

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

FINANCIAL STATEMENTS

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
04/21/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-12 to 12-31-19
Mayor	Jon Costas	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Jon Costas	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Jan Dick John Bowker	01-01-14 to 12-31-15 01-01-16 to 12-31-16
President of the Utilities Board	David Bengs	01-01-14 to 12-31-16
Director of Utilities	Steve Poulos	01-01-14 to 12-31-16
Controller of Utilities	Alina Hahn	01-01-14 to 12-31-16



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Valparaiso Utilities (Utilities), departments of the City of Valparaiso, as of and for the year ended December 31, 2014, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Utilities, departments of the City of Valparaiso, as of December 31, 2014, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)


Emphasis of Matter

As discussed in Note I, the financial statements of the City of Valparaiso Utilities, departments of the 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, 2014, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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


Paul D. Joyce, CPA
State Examiner

January 20, 2016

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2014

	2014	
	Water	Water Reclamation
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,045,421	\$ 718,341
Accounts receivable (net of allowance)	458,841	579,935
Other receivables	115,933	-
Collections held for others	78,136	-
Inventories	105,443	126,600
Total current assets	1,803,774	1,424,876
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	716,344	787,423
Improvement	1,159,030	2,305,301
Reserve for SRF Loan	-	986,362
Construction account	17,622,545	-
Customer deposits	133,788	-
Notes Receivable	-	117,500
Total restricted assets:	19,631,707	4,196,586
Capital assets:		
Land, improvements to land and construction in progress	1,903,983	992,201
Other capital assets (net of accumulated depreciation)	45,481,847	40,913,463
Total capital assets	47,385,830	41,905,664
Total noncurrent assets	67,017,537	46,102,250
Total assets	68,821,311	47,527,126

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2014
(Continued)

	2014	
	Water	Water Reclamation
<u>Liabilities and Deferred Inflows of Resources</u>		
Current liabilities:		
Accounts payable	\$ 211,339	\$ 272,732
Taxes payable	28,174	-
Accrued Wages and Benefits Payable	62,042	59,601
Compensated absences	6,631	5,108
Current liabilities payable from restricted assets:		
Customer deposits payable	133,788	-
Revenue bonds payable (current)	900,000	1,115,000
SRF loan	-	60,000
Leases payable	32,500	32,500
Accrued interest payable	46,472	290,388
Total current liabilities	<u>1,420,946</u>	<u>1,835,329</u>
Noncurrent liabilities:		
Revenue bonds payable (net of discount)	23,707,618	17,210,219
SRF loan payable	-	1,020,080
Leases payable	702,500	702,500
Compensated absences payable	145,462	112,047
Total noncurrent liabilities	<u>24,555,580</u>	<u>19,044,846</u>
Total liabilities	<u>25,976,526</u>	<u>20,880,175</u>
Deferred Inflows of Resources	<u>-</u>	<u>117,500</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	\$ 22,043,212	\$ 21,765,365
Restricted for debt service	716,344	1,773,785
Restricted for other purposes	18,993,499	2,305,301
Unrestricted	1,091,730	685,000
Total net position	<u>\$ 42,844,785</u>	<u>\$ 26,529,451</u>

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF REVENUES, EXPENSES AND, CHANGES IN NET POSITION
As Of And For The Year Ended December 31, 2014

	2014	
	Water	Water Reclamation
Operating Revenues:		
Metered water revenue:		
Residential	\$ 3,082,308	\$ -
Commercial	952,423	-
Industrial	333,595	-
Multiple family dwellings	977,426	-
Public authorities	173,984	-
Water reclamation collection and treatment revenue	-	8,193,379
Fire protection revenue	978,342	-
Penalties	59,414	69,389
Other water revenue	669,283	-
Other	-	149,167
Total operating revenues	<u>7,226,775</u>	<u>8,411,935</u>
Operating expenses:		
Transmission and distribution	1,134,748	-
Pumping - operations and maintenance	709,487	70,956
Treatment and disposal - operations and maintenance	739,160	-
Customer accounts	923,650	-
Administration and general	995,566	1,163,217
Reclaimed water treatment - operations and maintenance	-	2,216,304
Reclaimed water distribution - operations and maintenance	-	940,875
Depreciation	<u>1,101,074</u>	<u>2,765,089</u>
Total operating expenses	<u>5,603,685</u>	<u>7,156,441</u>
Operating income (loss)	<u>1,623,090</u>	<u>1,255,494</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	5,481	3,166
Miscellaneous revenue	42,571	-
Interest expense	(222,036)	(711,982)
Bond issuance costs	(354,162)	-
Transfers	<u>(3,329)</u>	<u>3,421</u>
Total nonoperating revenues (expenses)	<u>(531,475)</u>	<u>(705,395)</u>
Income (loss) before contributions and transfers	<u>1,091,615</u>	<u>550,099</u>
Contributions and Transfers:		
Capital contributions	277,266	640,954
In lieu of taxes	<u>(759,643)</u>	<u>(771,845)</u>
Total contributions and transfers	<u>(482,377)</u>	<u>(130,891)</u>
Change in net position	609,238	419,208
Total net position - beginning (restated)	42,235,547	26,110,243
Total net position - ending	<u>\$ 42,844,785</u>	<u>\$ 26,529,451</u>

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2014

	2014	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 7,149,134	\$ 8,331,751
Payments to employees, suppliers and contractors	(4,472,246)	(4,361,508)
Net cash provided by operating activities	2,676,888	3,970,243
Cash from noncapital financing activities:		
Nonoperating receipts	42,571	-
Transfers in (out)	(3,329)	3,421
In lieu of taxes	(759,643)	(771,845)
Net cash provided (used) by noncapital financing activities	(720,401)	(768,424)
Cash flows from capital and related financing activities:		
Capital contributions	265,266	629,039
Acquisition and construction of capital assets	(1,638,093)	(956,905)
Bond proceeds, net of premium	17,976,554	-
Bond issuance costs	(354,162)	-
Principal paid on capital debt	(455,000)	(813,000)
Interest paid on capital debt	(206,758)	(681,371)
Principal paid on capital lease	(76,569)	(99,056)
Net cash provided (used) by capital and related financing activities	15,511,238	(1,921,293)
Cash flows from investing activities:		
Interest received	5,481	3,166
Net increase in cash and cash equivalents	17,473,206	1,283,692
Cash and cash equivalents, January 1	3,203,922	3,513,735
Cash and cash equivalents, December 31	<u>\$ 20,677,128</u>	<u>\$ 4,797,427</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 1,623,090	\$ 1,255,494
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,101,074	2,765,089
(Increase) decrease in assets:		
Accounts receivable	(54,858)	(80,184)
Other receivables	(22,783)	-
Inventories	15,071	863
Increase (decrease) in liabilities:		
Accounts payable	54,692	77,226
Taxes payable	5,992	-
Accrued wages and benefits payable	(3,571)	(3,321)
Compensated absence payable	(112)	(2,876)
Customer deposits	(36,178)	-
Retainage payable	(5,529)	(42,048)
Total adjustments	1,053,798	2,714,749
Net cash provided by operating activities	<u>\$ 2,676,888</u>	<u>\$ 3,970,243</u>
Non-cash capital and financing activities:		
Purchase of building by issuing lease payable	\$ 750,000	\$ 750,000
Contributed capital	12,000	11,915
Prior period adjustment to capital assets	-	50,268
Prior period adjustment to interest	-	22,908

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

CITY OF VALPARAISO UTILITIES
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 Position; Statement of Revenues, Expenses, and Changes in Net Position; 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.

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, Deferred Inflows of Resources and Net Position

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.

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Inventories

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

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 position balance sheet because their use is limited by applicable bond covenants.

The financial statements report \$19,631,707 and \$4,196,586 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
Water Utility:		
Buildings	\$ 5,000	2% Composite rate
Improvements other than buildings	5,000	2% Composite rate
Machinery and equipment	5,000	2% Composite rate
Water Reclamation Utility:		
Buildings	5,000	2% Composite rate
Improvements other than buildings	5,000	5% Composite rate
Distribution and collection systems:		
Sewer lines	5,000	1% Composite rate
Treatment center	5,000	5% Composite rate
Machinery and Equipment:		
Pumping equipment	5,000	5% Composite rate
Transportation equipment	5,000	20% Composite rate
Office furniture and equipment	5,000	20% Composite rate
Machinery and equipment	5,000	10% Composite rate

CITY OF VALPARAISO UTILITIES
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 Position. Bond premiums and discounts 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 expensed in the period incurred.

7. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Water Reclamation Utility has an agreement with an organization for future improvements.

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

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2014, the Water and Water Reclamation Utilities had deposit balances in the amount of \$20,677,128 and \$4,797,427, 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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Prior Period Adjustments	Restated Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:						
Capital assets, not being depreciated:						
Land	\$ 410,590	\$ -	\$ 410,590	\$ 10,000	\$ (7,464)	\$ 413,126
Construction in progress	-	241,280	241,280	1,249,578	-	1,490,858
Total capital assets, not being depreciated	410,590	241,280	651,870	1,259,578	(7,464)	1,903,984
Capital assets, being depreciated:						
Buildings	4,394,793	(134,291)	4,260,502	753,718	-	5,014,220
Improvements other than buildings	35,458,044	(2,689,089)	32,768,955	271,983	(59,529)	32,981,409
Machinery and equipment	17,820,072	(652,942)	17,167,130	117,665	(226,729)	17,058,067
Totals	57,672,909	(3,476,322)	54,196,587	1,143,366	(286,258)	55,053,696
Less accumulated depreciation for:						
Buildings	(983,429)	134,291	(849,138)	(85,934)	-	(935,072)
Improvements other than buildings	(8,164,332)	2,440,422	(5,723,910)	(659,628)	59,529	(6,324,009)
Machinery and equipment	(2,834,313)	660,329	(2,173,984)	(355,511)	216,728	(2,312,767)
Totals	(11,982,074)	3,235,042	(8,747,032)	(1,101,074)	276,257	(9,571,849)
Total capital assets, being depreciated, net	45,690,835	(241,280)	45,449,555	42,292	(10,001)	45,481,847
Total capital assets, net	\$ 46,101,425	\$ -	\$ 46,101,425	\$ 1,301,870	\$ (17,465)	\$ 47,385,831
Water Reclamation Utility:						
Capital assets, not being depreciated:						
Land	\$ 575,915	\$ -	\$ 575,915	\$ -	\$ -	\$ 575,915
Construction in progress	-	-	-	416,286	-	416,286
Total capital assets, not being depreciated	575,915	-	575,915	416,286	-	992,201
Capital assets, being depreciated:						
Buildings	21,177,921	4,758,321	25,936,242	777,513	-	26,713,755
Improvements other than buildings	12,406,403	(12,290,336)	116,067	-	-	116,067
Machinery and equipment	10,507,500	(992,963)	9,514,537	150,379	(35,448)	9,629,467
Distribution and collection systems	51,068,635	2,355,576	53,424,211	903,189	-	54,327,400
Totals	95,160,459	(6,169,402)	88,991,057	1,831,081	(35,448)	90,786,690
Less accumulated depreciation for:						
Buildings	(4,920,868)	-	(4,920,868)	(519,925)	-	(5,440,793)
Improvements other than buildings	(11,384,933)	5,226,707	(6,158,226)	(2,321)	-	(6,160,547)
Machinery and equipment	(11,411,499)	942,695	(10,468,804)	(868,405)	29,048	(11,308,161)
Distribution and collection systems	(25,583,381)	(5,907)	(25,589,288)	(1,374,438)	-	(26,963,726)
Totals	(53,300,681)	6,163,495	(47,137,186)	(2,765,089)	29,048	(49,873,227)
Total capital assets, being depreciated, net	41,859,778	(5,907)	41,853,871	(934,008)	(6,400)	40,913,463
Total capital assets, net	\$ 42,435,693	\$ (5,907)	\$ 42,429,786	\$ (517,722)	\$ (6,400)	\$ 41,905,664

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

During 2014, utility management performed an inventory of capital assets and retired any assets below the capital asset threshold. This process resulted in capital asset retirements of \$3,476,322 and \$6,169,402 in Water and Water Reclamation Utilities' capital assets, respectively.

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

	<u>2014</u>
Water	<u>\$ 1,101,074</u>
Water Reclamation	<u>\$ 2,765,089</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Water</u>	<u>2014</u>	
<u>Project</u>	<u>Expended to December 31,</u>	<u>Committed</u>
2014 Water Bond Projects/Upgrades	<u>\$ 1,490,858</u>	<u>\$ 16,061,973</u>

<u>Water Reclamation</u>	<u>2014</u>	
<u>Project</u>	<u>Expended to December 31,</u>	<u>Committed</u>
Sanitary Sewer Lining (USACE)	<u>\$ 416,286</u>	<u>\$ 5,714</u>

D. Leases

Capital Leases

The Water and Water Reclamation Utilities have entered into a capital lease for their portion of the new Public Works Facility. Future minimum lease payments and present values of the net minimum lease payments under this capital lease as of December 31, 2014, are as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Water Utility	Water Reclamation Utility
2015	\$ 63,738	\$ 63,738
2016	65,413	65,413
2017	64,538	64,538
2018	65,900	65,900
2019	62,100	62,100
2020-2024	321,988	321,988
2025-2029	320,250	320,250
2030-2034	<u>97,186</u>	<u>97,186</u>
Less amount representing interest	<u>326,113</u>	<u>326,113</u>
Present value of net minimum lease payments	<u>\$ 735,000</u>	<u>\$ 735,000</u>

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

	Water Utility	Water Reclamation Utility
Buildings	\$ 750,000	\$ 750,000
Accumulated depreciation	<u>(15,000)</u>	<u>(15,000)</u>
Totals	<u>\$ 735,000</u>	<u>\$ 735,000</u>

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 (Premium) Discount	Amount
Water Utility:				
2010 Water Utility: Improvements	1% - 4.25%	\$ 2,160,000	\$ 23,936	\$ 2,136,064
2013 Water Utility: Improvements	2.17%	4,495,000	-	4,495,000
2014A Water Utility: Improvements	2%-3.625%	10,705,000	(86,554)	10,791,554
2014B Water Utility: Improvements	2.70%	<u>7,185,000</u>	-	<u>7,185,000</u>
Total		<u>\$ 24,545,000</u>	<u>\$ (62,618)</u>	<u>\$ 24,607,618</u>
Water Reclamation Utility:				
2007 Water Reclamation Utility: Improvements	4.0% - 5.0%	\$ 10,860,000	\$ 44,781	\$ 10,815,219
2013 Refunding Revenue Bonds	1.99%	<u>7,510,000</u>	-	<u>7,510,000</u>
Total		<u>\$ 18,370,000</u>	<u>\$ 44,781</u>	<u>\$ 18,325,219</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

	Water		Water Reclamation	
	Principal	Interest	Principal	Interest
2015	\$ 900,000	\$ 607,957	\$ 1,115,000	\$ 645,376
2016	915,000	729,052	1,135,000	622,661
2017	925,000	708,952	1,155,000	599,473
2018	945,000	686,614	1,180,000	575,887
2019	965,000	663,751	1,205,000	551,754
2020-2024	5,155,000	2,944,548	6,800,000	2,192,717
2025-2029	6,050,000	2,096,601	5,780,000	570,838
2030-2034	7,115,000	1,011,756	-	-
2035-2038	<u>1,575,000</u>	<u>42,956</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 24,545,000</u>	<u>\$ 9,492,188</u>	<u>\$ 18,370,000</u>	<u>\$ 5,758,707</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 (based upon having drawn down all of the funds), are as follows:

	Water Reclamation Utility	
	Principal	Interest
2015	\$ 60,000	\$ 45,428
2016	63,000	43,389
2017	65,000	41,249
2018	67,000	39,041
2019	69,000	36,767
2020-2024	383,000	146,966
2025-2029	453,000	77,240
2030-2031	<u>203,000</u>	<u>8,610</u>
Totals	<u>\$ 1,363,000</u>	<u>\$ 438,690</u>

As of December 31, 2014, not all of the funds had been drawn down. The liability reported in the financial statements for loans payable is based upon the actual funds drawn as of December 31, 2014.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Reclassification	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:							
Revenue bonds payable	\$ 7,110,000	\$ -	\$ 7,110,000	\$17,890,000	\$ 455,000	\$24,545,000	\$ 900,000
Add: premium	-	-	-	86,554	-	86,554	-
Less: discount	25,609	-	25,609	-	1,673	23,936	-
Total revenue bonds payable	7,084,391	-	7,084,391	17,976,554	453,327	24,607,618	900,000
Capital lease	61,569	-	61,569	750,000	76,569	735,000	32,500
Compensated absences	152,205	-	152,205	-	112	152,093	6,631
Total Long-term liabilities	<u>\$ 7,298,165</u>	<u>\$ -</u>	<u>\$ 7,298,165</u>	<u>\$18,726,554</u>	<u>\$ 530,008</u>	<u>\$25,494,711</u>	<u>\$ 939,131</u>
Water Reclamation Utility:							
Revenue bonds payable	\$10,880,000	\$ 8,245,000	\$19,125,000	\$ -	\$ 755,000	\$18,370,000	\$1,115,000
Less: discount	48,204	-	48,204	-	3,423	44,781	-
Total revenue bonds payable	10,831,796	8,245,000	19,076,796	-	751,577	18,325,219	1,115,000
Loans payable	9,383,080	(8,245,000)	1,138,080	-	58,000	1,080,080	60,000
Capital lease	84,056	-	84,056	750,000	99,056	735,000	32,500
Compensated absences	120,031	-	120,031	-	2,877	117,154	5,108
Total Long-term liabilities	<u>\$20,418,963</u>	<u>\$ -</u>	<u>\$20,418,963</u>	<u>\$ 750,000</u>	<u>\$ 911,510</u>	<u>\$20,257,453</u>	<u>\$1,212,608</u>

F. Restricted Assets

The balances of restricted asset accounts are as follows:

	Water Utility	Water Reclamation Utility
Customer deposits	\$ 133,788	\$ -
Improvement	1,159,030	2,305,301
Reserve for SRF loan	-	986,362
Revenue bond covenant account	716,344	787,423
Construction account	17,622,545	-
Total restricted assets	<u>\$ 19,631,707</u>	<u>\$ 4,079,086</u>

G. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2010, 2013, and 2014 A&B respectively. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

are payable through 2026, 2022, 2035, and 2028, respectively. Annual principal and interest payments are expected to require less than 9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$34,037,188. Principal and interest paid for the current year and total operating revenues were \$629,692 and \$7,226,775, respectively.

Water Reclamation Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2007 and refunding revenue bonds in 2013. 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 are expected to require less than 17 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$24,128,707. Principal and interest paid for the current year and total operating revenues were \$1,356,390 and \$8,411,935, respectively.

H. 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 previously unrecorded capital contributions and ongoing reconciliations of subsidiary records to the general ledger records and adjustment for retirements. These adjustments are netted on the following schedule.

Opinion Unit	Balance as Reported December 31, 2013	Prior Period Adjustments	Balance as Restated January 1, 2014
Water Utility:			
Statement of Revenues, Expenses, and Changes in Net Position	\$ 42,250,161	\$ (14,614)	\$ 42,235,547
Water Reclamation Utility:			
Statement of Revenues, Expenses, and Changes in Net Position	25,616,911	493,332	26,110,243

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

To create cost savings, the City (including the Utilities) decided to offer other medical insurance alternatives on January 1, 2013. Covered participants were given a choice of either a Health Savings Account (HSA) with a high deductible or a Traditional PPO. Coverage is provided by United Healthcare in conjunction with the IACT Medical Trust.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on November 25, 2013.

2. Water Reclamation Utility

The current rate structure was approved by the Utility on November 25, 2013.

C. 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 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 \$155,283 and \$212,750, respectively.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Subsequent Events

Rate Increases

On November 25, 2013, ordinances were approved by the City Council to increase both water and sewer rates. The water rates will increase in three phases starting on January 1, 2014, when rates increased by 19.01 percent. On July 1, 2014, the rates increased by 10.76 percent and the final phase will increase rates by 2.79 percent on January 1, 2016. The sewer rates will increase on the same schedule but will increase by 18 percent, 8 percent and 4 percent respectively.

Pratt Paper, LLC

On September 17, 2013 Pratt Paper, a recycled paper and packaging company, announced plans to locate a paper mill in Valparaiso, Indiana. The mill will be a heavy water user at an average of 1.0 million gallons per day and will discharge approximately .75 million gallons per day of sewage. Estimated revenues for both water and sewer are \$1.6 million per year and will be realized in 2016.

Taxable Economic Development Revenue Bonds, Series 2015

On August 24, 2015, the Common Council of the City authorized the pledge of net revenues of the Sewage Works to the payment of the City of Valparaiso, Indiana, Taxable Economic Development Revenue Bonds, Series 2015 (Pratt Paper (IN), LLC Project), and outstanding in the aggregate principal amount of \$10,000,000. A sewage capacity agreement commits Pratt and the Pratt parent company to make the required debt payments per City of Valparaiso Common Council Resolution No.21-2015. The bond closing was held on December 29, 2015.

2015 Sewage Works Revenue Bonds Issue

On April 7, 2015, sewage works revenue bonds were sold in the amount of \$2,600,000. These bond funds will allow for improvements to the main headworks facility at the wastewater treatment plant. These improvements include new influent lift pumps, variable frequency drives, HVAC, instrumentation and control, and various piping modifications.

2007 Sewage Works Refunding Revenue Bonds

On September 28, 2015, the Common Council of the City authorized the refunding of the 2007 Sewage Works Revenue Bonds currently outstanding in the aggregate principal amount of \$10,840,000.

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.