 24,816,830	\$ 36,950,769	\$ 24,863,311
Restricted for debt service	845,091	1,694,869	978,604	1,681,321
Restricted for other purposes	444,165	3,299,879	2,178,826	3,284,765
Unrestricted	646,610	1,703,133	(15,002)	751,014
Total net assets	\$ 40,191,187	\$ 31,514,711	\$ 40,093,197	\$ 30,580,411

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2009 and December 31, 2010

	2009 (Per Unit)		2010 (Per Unit)	
	Water	Water Reclamation	Water	Water Reclamation
Operating Revenues:				
Metered water revenue:				
Residential	\$ 2,130,901	\$ -	\$ 2,283,134	\$ -
Commercial	706,939	-	790,395	-
Industrial	164,405	-	174,342	-
Multiple family dwellings	663,491	-	689,748	-
Public authorities	111,286	-	128,994	-
Water reclamation collection and treatment revenue	-	6,844,648	-	6,629,028
Fire protection revenue	570,866	-	701,932	-
Penalties	17,899	60,232	44,286	63,277
Other water revenue	571,095	-	668,348	-
Other	-	152,001	-	147,875
Total operating revenues	4,936,882	7,056,881	5,481,179	6,840,180
Operating expenses:				
Transmission and distribution	1,079,430	-	1,123,364	-
Pumping - operations and maintenance	751,044	65,059	761,150	58,626
Treatment and disposal - operations and maintenance	657,028	-	640,522	-
Customer accounts	603,632	-	652,263	-
Administration and general	868,173	1,085,300	761,694	1,245,325
Reclaimed water treatment - operations and maintenance	-	2,064,601	-	1,831,206
Reclaimed water distribution - operations and maintenance	-	999,130	-	945,006
Depreciation	1,013,338	2,812,998	1,053,885	2,394,217
Taxes	-	-	-	-
In lieu of taxes	334,644	342,968	334,643	346,845
Miscellaneous expenses	134,042	599	138,756	-
Total operating expenses	5,441,331	7,370,655	5,466,277	6,821,225
Operating income (loss)	(504,449)	(313,774)	14,902	18,955
Nonoperating revenues (expenses):				
Interest and investment revenue	2,338	10,735	7,386	11,670
Miscellaneous revenue	(11,467)	-	118,197	-
Interest expense	(298,294)	(983,705)	(350,289)	(951,109)
Amortization expense	(18,419)	(9,459)	(13,105)	(10,750)
Transfers	-	-	-	-
Miscellaneous expense	(127)	(1)	(26)	-
Total nonoperating revenues (expenses)	(325,969)	(982,430)	(237,837)	(950,189)
Income (loss) before contributions and transfers	(830,418)	(1,296,204)	(222,935)	(931,234)
Capital contributions	520,641	-	129,879	-
Change in net assets	(309,777)	(1,296,204)	(93,056)	(931,234)
Total net assets - beginning	40,597,432	32,803,105	40,191,187	31,514,711
Total net assets - adjustment	(129,699)	-	(154,184)	(3,066)
Total net assets - adjustment	33,231	7,810	149,250	-
Total net assets - ending	\$ 40,191,187	\$ 31,514,711	\$ 40,093,197	\$ 30,580,411

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

<i>Adjustment to reconcile capital assets to capital asset detail</i>	\$ (154,184)
<i>Due to other funds from 2009 financials proven to not be the case in August 2010</i>	140,049
<i>Adj B379 from 12/31/09 posted \$9,208 too much (issuance costs)</i>	9,201
<i>Issuance costs on bonds that was included in Construction in progress</i>	\$ (3,066)
Totals	\$ (4,934) \$ (3,066)

CITY OF VALPARAISO UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2010

	2010 (Per Unit)	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 5,236,094	\$ 6,986,930
Payments to suppliers and contractors	(4,510,443)	(4,322,831)
Net cash provided by operating activities	<u>725,651</u>	<u>2,664,099</u>
Cash from noncapital financing activities:		
Nonoperating receipts	118,197	-
Nonoperating expense	(26)	-
Net cash provided (used) by noncapital financing activities	<u>118,171</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Capital contributions	129,879	-
Acquisition and construction of capital assets	(1,493,543)	(919,836)
Bond proceeds	2,250,000	-
Bond issuance costs	(105,078)	(26,403)
Principal paid on capital debt	(385,000)	(884,000)
Interest paid on capital debt	(323,329)	(966,848)
Principal paid on capital lease		(56,189)
Capital lease proceeds	235,000	67,601
Net cash provided (used) by capital and related financing activities	<u>307,929</u>	<u>(2,785,675)</u>
Cash flows from investing activities:		
Interest received	7,386	11,670
Net cash provided (used) by investing activities	<u>7,386</u>	<u>11,670</u>
Net increase in cash and cash equivalents	1,159,137	(109,906)
Cash and cash equivalents, January 1	<u>2,210,664</u>	<u>5,977,691</u>
Cash and cash equivalents, December 31	<u>\$ 3,369,801</u>	<u>\$ 5,867,785</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 14,902	\$ 18,955
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,053,885	2,394,217
Amortization		
(Increase) decrease in assets:		
Accounts receivable	32,643	139,938
Other receivables	(130,867)	-
Interfund receivable		6,812
Inventories	17,435	(28,088)
Prepaid items	199	(42)
Increase (decrease) in liabilities:		
Accounts payable	(51,799)	136,784
Taxes payable	(1,687)	-
Accrued wages and benefits payable	(48,043)	5,194
Compensated absence payable	(1,909)	(9,671)
Interfund payables	(146,861)	-
Customer deposits	(12,247)	-
Total adjustments	<u>710,749</u>	<u>2,645,144</u>
Net cash provided by operating activities	<u>\$ 725,651</u>	<u>\$ 2,664,099</u>

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utility has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utility's 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 Utility 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.

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

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.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund 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	Estimated Useful Life
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	5,000	Straight-line	50 years
Improvements other than buildings	5,000	Straight-line	50 years
Distribution and collection systems:			
Sewer lines	5,000	Straight-line	100 years
Treatment center	5,000	Straight-line	20 years
Machinery and Equipment:			
Pumping equipment	5,000	Straight-line	20 years
Transportation equipment	5,000	Straight-line	5 years
Office furniture and equipment	5,000	Straight-line	5 years
Machinery and equipment	5,000	Straight-line	10 years

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

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.

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 rates from 96 to 264 hours per year based upon the number of years of service and regularly scheduled work hours.

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.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utility does not have a deposit policy for custodial credit risk. At December 31, 2010, the Water and Water Reclamation Utilities had deposit balances in the amount of \$3,369,801 and \$5,867,785, respectively, which were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 464,475	\$ 10,000	\$ -	\$ 474,475
Construction in progress	<u>183,617</u>	<u>764,150</u>	<u>715,565</u>	<u>232,202</u>
Total capital assets, not being depreciated	<u>648,092</u>	<u>774,150</u>	<u>715,565</u>	<u>706,677</u>
Capital assets, being depreciated:				
Buildings	4,099,791	153,527	15,154	4,238,164
Improvements other than buildings	32,006,397	771,066	271,700	32,505,763
Machinery and equipment	<u>16,588,086</u>	<u>647,504</u>	<u>269,568</u>	<u>16,966,022</u>
Totals	<u>52,694,274</u>	<u>1,572,097</u>	<u>556,422</u>	<u>53,709,949</u>
Less accumulated depreciation for:				
Buildings	(657,080)	(81,996)	15,154	(723,922)
Improvements other than buildings	(6,111,800)	(748,444)	271,700	(6,588,544)
Machinery and equipment	<u>(1,946,412)</u>	<u>(331,762)</u>	<u>269,568</u>	<u>(2,008,606)</u>
Totals	<u>(8,715,292)</u>	<u>(1,162,202)</u>	<u>556,422</u>	<u>(9,321,072)</u>
Total capital assets, being depreciated, net	<u>43,978,982</u>	<u>409,895</u>	<u>1,112,844</u>	<u>44,388,877</u>
Total capital assets, net	<u>\$ 44,627,074</u>	<u>\$ 1,184,045</u>	<u>\$ 1,828,409</u>	<u>\$ 45,095,554</u>
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 575,915	\$ -	\$ -	\$ 575,915
Construction in progress	<u>8,960,886</u>	<u>-</u>	<u>8,770,792</u>	<u>190,094</u>
Total capital assets, not being depreciated	<u>9,536,801</u>	<u>-</u>	<u>8,770,792</u>	<u>766,009</u>
Capital assets, being depreciated:				
Buildings	17,954,447	3,163,451	-	21,117,898
Improvements other than buildings	12,110,668	295,735	-	12,406,403
Machinery and equipment	7,092,491	3,158,032	-	10,250,523
Distribution and collection systems	<u>42,674,334</u>	<u>3,649,325</u>	<u>-</u>	<u>46,323,659</u>
Totals	<u>79,831,940</u>	<u>10,266,543</u>	<u>-</u>	<u>90,098,483</u>
Less accumulated depreciation for:				
Buildings	(3,291,226)	(359,089)	-	(3,650,315)
Improvements other than buildings	(10,398,336)	(242,213)	-	(10,640,549)
Machinery and equipment	(7,608,506)	(686,619)	-	(8,295,125)
Distribution and collection systems	<u>(20,424,533)</u>	<u>(1,106,296)</u>	<u>-</u>	<u>(21,530,829)</u>
Totals	<u>(41,722,601)</u>	<u>(2,394,217)</u>	<u>-</u>	<u>(44,116,818)</u>
Total capital assets, being depreciated, net	<u>38,109,339</u>	<u>7,872,326</u>	<u>-</u>	<u>45,981,665</u>
Total capital assets, net	<u>\$ 47,646,140</u>	<u>\$ 7,872,326</u>	<u>\$ 8,770,792</u>	<u>\$ 46,747,674</u>

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

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

	2010
Water	\$ 1,053,885
Water Reclamation	2,394,217
Total depreciation expense	\$ 3,448,102

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2010	Committed
Water Utility:			
VWD - Pole Barn Heat	\$ 45,000	\$ 3,960	\$ 41,040
Filter Replacement - Flint Lake	175,000	136,317	38,683
Pipe Replacement	100,000	78,670	21,330
Security Improvements	150,000	5,755	144,245
SCADA Improvements	150,000	7,500	142,500
Totals	\$ 620,000	\$ 232,202	\$ 387,798
Water Reclamation Utility:			
Sewer Projects	\$ 812	\$ 812	\$ -
Treatment	14,667	14,667	-
Silhavy Sewer Study	5,200	5,200	-
Franklin Street Sewer	218,746	49,473	169,273
Sewer Rehab/Repair	37,090	37,090	-
GA Manhole Rehab-Marshall	19,500	14,500	5,000
CSO Disinfection Design	260,610	60,678	199,932
Lift Station Upgrades	10,000	7,674	2,326
Totals	\$ 566,625	\$ 190,094	\$ 376,531

D. Leases

Capital Leases

The Water Utility has entered into a capital lease for a Vactor Hydro Excavator, and the Water Reclamation Utility entered into a capital lease for a Tandum Dump Truck. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2010, are as follows:

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

	Water Utility	Water Reclamation Utility
2011	\$ 64,040	\$ 23,896
2012	64,041	23,896
2013	64,040	23,834
2014	64,040	-
Total minimum lease payments	256,161	71,626
Less amount representing interest	21,161	4,025
Present value of net minimum lease payments	\$ 235,000	\$ 67,601

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

	Water Utility	Water Reclamation Utility
Machinery and equipment	\$ 235,000	\$ 90,135
Accumulated depreciation	(4,700)	-
Totals	\$ 230,300	\$ 90,135

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue 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	Balance at December 31	Less: Unamortized Discount	Amount
Water Utility:				
2002 Water Utility: Improvements	4.0% - 5.0%	\$ 6,105,000	\$ 62,272	\$ 6,042,728
2010 Water Utility: Improvements	1% - 4.25%	2,240,000	31,636	2,208,364
Total		\$ 8,345,000	\$ 93,908	\$ 8,251,092
Water Reclamation Utility:				
2007 Water Reclamation Utility: Improvements	3.5% - 5.0%	\$ 10,930,000	\$ 58,472	\$ 10,871,528

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

Revenue bonds debt service requirements to maturity are as follows:

	<u>Water Utility</u>		<u>Water Reclamation Utility</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 415,000	\$ 323,330	\$ 10,000	\$ 504,250
2012	430,000	347,901	20,000	503,750
2013	445,000	330,967	20,000	502,950
2014	465,000	312,830	20,000	502,150
2015	485,000	293,290	20,000	501,350
2016-2020	2,790,000	1,114,056	100,000	2,493,625
2021-2025	2,775,000	425,405	6,520,000	1,885,150
2026-2030	<u>540,000</u>	<u>17,019</u>	<u>4,220,000</u>	<u>315,113</u>
Totals	<u>\$ 8,345,000</u>	<u>\$ 3,164,798</u>	<u>\$ 10,930,000</u>	<u>\$ 7,208,338</u>

2. Loan Payable

The Water Reclamation Utility has entered into a loan agreement (State Revolving Loan Fund (SRF)). Annual debt service requirements to maturity for the loan, including interest of \$2,552,568, are as follows:

	<u>Water Reclamation Utility</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 877,000	\$ 425,919
2012	911,000	391,385
2013	947,000	355,504
2014	985,000	318,201
2015	1,024,000	279,416
2016-2020	5,755,000	769,682
2021-2025	<u>639,000</u>	<u>12,461</u>
Totals	<u>\$ 11,138,000</u>	<u>\$ 2,552,568</u>

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

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable:					
Revenue bonds payable:	\$ 6,480,000	\$ 2,250,000	\$ 385,000 *	\$ 8,345,000	\$ 415,000
Less: discount	67,572	31,636	5,300	93,908	-
Total revenue bonds payable	6,412,428	2,218,364	379,700	8,251,092	415,000
Capital lease**	-	235,000	-	235,000	55,725
Compensated absences	160,329	-	1,909	158,420	6,907
Total long-term liabilities	<u>\$ 6,572,757</u>	<u>\$ 2,453,364</u>	<u>\$ 381,609</u>	<u>\$ 17,083,420</u>	<u>\$ 477,632</u>
Water Reclamation Utility:					
Revenue bonds payable:					
Revenue bonds payable:	\$ 10,970,000	\$ -	\$ 40,000	\$ 10,930,000	\$ 10,000
Less: discount	61,895	-	3,423	58,472	-
Total revenue bonds payable	10,908,105	-	36,577	10,871,528	10,000
Loans payable	11,982,000	-	844,000	11,138,000	877,000
Capital lease**	56,189	67,601	56,189	67,601	21,902
Compensated absences	107,980	-	9,671	98,309	4,286
Total long-term liabilities	<u>\$ 23,054,274</u>	<u>\$ 67,601</u>	<u>\$ 946,437</u>	<u>\$ 33,163,910</u>	<u>\$ 913,188</u>

*Additional \$10,000 paid in revenue bonds due to the 2010 Bond Issue and principal paid in October of 2010.

**The total amount due is included as a current liability on the Statements of Net Assets.

F. Restricted Assets

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

	Water Utility	Water Reclamation Utility
Revenue bond covenant account	\$ 978,604	\$ 756,972
Improvement	5,522	1,719,849
Reserve for SRF loan	-	924,349
Construction account	1,884,622	1,547,160
Customer deposits	217,681	-
Total restricted assets	<u>\$ 3,086,429</u>	<u>\$ 4,948,330</u>

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

G. Restatements and Reclassifications

Prior period adjustment for the Water Utility represents the restatement of capital assets due to the ongoing reconciliation of subsidiary records to the general ledger records and duplicate posting of issuance costs for the bonds, these adjustment are netted on the following schedule. Prior period adjustment for the Water Reclamation Utility represents the reclassification of issuance costs that were initially included in construction in progress but should have been charged to deferred charges.

Opinion Unit	Balance as Reported December 31, 2009	Prior Period Adjustments	Balance as Restated January 1, 2010
Water Utility:			
Statement of Revenues, Expenses and Changes in Fund Net Assets	\$ 40,191,187	\$ (4,934)	\$ 40,186,253
Water Reclamation Utility:			
Statement of Revenues, Expenses and Changes in Fund Net Assets	31,514,711	(3,066)	31,511,645

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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The Utilities participate in the City's established risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the City's Employee Benefit Plan Fund and the City's Health Claim Fund, internal service funds of the City, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of coverage provided by the fund. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Employee contributions and utility payments are receipted directly into the Employee Benefit Plan, and transfers from the General Fund are made as needed.

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

B. Subsequent Events

Water Utility

On January 1, 2011, the third phase of a rate increase takes effect, which was approved by the City Council on December 19, 2009.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on December 14, 2009. The Utility has 11,258 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on December 18, 2006. The Utility has 11,257 customers.

D. Pension Plan

Defined Contribution Pension Plan

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 and Water Reclamation Utilities 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 Utilities 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
4th Floor Wealth Management
600 East 84th Avenue
Merrillville, IN 46410-6366
Phone 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 additional voluntary contributions allowable by applicable IRS rules. The additional contribution is not matched by the employer. Employer and employee contributions to the plan were \$175,313.37 and \$272,492.17, respectively.

WATER AND WATER RECLAMATION UTILITIES
CITY OF VALPARAISO
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2011, with John Hardwick, Utilities Director; Brad Dolezal, President of the Utilities Board; Richard S. Freeman, Controller; and Steve Poulos, Assistant Utilities Director. Our examination disclosed no material items that warrant comment at this time.