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

FINANCIAL STATEMENTS AUDIT REPORT

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2017 to December 31, 2017

FILED
11/16/2018

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SCHEDULE OF OFFICIALS

Office	Official	Term
Mayor	Jon Costas	01-01-17 to 12-31-19
Executive Director	Steve Poulos	01-01-17 to 12-31-18
Chief Financial Officer	Alina Hahn	01-01-17 to 12-31-18
President of the Utilities Board of Directors	David Bengs	01-01-17 to 12-31-18

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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 each major fund of the City of Valparaiso Utilities (Utilities), departments of the City of Valparaiso (City), as of and for the year ended December 31, 2017, 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 opinions on these financial statements based on our audits. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position for each major fund for the Utilities, as of December 31, 2017, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter

As discussed in Note 1.A., the financial statements of the Utilities, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of each major fund 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 as of December 31, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance 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

Accounting principles generally accepted in the United States of America require that the Schedule of Net OPEB Liability, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management 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
Paul D. Joyce, CPA
State Examiner

October 11, 2018

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, 2017

	2017	
Assets	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	$ 2,175,903	$ 1,264,427
Accounts receivable (net of allowance)	554,019	733,424
Other receivables	230,654	-
Collections held for others	51,123	-
Inventories	120,567	152,546
Total current assets	3,132,266	2,150,397
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	1,653,008	796,937
Reserve for Pratt Bond	-	700,016
Improvement	3,567,475	6,957,092
Reserve for SRF loan	-	994,814
Construction account	1,629,487	158,700
Tank painting and maintenance	180,337	-
Customer deposits	59,476	-
Note receivable	-	81,200
Total restricted assets	7,089,783	9,688,759
Capital assets:		
Land, improvements to land and construction in progress	1,140,303	575,915
Other capital assets (net of accumulated depreciation)	64,007,829	41,499,508
Total capital assets	65,148,132	42,075,423
Total noncurrent assets	72,237,915	51,764,182
Total assets	$ 75,370,181	$ 53,914,579
Deferred Outflows of Resources		
Deferred OPEB items	$ 19,650	$ 9,750

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2017

	2017 (Per Unit)	
Liabilities, Deferred Inflows and Net Position	Water	Water Reclamation
Current liabilities:		
Accounts payable	$ 190,246	$ 573,119
Taxes payable	21,631	-
Accrued wages and benefits payable	81,718	96,304
Compensated absences	6,910	5,015
Deferred revenue	-	58,000
Current liabilities payable from restricted assets:		
Customer deposits payable	60,610	-
Revenue bonds payable (current)	945,000	1,270,000
SRF loan	-	67,000
Leases payable	63,754	135,552
Accrued interest payable	174,002	242,422
Total current liabilities	1,543,871	2,447,412
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discount)	20,916,279	16,116,345
SRF loan payable	-	1,108,000
Leases payable	621,719	740,156
Pratt DSR Due to RDC Payable	-	700,016
Compensated absences payable	151,584	110,002
Net other post employment benefits obligation	270,245	190,332
Total noncurrent liabilities	21,959,827	18,964,851
Total liabilities	$ 23,503,698	$ 21,412,263
Deferred Inflows of Resources		
Deferred OPEB items	23,131	5,443
Deferred inflows	-	117,500
Total deferred inflows of resources	$ 23,131	$ 122,943
Net Position		
Invested in capital assets, net of related debt	$ 42,601,380	$ 22,638,370
Restricted for debt service	1,653,008	1,791,751
Restricted for other purposes	5,487,898	7,115,792
Unrestricted	2,120,716	843,210
Total net position	$ 51,863,002	$ 32,389,123

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

For The Year Ended December 31, 2017

	2017	
	Water	Water Reclamation
Operating Revenues:		
Metered water revenue:		
Residential	$ 3,544,396	$ -
Commercial	1,096,952	-
Industrial	1,376,292	-
Multiple family dwellings	1,074,178	-
Public authorities	212,885	-
Water reclamation collection and treatment revenue	-	9,739,231
Water reclamation surcharges	-	6,949
Fire protection revenue	1,128,583	-
Penalties	58,346	70,096
Other	800,881	243,831
Total operating revenues	9,292,513	10,060,107
Operating expenses:		
Transmission and distribution	1,121,865	-
Pumping - operations and maintenance	634,422	110,829
Treatment and disposal - operations and maintenance	985,529	-
Customer accounts	770,225	-
Administration and general	1,146,100	1,516,254
Reclaimed water treatment - operations and maintenance	-	2,627,554
Reclaimed water distribution - operations and maintenance	-	871,642
Depreciation	1,500,496	3,115,678
Total operating expenses	6,158,637	8,241,957
Operating income (loss)	3,133,876	1,818,150
Nonoperating revenues (expenses):		
Interest and investment revenue	39,225	46,686
Miscellaneous revenue	19,246	-
Interest expense	(732,472)	(557,486)
Pratt Surcharge	-	1,276,649
Payments to RDC	-	(1,276,649)
Transfers	48,137	(48,137)
Total nonoperating revenues (expenses)	(625,864)	(558,937)
Income (loss) before contributions and transfers	2,508,012	1,259,213
Contributions and Transfers:		
Contributions	1,677,625	1,615,932
In lieu of taxes	(759,643)	(771,845)
Total contributions and transfers	917,982	844,087
Change in net position	3,425,994	2,103,300
Total net position - beginning - restated	48,437,008	30,285,823
Total net position - ending	$ 51,863,002	$ 32,389,123

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	2017	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	$ 9,143,456	$ 10,010,943
Payments to suppliers and contractors and employees and benefits	(4,983,187)	(4,919,741)
Net cash provided by operating activities	4,160,269	5,091,202
Cash from noncapital financing activities:		
Nonoperating receipts	19,246	-
Transfers in (out)	48,137	(48,137)
In lieu of taxes	(759,643)	(771,845)
Net cash provided (used) by noncapital financing activities	(692,260)	(819,982)
Cash flows from capital and related financing activities:		
Contributions	1,677,625	-
Acquisition and construction of capital assets	(2,665,565)	(1,024,611)
Pratt Surcharge Collected	-	1,276,649
Payment to RDC	-	(1,176,641)
Lease Proceeds	-	286,898
Principal paid on capital debt	(925,000)	(1,245,000)
Principal paid on loans	-	(65,000)
Interest paid on capital debt	(708,952)	(559,429)
Interest paid on loans	-	(41,249)
Principal paid on capital lease	(80,235)	(134,177)
Interest paid on capital lease	(31,124)	(34,877)
Notes receivable	-	12,100
Net cash provided (used) by capital and related financing activities	(2,733,251)	(2,705,337)
Cash flows from investing activities:		
Interest received	40,959	46,686
Net increase (decrease) in cash and cash equivalents	775,717	1,612,569
Cash and cash equivalents, January 1	8,489,969	9,259,417
Cash and cash equivalents, December 31	$ 9,265,686	$ 10,871,986
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 3,133,876	$ 1,818,150
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	$ 1,500,496	$ 3,115,678
Amortization		
(Increase) decrease in assets:		
Accounts receivable	(78,426)	(49,164)
Other receivables	(70,631)	-
Inventories	(9,200)	(29,963)
Increase (decrease) in liabilities:		
Accounts payable	(36,449)	443,356
Taxes payable	(3,131)	-
Accrued wages and benefits payable	(782)	12,399
Deferred revenue	-	(180,000)
Compensated absence payable	8,632	(10,347)
Net other post employment benefits obligation	10,777	10,986
Customer deposits	(2,258)	-
Retainage payable	(292,635)	(39,893)
Total adjustments	1,026,393	3,273,052
Net cash provided by operating activities	$ 4,160,269	$ 5,091,202
Noncash investing, capital and financing activities:		
Contributions	$ -	$ 1,615,932
Transfer Construction in Progress to capital assets	17,001,637	2,501,926

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

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 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.

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 $7,089,783 and $9,688,759 for the Water and Water Reclamation Utilities, respectively, of restricted 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.

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.

8. Accounting Pronouncements

The Utilities adopted GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). The requirements of the Statement are effective for financial reporting periods beginning after June 15, 2017.

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, 2017, the Water and Water Reclamation Utilities had deposit balances in the amount of $9,265,686 and $10,871,986, 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, 2017, was as follows:

2017	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	$ 423,126	$ 717,177	$ -	$ 1,140,303
Construction in progress	16,585,516	416,121	(17,001,637)	-
Total capital assets, not being depreciated	17,008,642	1,133,298	(17,001,637)	1,140,303
Capital assets, being depreciated:				
Buildings	4,955,603	2,529,935	(85,829)	7,399,709
Improvements other than buildings	588,773	22,165	-	610,938
Infrastructure	34,869,508	13,397,916	(284,634)	47,982,790
Machinery, equipment, and vehicles	16,794,264	2,587,088	(349,995)	19,031,357
Totals	57,208,148	18,537,104	(720,458)	75,024,794
Less accumulated depreciation for:				
Building	(1,026,640)	(147,994)	85,829	(1,088,805)
Improvements other than buildings	(150,030)	(12,219)	-	(162,249)
Infrastructure	(7,048,696)	(959,656)	284,634	(7,723,718)
Machinery, equipment, and vehicles	(2,008,359)	(380,627)	346,795	(2,042,191)
Totals	(10,233,725)	(1,500,496)	717,258	(11,016,963)
Total capital assets, being depreciated, net	46,974,423	17,036,608	(3,200)	64,007,829
Total capital assets, net	$ 63,983,065	$ 18,169,906	$ (17,004,837)	$ 65,148,132

2017	Beginning Balance	Increases	Decreases	Ending Balance
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	$ 575,915	$ -	$ -	$ 575,915
Construction in progress	2,420,930	80,996	(2,501,926)	-
Total capital assets, not being depreciated	2,996,845	80,996	(2,501,926)	575,915
Capital assets, being depreciated:				
Building	26,725,773	1,221,062	(559,561)	27,387,274
Improvements other than buildings	127,217	12,875	(34,386)	105,706
Machinery, equipment, and vehicles	32,560,039	2,477,365	(375,899)	34,661,505
Infrastructure	35,647,424	1,451,672	-	37,099,096
Totals	95,060,453	5,162,974	(969,846)	99,253,581
Less accumulated depreciation for:				
Building	(6,529,840)	(547,745)	559,561	(6,518,024)
Improvements other than buildings	(6,165,635)	(2,114)	34,386	(6,133,363)
Machinery, equipment, and vehicles	(18,915,631)	(2,186,808)	274,399	(20,828,040)
Infrastructure	(23,895,633)	(379,011)	-	(24,274,644)
Totals	(55,506,739)	(3,115,678)	868,346	(57,754,071)
Total capital assets, being depreciated, net	39,553,714	2,047,296	(101,500)	41,499,509
Total capital assets, net	$ 42,550,559	$ 2,128,292	$ (2,603,426)	$ 42,075,424

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

	2017
Water	$ 1,500,496
Water Reclamation	3,115,678
Total depreciation expense	$ 4,616,174

C. Construction Commitments

The Utilities did not have any Construction work in progress as of December 31, 2017.

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, 2017, are as follows:

	Water Utility	Water Reclamation Utility
2018	$ 92,693	$ 94,087
2019	92,693	140,716
2020	64,250	139,466
2021	64,000	139,219
2022	65,000	65,000
2023-2027	324,000	324,000
2028-2032	228,750	228,750
2033-2037	-	-
Sub-Total	931,386	1,131,239
Less amount representing interest	245,913	255,531
Present value of net minimum lease payments	$ 685,473	$ 875,708

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

	Water Utility	Water Reclamation Utility
Machinery and equipment	$ 136,764	$ 569,848
Building	750,000	750,000
Accumulated depreciation	(68,206)	(144,575)
Totals	$ 818,558	$ 1,175,273

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	Less: Deferral on Refunding	Amount
Water Utility:					
2010 Water Utility: Improvements	1% - 4.25%	$ 2,100,000	$ 17,910	$ -	$ 2,082,090
2013 Water Utility: Improvements	2.17%	2,900,000	-	-	2,900,000
2014A Water Utility: Improvements	2%-3.625%	9,980,000	(74,189)	-	10,054,189
2014B Water Utility: Improvements	2.70%	6,825,000	-	-	6,825,000
Total		$ 21,805,000	$ (56,279)	$ -	$ 21,861,279
Water Reclamation Utility:					
2013 Refunding Revenue Bonds	1.99%	$ 4,165,000	$ -	$ -	$ 4,165,000
2015 Refunding Revenue Bonds	3%-4%	10,200,000	(657,009)	-	10,857,009
2015 Water Reclamation Utility: Improvements	2%-3.375%	2,345,000	(19,336)	-	2,364,336
Total		$ 16,710,000	$ (676,345)	$ -	$ 17,386,345

Revenue bonds debt service requirements to maturity are as follows:

	Water		Water Reclamation	
	Principal	Interest	Principal	Interest
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	1,025,000	592,187	1,440,000	417,956
2023-2027	5,650,000	2,460,851	8,045,000	1,242,481
2028-2032	6,660,000	1,491,814	1,560,000	153,050
2033-2037	4,570,000	294,078	415,000	21,263
Totals	$ 21,805,000	$ 7,446,227	$ 16,710,000	$ 3,818,259

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
2018	$ 67,000	$ 39,041
2019	69,000	36,767
2020	71,000	34,425
2021	74,000	31,998
2022	77,000	29,488
2023-2027	424,000	106,526
2028-2032	393,000	30,381
Totals	$ 1,175,000	$ 308,625

As of December 31, 2017, 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, 2017.

3. Pratt Payable

On December 29, 2015, the City of Valparaiso issued $10,000,000 of its Taxable Economic Development Revenue Bonds, Series 2015 for the purpose of paying for sewage pretreatment facilities located at Pratt Paper (IN) LLC (Pratt), to partially fund a Debt Service Reserve and to pay issuance expenses per ordinance no. 32, 2014. A transfer of $500,000 was made to partially fund the Debt Service Reserve. Ordinance No. 33, 2014 requires the remaining debt service reserve be funded with monthly transfers of $8,334 over a five-year period. In addition, monthly bond and interest transfers will be made by Pratt to the Water Reclamation Utility in the form of a monthly debt service surcharge. These funds are transferred to the City's Redevelopment Commission (RDC) in order to pay the semiannual bond payments.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility					
Revenue bonds payable	$ 22,730,000	$ -	$ 925,000	$ 21,805,000	$ 945,000
Add: premium	78,310	-	4,122	74,188	
Less: discount	19,918	-	2,009	17,909	-
Total revenue bonds payable	22,788,392	-	927,113	21,861,279	945,000
Capital lease	765,708	-	80,235	685,473	63,754
Compensated absences	149,862	8,632	-	158,494	6,910
Other post employment benefits obligations	258,971	11,274	-	270,245	-
Total Long-term liabilities	$ 23,962,933	$ 19,906	$ 1,007,348	$ 22,975,491	$ 1,015,664

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Reclamation Utility					
Revenue bonds payable	$ 17,955,000	$ -	$ 1,245,000	$ 16,710,000	$ 1,270,000
Add: premium	742,635	-	66,290	676,345	
Less: discount	-	-	-	-	-
Total revenue bonds payable	18,697,635	-	1,311,290	17,386,345	1,270,000
Loans payable	1,240,000	-	65,000	1,175,000	67,000
Capital lease	722,986	286,898	134,177	875,707	135,552
Compensated absences	125,364	-	10,347	115,017	5,015
Other post employment benefits obligations	179,961	10,371	-	190,332	-
Pratt project	600,008	100,008	-	700,016	-
Total Long-term liabilities	$ 21,565,954	$ 397,277	$ 1,520,813	$ 20,442,417	$ 1,477,567

F. Restricted Assets

The balances of restricted asset accounts are as follows:

	Water Utility 2017	Water Reclamation Utility 2017
Revenue bond covenant account	$ 1,653,008	$ 796,937
Improvement	3,567,475	6,957,092
Reserve for SRF loan	-	994,814
Construction account	1,629,487	158,700
Tank Painting and Maintenance	180,337	-
Reserve for Pratt Bond	-	700,016
Customer deposits	59,476	-
Total restricted assets	$ 7,089,783	$ 9,607,559

G. Restatements and Reclassifications

For the fiscal year ended December 31, 2017, certain changes have been made to the financial statements to more appropriately reflect financial activity.

The prior period adjustment for governmental activities reflects the implementation of GASB 75 to recognize the liabilities associated with employee retirement.

Opinion Unit	Balance as Reported December 31, 2016	Prior Period Adjustments	Balance as Restated January 1, 2017
Water Utility - net position	$ 48,678,359		
GASB 75 Net OPEB Liability		$ (241,351)	$ 48,437,008
Water Reclamation Utility - net position	$ 30,439,265		
GASB 75 Net OPEB Liability		$ (153,442)	$ 30,285,823

H. 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 $29,251,227. Principal and interest paid for the current year and total operating revenues were $1,633,952 and $9,292,513, 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 19 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $22,011,884. Principal and interest paid for the current year and total operating revenues were $1,910,688 and $10,060,107, 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 Accelerate Indiana Municipalities (AIM) Medical Trust.

B. Other Postemployment Benefits

Plan Description

The Utilities are members of the Accelerate Indiana Municipalities (AIM) 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 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 Utilities Financial CFO:

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

Benefits

The Accelerate Indiana Municipalities (AIM) Medical Trust provides healthcare and dental benefits for retirees and their dependents for non-Medicare eligible employees. Currently retirees are required to pay 100% of the monthly premium. Retiree health coverage is implicitly more expensive than active health coverage. The higher cost of coverage creates a liability that the Utilities pays in higher premiums for current employees' coverage.

Contributions

Calculated required contributions are based on projected pay-as-you-go financing requirements. For the year ended December 31, 2017, the Utilities contributed $18,283 to the plan.

	Water	Water Reclamation
Annual required contribution	$ 11,838	$ 10,768
Interest on net OPEB obligation	9,610	6,768
Adjustment to annual required contribution	554	390
Annual OPEB cost	22,002	17,926
Contributions made	10,728	7,555
Increase (decrease) in net OPEB obligation	11,274	10,371
Net OPEB obligation, beginning of year	258,971	179,961
Net OPEB obligation, end of year	$ 270,245	$ 190,332

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

At December 31, 2017, the Utilities reported a liability of $460,577 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on actuarial valuation of the Valparaiso City Utilities.

For the year ended December 31, 2017, the Utilities recognized OPEB expense of $39,102. At December 31, 2017, the Utilities reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Water Utility:	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ -	$ 23,131
Net difference between projected and actual investment earnings on pension plan investments	-	-
Change of assumptions	19,650	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Totals	$ 19,650	$ 23,131

Water Reclamation Utility	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ -	$ 5,443
Net difference between projected and actual investment earnings on pension plan investments	-	-
Change of assumptions	9,750	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Totals	$ 9,750	$ 5,443

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Year Ended December 31, 2017	
	Water Utility	Water Reclamation Utility
2018	$ (497)	$ 615
2019	(497)	615
2020	(497)	615
2021	(497)	615
2022	(497)	615
Thereafter	(996)	1,232
Total	$ (3,481)	$ 4,307

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified:

Experience Study Date	N/A - No current study
Investment Rate of Return	N/A - No investments
Future Salary Increases	2.50% to 4.25%
Inflation	2.25%
Mortality rates	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006

Mortality rates were based on the RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 (RPH-2017 table is created based on RPH-2014 Total Dataset Mortality Table with 8 years of MP-2014 mortality improvement backed out, projected to 2017 using MP-2017 improvement).

The plan does not have any investments and no long-term rate of return was calculated.

Discount Rate:

The discount rate used to measure the total OPEB liability was 3.56%. The discount rate used in valuing OPEB liabilities for unfunded plans as of the measurement date must be based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The discount rate was selected from the range of indices from Bond Buyer GO 20-Bond Municipal Bond Index; S&P Municipal Bond 20-Year High Grade Rate Index; Fidelity 20-Year GO Municipal Bond Index. The range of indices was 3.17% to 3.56%.

The discount rate decreased from 3.81% as of December 31, 2016 to 3.56% for the period ending December 31, 2017.

Sensitivity to Changes in the Discount Rate

The following presents the Utilities' proportionate share of the net OPEB liability, as well as what the Utilities' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

Net OPEB Liability:	2.56% 1% Decrease	3.56% Current Rate	4.56% 1% Increase
Water Utility	$ 292,598	$ 271,740	$ 251,864
Water Reclamation Utility	203,329	188,837	175,024

Sensitivity to Changes in the Healthcare Cost Trend Rate

The following presents the Utilities' proportionate share of the net OPEB liability, as well as what the Utilities' proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.0 percent decreasing to 4.0 percent) or 1-percetage-point higher (10. Percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

Net OPEB Liability:	8.0% decreasing 0.5% annually to 4.0% 1% Decrease	9.0% decreasing 0.5% annually to 5.0% Current Rate	10.0% decreasing 0.5% annually to 6.0% 1% Increase
Water Utility	$ 243,222	$ 271,740	$ 305,077
Water Reclamation Utility	169,017	188,837	212,002

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, after 9 months of consecutive employment. 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 $187,618 and $281,714, respectively.

E. Subsequent Events

2010 Waterworks Refunding Revenue Bonds

On April 9, 2018 the Common Council of the City of Valparaiso authorized the refunding of the 2010 Waterworks Revenue Bonds in the aggregate principal amount of $2,100,000. The Refunding Bond closing was held on June 14, 2018 with coupon rates ranging from 2.25% to 3%.

CITY OF VALPARAISO UTILITIES
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF NET OPEB LIABILITY

	2017	2016	2015 - 2008
Water Utility			
Utilities' proportionate share of the net OPEB liability	$ 270,245	$ -	*
Utilities' covered-employee payroll	1,948,529	*	*
Utilities' proportionate share share of net OPEB liability as a percentage of its covered-employee payroll	13.9%	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%	*	*
Water Reclamation Utility			
Utilities' proportionate share of the net OPEB liability	$ 190,332	$ -	*
Utilities' covered-employee payroll	1,373,884	*	*
Utilities' proportionate share share of net OPEB liability as a percentage of its covered-employee payroll	13.9%	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%	*	*

* - Information not available

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/.