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

ANNUAL FINANCIAL REPORT

2011

WATER AND WATER RECLAMATION UTILITIES

CITY OF VALPARAISO

PORTER COUNTY, INDIANA



**FILED**  
01/09/2013



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-08 to 12-31-15
Mayor	Jon Costas	01-01-08 to 12-31-15
President of the Board of Public Works	Jon Costas	01-01-08 to 12-31-15
President of the Utilities Board	Bradley Dolezal David Bengs	07-01-10 to 06-30-12 07-01-12 to 06-30-13
Utilities Director	John Hardwick	01-01-11 to 12-31-12
Utilities Controller	Richard S. Freeman	01-01-11 to 12-31-12



**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, a department of the City of Valparaiso, as of and for the year ended December 31, 2011, which collectively comprise the Utility's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we express no such opinion. 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 Utility. They do not purport to, and do not, present fairly the financial position of the City of Valparaiso as of December 31, 2011, 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, 2011, 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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Management has omitted Management Discussion and Analysis, that Governmental Accounting Standards Board require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic, or historical context. Our opinion on the basis financial statements is not affected by this missing information.

STATE BOARD OF ACCOUNTS

August 14, 2012

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	2011 (Per Unit)	
	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	\$ 1,218,457	\$ 1,114,754
Interest receivable	-	-
Accounts receivable (net of allowance)	379,866	482,608
Other receivables	135,761	-
Collections held for others	100,767	-
Interfund receivables:		
Interfund receivable for services provided and used	-	17,756
Inventories	104,705	215,508
Prepaid items	1,013	1,013
	1,940,569	1,831,639
Total current assets		
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	979,739	818,765
Improvement	655,426	2,178,203
Reserve for SRF Loan	-	936,710
Construction account	496,034	-
Customer deposits	213,287	-
Deferred debits	98,551	98,038
	2,443,037	4,031,716
Total restricted assets:		
Capital assets:		
Land, improvements to land and construction in progress	593,749	2,038,543
Other capital assets (net of accumulated depreciation)	44,471,978	43,815,330
	45,065,727	45,853,873
Total capital assets		
Total noncurrent assets	47,508,764	49,885,589
Total assets	49,449,333	51,717,228
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	86,434	303,195
Interfund payables:		
Interfund payable for services provided and used	17,756	-
Retainage payable	-	93,731
Taxes payable	16,727	-
Advances for construction	273,279	-
Accrued Wages and Benefits Payable	41,480	37,974
Compensated absences	6,871	4,734
Current liabilities payable from restricted assets:		
Customer deposits payable	210,539	-
Revenue bonds payable	430,000	20,000
SRF loan	-	966,000
Leases payable	57,697	103,224
Accrued interest payable	94,154	382,226
	1,234,937	1,911,084
Total current liabilities		

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

WATER AND WATER RECLAMATION UTILITIES  
CITY OF VALPARAISO  
STATEMENT OF NET ASSETS  
December 31, 2011  
(Continued)

	2011 (Per Unit)	
<u>Liabilities (continued)</u>	Water	Water Reclamation
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	7,413,401	10,844,951
SRF loan payable	-	9,348,268
Capital leases payable	121,578	189,569
Compensated absences payable	150,716	103,848
Total noncurrent liabilities	7,685,695	20,486,636
Total liabilities	8,920,632	22,397,720
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	37,320,877	24,772,692
Restricted for debt service	979,739	1,755,475
Restricted for other purposes	1,465,514	2,178,203
Unrestricted	762,571	613,138
Total net assets	\$ 40,528,701	\$ 29,319,508

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 CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2011

	2011 (Per Unit)	
	Water	Water Reclamation
Operating revenues:		
Metered water revenue:		
Residential	\$ 2,520,235	\$ -
Commercial	835,855	-
Industrial	228,758	-
Multiple family dwellings	770,859	-
Public authorities	141,117	-
Water reclamation collection and treatment revenue	-	6,771,159
Fire protection revenue	733,281	-
Penalties	53,031	66,095
Other water revenue	707,025	-
Other	-	196,376
	5,990,161	7,033,630
 Operating expenses:		
Transmission and distribution	1,054,077	-
Pumping - operations and maintenance	748,572	69,101
Treatment and disposal - operations and maintenance	746,517	-
Customer accounts	641,114	-
Administration and general	784,457	1,300,221
Reclaimed water treatment - operations and maintenance	-	2,044,801
Reclaimed water distribution - operations and maintenance	-	989,394
Depreciation	1,074,199	2,953,878
Miscellaneous expenses	141,559	-
	5,190,495	7,357,395
 Operating income (loss)	799,666	(323,765)
 Nonoperating revenues (expenses):		
Interest and investment revenue	6,402	7,541
Miscellaneous revenue	134,387	89,792
Interest expense	(366,263)	(923,325)
Amortization expense	(15,064)	(31,550)
Miscellaneous expense	-	-
	(240,538)	(857,542)
 Income (loss) before contributions and transfers	559,128	(1,181,307)
 Contributions and transfers:		
Capital contributions	357,212	274,083
In lieu of taxes	(334,643)	(346,845)
	22,569	(72,762)
 Change in net assets	581,697	(1,254,069)
Total net assets - beginning	40,093,197	30,580,411
Total net assets - adjustment	(146,193)	(6,834)
Total net assets - ending	\$ 40,528,701	\$ 29,319,508

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, 2011

	2011 (Per Unit)	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 5,970,643	\$ 7,073,051
Payments to suppliers and contractors	<u>(4,123,335)</u>	<u>(4,325,619)</u>
Net cash provided by operating activities	<u>1,847,308</u>	<u>2,747,432</u>
Cash from noncapital financing activities:		
Nonoperating receipts	134,387	89,792
In lieu of taxes	<u>(334,643)</u>	<u>(346,845)</u>
Net cash provided (used) by noncapital financing activities	<u>(200,256)</u>	<u>(257,053)</u>
Cash flows from capital and related financing activities:		
Capital contributions	357,212	274,083
Acquisition and construction of capital assets	(974,764)	(2,049,155)
Bond proceeds	-	53,268
Principal paid on capital debt	(415,000)	(887,000)
Interest paid on capital debt	(372,035)	(932,661)
Principal paid on capital lease	(55,725)	(21,902)
Bond issuance costs	-	(1,000)
Capital lease proceeds	<u>-</u>	<u>247,094</u>
Net cash provided (used) by capital and related financing activities	<u>(1,460,312)</u>	<u>(3,317,273)</u>
Cash flows from investing activities:		
Interest received	<u>6,402</u>	<u>7,541</u>
Net cash provided (used) by investing activities	<u>6,402</u>	<u>7,541</u>
Net increase in cash and cash equivalents	193,142	(819,353)
Cash and cash equivalents, January 1	<u>3,369,801</u>	<u>5,867,785</u>
Cash and cash equivalents, December 31	<u>\$ 3,562,943</u>	<u>\$ 5,048,432</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 799,666</u>	<u>\$ (323,765)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,074,199	2,953,878
Amortization		
(Increase) decrease in assets:		
Accounts receivable	(40,539)	39,421
Other receivables	21,021	-
Interfund receivable	-	-
Inventories	5,864	(8,576)
Prepaid items	237	475
Increase (decrease) in liabilities:		
Accounts payable	(16,236)	(21,132)
Taxes payable	(2,699)	-
Accrued wages and benefits payable	22	3,127
Compensated absence payable	(833)	10,273
Interfund payables	-	-
Customer deposits	6,606	-
Retainage payable	<u>-</u>	<u>93,731</u>
Total adjustments	<u>1,047,642</u>	<u>3,071,197</u>
Net cash provided by operating activities	<u>\$ 1,847,308</u>	<u>\$ 2,747,432</u>

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.

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 non-operating 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 a bank. The bank offers 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.

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

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.

The financial statements report \$2,344,486 and \$3,933,678 for the Water and Water Reclamation Utilities, respectively, of restricted net assets, of which all is restricted by enabling legislation.

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.

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 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 Utilities do not have a deposit policy for custodial credit risk. At December 31, 2011, the Water and Water Reclamation Utilities had deposit balances in the amount of \$3,562,943 and \$5,048,432, respectively.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 474,475	\$ 10,000	\$ 146,193	\$ 338,282
Construction in progress	232,202	703,591	680,326	255,467
Total capital assets, not being depreciated	<u>706,677</u>	<u>713,591</u>	<u>826,519</u>	<u>593,749</u>
Capital assets, being depreciated:				
Buildings	4,238,164	104,232	-	4,342,396
Improvements other than buildings	32,505,763	526,272	82,408	32,949,627
Machinery and equipment	16,966,022	526,796	152,244	17,340,574
Totals	<u>53,709,949</u>	<u>1,157,300</u>	<u>234,652</u>	<u>54,632,597</u>
Less accumulated depreciation for:				
Buildings	(723,922)	(84,763)	-	(808,685)
Improvements other than buildings	(6,588,544)	(650,115)	82,408	(7,156,251)
Machinery and equipment	(2,008,606)	(339,321)	152,244	(2,195,683)
Totals	<u>(9,321,072)</u>	<u>(1,074,199)</u>	<u>234,652</u>	<u>(10,160,619)</u>
Total capital assets, being depreciated, net	<u>44,388,877</u>	<u>83,100</u>	<u>469,304</u>	<u>44,471,978</u>
Total capital assets, net	<u>\$ 45,095,554</u>	<u>\$ 796,692</u>	<u>\$ 1,295,823</u>	<u>\$ 45,065,727</u>
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 575,915	\$ -	\$ -	\$ 575,915
Construction in progress	190,094	1,590,625	318,091	1,462,628
Total capital assets, not being depreciated	<u>766,009</u>	<u>1,590,625</u>	<u>318,091</u>	<u>2,038,543</u>
Capital assets, being depreciated:				
Buildings	21,117,898	56,010	-	21,173,908
Improvements other than buildings	12,406,403	-	-	12,406,403
Machinery and equipment	10,250,523	-	27,001	10,223,522
Distribution and collection systems	46,323,659	758,534	-	47,082,193
Totals	<u>90,098,483</u>	<u>814,544</u>	<u>27,001</u>	<u>90,886,026</u>
Less accumulated depreciation for:				
Buildings	(3,650,315)	(423,477)	-	(4,073,792)
Improvements other than buildings	(10,640,549)	(248,128)	-	(10,888,677)
Machinery and equipment	(8,295,125)	(1,033,133)	-	(9,328,258)
Distribution and collection systems	(21,530,829)	(1,249,140)	-	(22,779,969)
Totals	<u>(44,116,818)</u>	<u>(2,953,878)</u>	<u>-</u>	<u>(47,070,696)</u>
Total capital assets, being depreciated, net	<u>45,981,665</u>	<u>(2,139,334)</u>	<u>27,001</u>	<u>43,815,330</u>
Total capital assets, net	<u>\$ 46,747,674</u>	<u>\$ (548,709)</u>	<u>\$ 345,092</u>	<u>\$ 45,853,873</u>

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

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

	2011
Water	\$ 1,074,199
Wastewater	2,953,878
Total depreciation expense	\$ 4,028,077

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2011	Committed
Water Utility:			
Security Improvements	\$ 150,000	\$ 121,710	\$ 28,290
SCADA Improvements	150,000	114,917	35,083
Evans Avenue	190,000	18,820	171,180
Totals	\$ 490,000	\$ 255,447	\$ 234,553
Water Reclamation Utility:			
CSO Disinfection Design	\$ 170,000	\$ 154,723	\$ 15,277
CSO Construction	2,800,000	1,307,905	1,492,095
Totals	\$ 2,970,000	\$ 1,462,628	\$ 1,507,372

D. Interfund Balances and Activity

Interfund Payable

The composition of interfund balances as of December 31, 2011, is as follows:

Interfund Receivable	Interfund Payable	2011
Water Reclamation	Water Utility	\$ 17,756

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

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

E. Leases

Capital Leases

The Water Utility has entered into a capital lease for a Vactor Hydro Excavator, and the Water Reclamation Utility entered into capital leases for a Tandum Dump Truck and a Vactor Truck. The following is a schedule by years of future minimum rental payments as of December 31, 2011:

	Water Utility	Water Reclamation Utility
2012	\$ 64,040	\$ 109,708
2013	64,040	109,646
2014	<u>64,040</u>	<u>85,812</u>
Total minimum lease payments	192,120	305,166
Less amount representing interest	<u>12,842</u>	<u>12,373</u>
Present value of net minimum lease payments	<u>\$ 179,278</u>	<u>\$ 292,793</u>

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

	Water Utility	Water Reclamation Utility
Machinery and equipment	\$ 235,000	\$ 397,059
Accumulated depreciation	<u>(9,400)</u>	<u>-</u>
Totals	<u>\$ 225,600</u>	<u>\$ 397,059</u>

F. 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:

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

Purpose	Interest Rates	Balance at December 31	Less: Unamortized Discount	Amount
Water Utility:				
2002 Water Utility: Improvements	4.0% - 5.0%	\$ 5,710,000	\$ 57,070	\$ 5,652,930
2010 Water Utility: Improvements	1% - 4.25%	<u>2,220,000</u>	<u>29,627</u>	<u>2,190,373</u>
Totals		<u>\$ 7,930,000</u>	<u>\$ 86,697</u>	<u>\$ 7,843,303</u>
Water Reclamation Utility:				
2007 Water Reclamation Utility: Improvements	3.5% - 5.0%	<u>\$ 10,920,000</u>	<u>\$ 55,049</u>	<u>\$ 10,864,951</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water Utility		Water Reclamation Utility	
	Principal	Interest	Principal	Interest
2012	\$ 430,000	\$ 347,900	\$ 20,000	\$ 503,750
2013	445,000	330,968	20,000	502,950
2014	465,000	312,829	20,000	502,150
2015	485,000	293,290	20,000	501,350
2016	505,000	272,125	20,000	500,525
2017-2021	2,925,000	981,959	750,000	2,489,125
2022-2026	2,675,000	302,094	7,480,000	1,603,862
2027-2031	-	-	2,590,000	130,375
2032-2036	-	-	-	-
2037-2041	-	-	-	-
Totals	<u>\$ 7,930,000</u>	<u>\$ 2,841,165</u>	<u>\$ 10,920,000</u>	<u>\$ 6,734,087</u>

2. Loans Payable

The Water Reclamation Utility has entered into various loan agreements (State Revolving Loan Fund (SRF)). Annual debt service requirements to maturity for the loans, including interest of \$2,713,281, are as follows:

	Water Reclamation Utility	
	Principal	Interest
2012	\$ 964,268	\$ 391,384
2013	947,000	355,505
2014	985,000	318,201
2015	1,024,000	279,416
2016	1,064,000	239,090
2017-2021	<u>5,330,000</u>	<u>543,051</u>
Totals	<u>\$ 10,314,268</u>	<u>\$ 2,126,647</u>

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

G. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable:					
Revenue bonds payable:	\$ 8,345,000	\$ -	\$ 415,000	\$ 7,930,000	\$ 430,000
Less: discount	93,908	-	7,211	86,697	-
Total revenue bonds payable	8,251,092	-	407,789	7,843,303	430,000
Capital lease	235,000	-	55,725	179,275	57,700
Total long-term liabilities	<u>\$ 8,486,092</u>	<u>\$ -</u>	<u>\$ 463,514</u>	<u>\$ 8,022,578</u>	<u>\$ 487,700</u>
Water Reclamation Utility:					
Revenue bonds payable:					
Revenue bonds payable:	\$ 10,930,000	\$ -	\$ 10,000	\$ 10,920,000	\$ 20,000
Less: discount	58,472	-	3,423	55,049	-
Total revenue bonds payable	10,871,528	-	6,577	10,864,951	20,000
Loans payable	11,138,000	53,268	877,000	10,314,268	966,000
Capital lease	67,601	247,094	21,902	292,793	103,224
Total long-term liabilities	<u>\$ 22,077,129</u>	<u>\$ 300,362</u>	<u>\$ 905,479</u>	<u>\$ 21,472,012</u>	<u>\$ 1,089,224</u>

H. Restricted Assets

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

	Water Utility	Water Reclamation Utility
Revenue bond covenant account	\$ 979,739	\$ 818,765
Improvement	655,426	2,178,203
Reserve for SRF loan	-	936,710
Construction account	496,034	-
Customer deposits	213,287	-
Total restricted assets	<u>\$ 2,344,486</u>	<u>\$ 3,933,678</u>

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

I. Revenues Pledged

1. Water Utility Revenues Pledged

The Utilities have pledged future water revenues, net of specified operating expenses, to repay revenue bonds issued in 2002 and 2010, respectively. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2022 and 2026, respectively. Annual principal and interest payments on the bonds are expected to require less than 13 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$9,622,650. Principal and interest paid for the current year and total net revenues were \$738,330 and \$5,990,161, respectively.

2. Water Reclamation Utility Revenues Pledged

The Utilities have pledged future wastewater revenues, net of specified operating expenses, to repay revenue bonds issued in 2007. Proceeds from the bonds provided financing for wastewater collection and treatment system improvements. The bonds are payable solely from wastewater net revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 8 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$17,654,087. Principal and interest paid for the current year and total net revenues were \$1,302,919 and \$7,033,630, respectively.

J. Restatements

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 adjustment for retirements. Prior period adjustment for the Water Reclamation Utility represents the interfund activity reconciled during the year, issuance costs on bonds that were included in construction in progress, and adjustment for construction in progress. These adjustments are netted on the following schedule.

Opinion Unit	Balance as Reported December 31, 2010	Prior Period Adjustments	Balance as Restated January 1, 2011
Water Utility:			
Statement of Revenues, Expenses, and Changes in Fund Net Assets	\$ 40,093,197	\$ (146,193)	\$ 39,947,004
Water Reclamation Utility:			
Statement of Revenues, Expenses, and Changes in Fund Net Assets	30,580,411	(6,834)	30,573,577

WATER AND WATER RECLAMATION UTILITIES  
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; 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on December 14, 2009.

2. Wastewater Utility

The current rate structure was approved by the Utility on December 18, 2006.

C. Pension Plan

Defined Benefit 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 contracting:

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

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

Funding Policy and Annual Pension Cost

The plan provides for up to 6 percent salary contributions per pay by the employees to be matched 100 percent 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 \$168,524.87 and \$253,501.54, respectively.

WATER AND WATER RECLAMATION UTILITY  
CITY OF VALPARAISO  
EXIT CONFERENCE

The contents of this report were discussed on August 14, 2012, with Richard S. Freeman, Utilities Controller; Alina Hahn, Accountant; John Hardwick, Utilities Director; Steve Poulos, Assistant Utilities Director; and David Bengs, President of the Utilities Board. Our audit disclosed no material items that warrant comment at this time.