

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, 2016 to December 31, 2016



FILED
12/01/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Steve Poulos	01-01-16 to 12-31-17
Controller	Alina Hahn	01-01-16 to 12-31-17
President of the Utility Board	David Bengs	01-01-16 to 12-31-17



STATE OF INDIANA
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 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), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Utilities basic 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 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 from 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 Utilities 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 also 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 opinions.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)


Unmodified 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, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

October 17, 2017

BASIC 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, 2016

	2106	
<u>Assets</u>	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	\$ 1,465,312	\$ 1,025,313
Accounts receivable (net of allowance)	524,544	684,260
Other receivables	160,023	-
Collections held for others	2,172	-
Inventories	111,367	122,583
Interest receivable	1,734	-
	2,265,152	1,832,156
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	1,412,629	1,407,855
Improvement	3,043,556	5,418,986
Reserve for SRF Loan	-	966,447
Construction account	2,120,442	400,923
Retainage	292,635	39,893
Tank painting and maintenance	93,940	-
Customer deposits	61,455	-
Note receivable	-	93,300
	7,024,657	8,327,404
Capital assets:		
Land, improvements to land and construction in progress	17,008,642	2,996,845
Other capital assets (net of accumulated depreciation)	46,974,421	39,553,713
	63,983,063	42,550,558
Total noncurrent assets	71,007,720	50,877,962
Total assets	\$ 73,272,872	\$ 52,710,118

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2016
(Continued)

	2016	
	Water	Water Reclamation
<u>Liabilities, Deferred inflows and Net Position</u>		
Current liabilities:		
Accounts payable	\$ 226,695	\$ 129,763
Interfund payables:		
Interfund payable for services provided and used	-	-
Retainage payable	292,635	39,893
Taxes payable	24,762	-
Accrued Wages and Benefits Payable	82,500	83,905
Compensated absences	6,534	5,466
Deferred Revenue	-	238,000
Current liabilities payable from restricted assets:		
Accounts payable	-	-
Customer deposits payable	62,868	-
Revenue bonds payable (current)	925,000	1,245,000
SRF loan	-	65,000
Leases payable	80,235	62,464
Accrued interest payable	179,493	254,202
Total current liabilities	<u>1,880,722</u>	<u>2,123,693</u>
Noncurrent liabilities:		
Revenue bonds payable (net of discount)	21,863,392	17,452,635
SRF loan payable	-	1,175,000
Leases payable	685,473	660,522
Restricted payable	-	600,008
Compensated absences payable	143,328	119,898
Net Other Post Employment Benefits Obligation	21,598	21,597
Total noncurrent liabilities	<u>22,713,791</u>	<u>20,029,660</u>
Deferred inflows	-	117,500
Total liabilities and Deferred inflows	<u>\$ 24,594,513</u>	<u>\$ 22,270,853</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	\$ 40,428,963	\$ 21,889,937
Restricted for debt service	1,412,629	1,774,294
Restricted for other purposes	5,614,200	5,859,802
Unrestricted	1,222,567	915,232
Total net position	<u>\$ 48,678,359</u>	<u>\$ 30,439,265</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, 2016

	2016	
	Water	Water Reclamation
		Water
Operating Revenues:		
Metered water revenue:		
Residential	\$ 3,474,051	\$ -
Commercial	1,088,048	-
Industrial	1,255,610	-
Multiple family dwellings	1,039,989	-
Public authorities	201,264	-
Water reclamation collection and treatment revenue	-	9,492,259
Water reclamation surcharges	-	32,788
Fire protection revenue	1,082,549	-
Penalties	63,886	80,192
Other	709,265	291,545
	<u>8,914,662</u>	<u>9,896,784</u>
Total operating revenues	<u>8,914,662</u>	<u>9,896,784</u>
Operating expenses:		
Transmission and distribution	1,097,916	-
Pumping - operations and maintenance	643,038	80,388
Treatment and disposal - operations and maintenance	878,880	-
Customer accounts	773,593	-
Administration and general	1,007,250	1,385,234
Reclaimed water treatment - operations and maintenance	-	2,427,754
Reclaimed water distribution - operations and maintenance	-	885,715
Depreciation	1,144,163	2,941,117
	<u>5,544,840</u>	<u>7,720,208</u>
Total operating expenses	<u>5,544,840</u>	<u>7,720,208</u>
Operating income (loss)	<u>3,369,822</u>	<u>2,176,576</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	21,364	12,246
Miscellaneous revenue	19,709	-
Interest expense	(752,713)	(560,530)
Loss on refunding	-	-
Bond issuance costs	-	(8,283)
Surcharge	-	1,282,037
Payments to RDC	-	(1,282,037)
Transfers	(110,952)	110,952
	<u>(822,592)</u>	<u>(445,615)</u>
Total nonoperating revenues (expenses)	<u>(822,592)</u>	<u>(445,615)</u>
Income (loss) before contributions and transfers	<u>2,547,230</u>	<u>1,730,961</u>
Contributions and Transfers:		
Contributions	1,429,450	183,573
In lieu of taxes	(759,643)	(771,845)
	<u>669,807</u>	<u>(588,272)</u>
Total contributions and transfers	<u>669,807</u>	<u>(588,272)</u>
Change in net position	3,217,037	1,142,689
Total net position - beginning	45,461,322	29,296,576
Total net position - adjustment	-	-
Total net position - ending	<u>\$ 48,678,359</u>	<u>\$ 30,439,265</u>

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2016

	2106	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 8,961,118	\$ 9,906,240
Payments to suppliers and contractors	<u>(5,284,428)</u>	<u>(4,798,265)</u>
Net cash provided by operating activities	<u>3,676,690</u>	<u>5,107,975</u>
Cash from noncapital financing activities:		
Nonoperating receipts	19,709	-
Transfers in (out)	(110,952)	110,952
In lieu of taxes	<u>(759,643)</u>	<u>(771,845)</u>
Net cash provided (used) by noncapital financing activities	<u>(850,886)</u>	<u>(660,893)</u>
Cash flows from capital and related financing activities:		
Contributions	1,429,450	-
Acquisition and construction of capital assets	(5,500,820)	(2,049,818)
Pratt Bond Proceeds	-	100,008
SRF Loan Proceeds	-	-
Bond proceeds	-	-
Bond issuance costs	-	(8,283)
Principal paid on capital debt	(915,000)	(1,225,000)
Principal paid on loans	-	(63,000)
Interest paid on capital debt	(726,940)	(462,023)
Interest paid on loans	-	(43,389)
Principal paid on capital lease	(53,865)	(62,464)
Interest paid on capital lease	(29,799)	(30,873)
Notes receivable	-	12,100
Net cash provided (used) by capital and related financing activities	<u>(5,796,974)</u>	<u>(3,832,742)</u>
Cash flows from investing activities:		
Interest received	<u>39,911</u>	<u>12,246</u>
Net increase (decrease) in cash and cash equivalents	(2,931,259)	626,586
Cash and cash equivalents, January 1	<u>11,421,228</u>	<u>8,632,831</u>
Cash and cash equivalents, December 31	<u>\$ 8,489,969</u>	<u>\$ 9,259,417</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 3,369,822</u>	<u>\$ 2,176,576</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 1,144,163	\$ 2,941,117
Amortization		
(Increase) decrease in assets:		
Accounts receivable	26,136	9,456
Other receivables	20,320	-
Inventories	(16,969)	12,696
Increase (decrease) in liabilities:		
Accounts payable	(725,801)	(322,978)
Taxes payable	(7,230)	-
Accrued wages and benefits payable	13,163	13,893
Deferred Revenue	-	238,000
Compensated absence payable	1,327	6,272
Net pension obligation payable	6,943	6,943
Customer deposits	(1,562)	-
Retainage payable	<u>(153,622)</u>	<u>26,000</u>
Total adjustments	<u>306,868</u>	<u>2,931,399</u>
Net cash provided by operating activities	<u>\$ 3,676,690</u>	<u>\$ 5,107,975</u>
Noncash investing, capital and financing activities:		
Purchase of equipment by issuing lease payable	\$ 79,663	-
Contributions	-	183,573

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 Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity

1. Deposits and Investments

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

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

The deferred compensation plan amounts are invested with 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 because their use is limited by applicable bond covenants.

The financial statements report \$7,024,657 and \$8,327,404 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
Infrastructure	5,000	2% Composite rate
Water Reclamation Utility:		
Buildings	5,000	2% Composite rate
Improvements other than buildings	5,000	2% 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
Infrastructure	5,000	2% Composite rate

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 on 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 immaterial 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, 2016, the Water and Water Reclamation Utilities had deposit balances in the amount of \$8,489,969 and \$9,259,417, respectively.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2016, was as follows:

<u>2016</u>	Beginning Balance	Increases	Decreases	Reclassification	Adjustments	Ending Balance
Water Utility:						
Capital assets, not being depreciated:						
Land	\$ 423,126	\$ -	\$ -	\$ -	\$ -	\$ 423,126
Construction in progress	12,976,291	3,609,225	-	-	-	16,585,516
Total capital assets, not being depreciated	13,399,417	3,609,225	-	-	-	17,008,642
Capital assets, being depreciated:						
Buildings	5,014,220	49,211	(107,828)	-	-	4,955,603
Improvements other than buildings	588,773	-	-	-	-	588,773
Infrastructure	33,942,482	1,448,036	(521,010)	-	-	34,869,508
Machinery, equipment, and vehicles	16,963,311	504,501	(673,548)	-	-	16,794,264
Totals	56,508,786	2,001,748	(1,302,386)	-	-	57,208,148
Less accumulated depreciation for:						
Building	(1,035,356)	(99,112)	107,828	-	-	(1,026,640)
Improvements other than buildings	(138,255)	(11,775)	-	-	-	(150,030)
Infrastructure	(6,872,316)	(697,390)	521,010	-	-	(7,048,696)
Machinery, equipment, and vehicles	(2,313,421)	(335,885)	640,947	-	-	(2,008,359)
Totals	(10,359,348)	(1,144,163)	1,269,785	-	-	(10,233,726)
Total capital assets, being depreciated, net	46,149,438	857,585	(32,601)	-	-	46,974,421
Total capital assets, net	<u>\$ 59,548,855</u>	<u>\$ 4,466,810</u>	<u>\$ (32,601)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,983,063</u>
<u>2016</u>	Beginning Balance	Increases	Decreases	Reclassification	Adjustments	Ending Balance
Water Reclamation Utility:						
Capital assets, not being depreciated:						
Land	\$ 575,915	\$ -	\$ -	\$ -	\$ -	\$ 575,915
Construction in progress	688,236	1,732,694	-	-	-	2,420,930
Total capital assets, not being depreciated	1,264,151	1,732,694	-	-	-	2,996,845
Capital assets, being depreciated:						
Building	26,713,755	12,018	-	-	-	26,725,773
Improvements other than buildings	127,217	-	-	-	-	127,217
Machinery, equipment, and vehicles	32,485,093	303,095	(228,149)	-	-	32,560,039
Infrastructure	35,424,246	251,466	-	-	(28,288)	35,647,424
Totals	94,750,311	566,579	(228,149)	-	(28,288)	95,060,453
Less accumulated depreciation for:						
Building	(5,995,325)	(534,515)	-	-	-	(6,529,840)
Improvements other than buildings	(6,163,091)	(2,544)	-	-	-	(6,165,635)
Machinery, equipment, and vehicles	(17,065,582)	(2,040,603)	191,754	-	(1,200)	(18,915,631)
Distriution and collection systems	(23,532,179)	(363,454)	-	-	-	(23,895,633)
Totals	(52,756,177)	(2,941,117)	191,754	-	(1,200)	(55,506,740)
Total capital assets, being depreciated, net	41,994,134	(2,374,538)	(36,395)	-	(29,488)	39,553,713
Total capital assets, net	<u>\$ 43,258,285</u>	<u>\$ (641,844)</u>	<u>\$ (36,395)</u>	<u>\$ -</u>	<u>\$ (29,488)</u>	<u>\$ 42,550,558</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	2016
Water	\$ 1,144,163
Water Reclamation	2,941,117
Total depreciation expense	\$ 4,085,280

C. Construction Commitments

Construction work in progress is composed of the following:

	2016	
<u>Project</u>	Expended to December 31,	Committed
2014 Water Bond Projects/Upgrades	\$ 16,585,516	\$ 2,230,142

	2016	
<u>Project</u>	Expended to December 31,	Committed
2015 Water Reclamation Bond Projects/Upgrades	\$ 2,420,930	\$ 258,595

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, 2016, are as follows:

	Water Utility	Water Reclamation Utility
2017	\$ 111,359	\$ 93,837
2018	92,693	94,087
2019	92,693	65,500
2020	64,250	64,250
2021-2025	323,750	323,750
2026-2030	325,250	325,250
2031-2035	32,750	32,750
Sub-Total	1,042,745	999,424
Less amount representing interest	277,037	276,438
Present value of net minimum lease payments	\$ 765,708	\$ 722,986

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	Water Utility		Water Reclamation Utility	
Machinery and equipment	\$ 206,674		\$ 137,950	
Building	750,000		750,000	
Accumulated depreciation	(53,267)		(72,590)	
 Totals	 \$ 903,407		 \$ 815,360	

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%	\$ 2,120,000	\$ 19,919	\$ 2,100,081
2013 Water Utility: Improvements	2.17%	3,445,000	-	3,445,000
2014A Water Utility: Improvements	2%-3.625%	9,980,000	(78,310)	10,058,310
2014B Water Utility: Improvements	2.70%	7,185,000	-	7,185,000.00
 Total		 \$ 22,730,000	 \$ (58,392)	 \$ 22,788,392
Water Reclamation Utility:				
2013 Refunding Revenue Bonds	1.99%	\$ 5,300,000	\$ -	\$ 5,300,000
2015 Refunding Revenue Bonds	3%-4%	10,200,000	(722,167)	10,922,167
2015 Water Reclamation Utility: Improvements	2%-3.375%	2,455,000	(20,468)	2,475,468
 Total		 \$ 17,955,000	 \$ (742,635)	 \$ 18,697,635

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
2017	\$ 925,000	\$ 708,952	\$ 1,245,000	\$ 559,430
2018	945,000	686,614	1,270,000	534,544
2019	965,000	663,751	1,295,000	509,110
2020	985,000	640,390	1,315,000	483,229
2021	1,005,000	616,542	1,370,000	456,626
2022-2026	5,465,000	2,636,218	7,750,000	1,539,231
2027-2031	6,450,000	1,704,275	3,135,000	256,200
2032-2036	5,990,000	498,438	575,000	39,319
Totals	<u>\$ 22,730,000</u>	<u>\$ 8,155,179</u>	<u>\$ 17,955,000</u>	<u>\$ 4,377,688</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
2017	\$ 65,000	\$ 41,249
2018	67,000	39,041
2019	69,000	36,767
2020	71,000	34,425
2021	74,000	31,998
2022-2026	410,000	120,461
2027-2031	484,000	45,933
Totals	<u>\$ 1,240,000</u>	<u>\$ 349,873</u>

As of December 31, 2016, 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, 2016.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility					
Revenue bonds payable	\$ 23,645,000	\$ -	\$ 915,000	\$ 22,730,000	\$ 925,000
Add: premium	82,432	-	4,122	78,310	
Less: discount	21,927	-	2,009	19,918	-
Total revenue bonds payable	23,705,505	-	917,113	22,788,392	925,000
Capital lease	739,910	79,663	53,865	765,708	80,235
Compensated absences	142,059	7,803	-	149,862	6,534
Other post employment benefits obligations	14,655	6,943	-	21,598	-
Total Long-term liabilities	<u>\$ 24,602,129</u>	<u>\$ 94,409</u>	<u>\$ 970,978</u>	<u>\$ 23,725,560</u>	<u>\$ 1,011,769</u>
Water Reclamation Utility					
Revenue bonds payable	\$ 19,180,000	\$ -	\$ 1,225,000	\$ 17,955,000	\$ 1,245,000
Add: premium	808,925	-	66,290	742,635	
Less: discount	-	-	-	-	-
Total revenue bonds payable	19,988,925	-	1,291,290	18,697,635	1,245,000
Loans payable	1,303,000	-	63,000	1,240,000	65,000
Capital lease	785,450	-	62,464	722,986	62,464
Compensated absences	113,900	11,464	-	125,364	5,466
Other post employment benefits obligations	14,654	6,943	-	21,597	-
Pratt	500,000	100,008	-	600,008	-
Total Long-term liabilities	<u>\$ 22,705,929</u>	<u>\$ 118,415</u>	<u>\$ 1,416,753</u>	<u>\$ 21,407,590</u>	<u>\$ 1,377,930</u>

F. Restricted Assets

The balances of restricted asset accounts are as follows:

	Water Utility 2016	Water Reclamation Utility 2016
Revenue bond covenant account	\$ 1,412,629	\$ 1,407,855
Improvement	3,043,556	5,418,986
Reserve for SRF loan	-	966,447
Construction account	2,120,442	400,923
Retainage	292,635	39,893
Tank Painting and Maintenance	93,940	-
Note receivable	-	93,300
Customer deposits	61,455	-
Total restricted assets	<u>\$ 7,024,657</u>	<u>\$ 8,327,404</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 2014A&B respectively. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2026, 2022, 2035 and 2028 respectively. Annual principal and interest payments are expected to require less than 18 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$30,885,179. Principal and interest paid for the current year and total operating revenues were \$1,641,940 and \$8,914,662, respectively.

Water Reclamation Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2011 and 2015 and refunding revenue bonds in 2013 and 2015. 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 2021, 2028, 2031 and 2035. Annual principal and interest payments are expected to require less than 18 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$23,922,561. Principal and interest paid for the current year and total operating revenues were \$1,793,412 and \$9,896,784, respectively.

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)

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. Other Postemployment Benefits

Plan Description

The Utilities is a member of the Indiana Association of Cities and Towns (IACT) Medical Trust. The Trust is a multiple employer cost sharing health plan and operates under a self-insured arrangement. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

to the Utility. The Utilities contracted with Nyhart Actuary & Employee Benefits to provide the accrued actuarial liability for these benefits. The actuarial report for the plan is publicly available and includes the required supplementary information for the plan as a whole and for the participants. The report may be obtained by contacting the Utility Financial Controller:

Valparaiso City Utilities
Financial Department
205 Billings St
Valparaiso, IN 46383

Funding Policy

The contribution requirements of plan members for the Utilities are established by the City Council. Currently retirees are required to pay 100% of the monthly premium for medical insurance and dental coverage. Retiree health coverage is implicitly more expensive than active health coverage. This higher cost of coverage creates a liability that the Utility pays in higher premiums for current employees' coverage. Calculated required contributions are based on projected pay-as-you-go financing requirements. For the year ended December 31, 2016, the Utility contributed \$18,609 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The Utility's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the primary government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

	<u>Water</u>	<u>Water Reclamation</u>
Annual required contribution	\$ 16,248	\$ 16,247
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	16,248	16,247
Contributions made	<u>9,305</u>	<u>9,304</u>
Increase (decrease) in net OPEB obligation	6,943	6,943
Net OPEB obligation, beginning of year	<u>14,655</u>	<u>14,654</u>
Net OPEB obligation, end of year	<u>\$ 21,598</u>	<u>\$ 21,597</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Utility's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the preceding year were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-14	\$ 324,952	53%	\$ 154,232
12-31-15	324,952	57%	293,092
12-31-16	324,952	57%	431,952

Year Ending	Water Utility		
	Annual OPEB Cost	of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-14	\$ 16,248	53%	\$ 7,212
12-31-15	16,248	57%	14,655
12-31-16	16,248	57%	21,598

Year Ending	Water Reclamation Utility		
	Annual OPEB Cost	of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-14	\$ 16,247	53%	\$ 7,211
12-31-15	16,247	57%	14,654
12-31-16	16,247	57%	21,597

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$348,456 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$348,456. The covered payroll as a percentage of the Actuarial Accrued Liability was 11%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial report, the projected unit credit with linear proration to decrement method was used. The actuarial assumptions included a discount rate of 4.5% unfunded; inflation and salary scale of 3.0% each and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after 2023. The UAAL is being amortized as a level percentage of projected pay based on an open group. The remaining amortization period at December 31, 2014, was 30 years.

C. 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.

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 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 \$178,401 and \$257,842, respectively.

OTHER REPORTS

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