

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

FINANCIAL STATEMENTS EXAMINATION REPORT

OF

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
04/04/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Accountant's Report.....	3-4
Financial Statements and Accompanying Notes:	
Statement of Net Position.....	6-7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements.....	10-22
Required Supplementary Information:	
Schedule of Funding Progress	24
Other Reports.....	25

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	01-01-15 to 12-31-15 01-01-16 to 12-31-17
President of the Utilities Board	David Bengs	01-01-15 to 12-31-17
Director of Utilities	Steve Poulos	01-01-15 to 12-31-17
Controller of Utilities	Alina Hahn	01-01-15 to 12-31-17



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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the City of Valparaiso Utilities (Utilities), a department of the City of Valparaiso (City), for the year ended December 31, 2015. The financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on the financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utilities are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the major enterprise funds 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, 2015, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utilities as of December 31, 2015, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress, as listed in the Table of Contents, be presented to supplement the 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

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

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 basic financial statements, and other knowledge we obtained during our examination 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's Discussion and Analysis that accounting principles generally accepted in the United States of America, requires to be presented to supplement the financial statements. Such missing information, although not a part of the 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

February 23, 2017

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, 2015

<u>Assets</u>	2015	
	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	\$ 815,358	\$ 815,026
Accounts receivable (net of allowance)	503,071	693,716
Other receivables	180,343	-
Collections held for others	49,781	-
Inventories	94,398	135,279
Interest receivable	20,281	-
Total current assets	1,663,232	1,644,021
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	1,177,808	1,215,053
Improvement	2,853,227	3,565,631
Reserve for SRF Loan	-	942,963
Construction account	6,026,183	2,080,265
Retainage	446,257	13,893
Tank painting and maintenance	39,006	-
Customer deposits	63,389	-
Note receivable	-	105,400
Total restricted assets	10,605,870	7,923,205
Capital assets:		
Land and construction in progress	13,399,417	1,264,151
Other capital assets (net of accumulated depreciation)	46,149,439	41,994,133
Total capital assets	59,548,856	43,258,284
Total noncurrent assets	70,154,726	51,181,489
Total assets	71,817,958	52,825,510

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2015
(Continued)

<u>Liabilities and Deferred Inflows of Resources</u>	2015	
	Water	Water Reclamation
<u>Current liabilities:</u>		
Accounts payable	\$ 74,812	\$ 174,982
Retainage payable	446,257	13,893
Taxes payable	31,992	-
Accrued wages and benefits payable	69,337	70,012
Compensated absences	6,476	5,192
<u>Current liabilities payable from restricted assets:</u>		
Accounts payable	877,684	277,759
Customer deposits payable	64,430	-
Revenue bonds payable	915,000	1,225,000
SRF loan	-	63,000
Leases payable	53,865	62,464
Accrued interest payable	183,519	163,667
Total current liabilities	2,723,372	2,055,969
<u>Noncurrent liabilities:</u>		
Revenue bonds payable (net of discount/premium)	22,790,505	18,763,925
SRF loan payable	-	1,240,000
Leases payable	686,045	722,986
Restricted payable - Pratt	-	500,000
Compensated absences payable	142,059	113,900
Net Other Post Employment Benefits Obligation	14,655	14,654
Total noncurrent liabilities	23,633,264	21,355,465
Total liabilities	26,356,636	23,411,434
Deferred Inflows of Resources	-	117,500
<u>Net Position</u>		
Invested in capital assets, net of related debt	\$ 35,103,441	\$ 21,180,909
Restricted for debt service	1,177,808	1,658,016
Restricted for other purposes	9,477,843	5,659,789
Unrestricted	(297,770)	797,862
Total net position	\$ 45,461,322	\$ 29,296,576

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, 2015

	2015	
	Water	
	Water	Reclamation
Operating Revenues:		
Metered water revenue:		
Residential	\$ 3,245,633	\$ -
Commercial	1,023,002	-
Industrial	557,554	-
Multiple family dwellings	1,016,466	-
Public authorities	180,668	-
Water reclamation collection and treatment revenue	-	8,620,169
Fire protection revenue	1,045,161	-
Penalties	63,212	81,079
Other	693,707	452,020
	<u>7,825,403</u>	<u>9,153,268</u>
Total operating revenues		
Operating expenses:		
Transmission and distribution	1,054,229	-
Pumping - operations and maintenance	572,181	79,098
Treatment and disposal - operations and maintenance	878,193	-
Customer accounts	944,448	-
Administration and general	946,011	1,228,634
Reclaimed water treatment - operations and maintenance	-	2,192,896
Reclaimed water distribution - operations and maintenance	-	876,477
Depreciation	1,130,176	2,922,451
	<u>5,525,238</u>	<u>7,299,556</u>
Total operating expenses		
Operating income (loss)	<u>2,300,165</u>	<u>1,853,712</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	61,178	8,119
Miscellaneous revenue	86,645	5
Interest expense	(776,241)	(806,801)
Loss on refunding	-	(41,644)
Bond issuance costs	-	(267,567)
Transfers	9,219	(9,219)
	<u>(619,199)</u>	<u>(1,117,107)</u>
Total nonoperating revenues (expenses)		
Income (loss) before contributions and transfers	<u>1,680,966</u>	<u>736,605</u>
Contributions and Transfers:		
Contributions	1,702,926	2,810,076
In lieu of taxes	(759,643)	(771,845)
	<u>943,283</u>	<u>2,038,231</u>
Total contributions and transfers		
Change in net position	<u>2,624,249</u>	<u>2,774,836</u>
Total net position - beginning	42,844,785	26,529,451
Total net position - adjustment (note II. G.)	(7,712)	(7,711)
Total net position - beginning (restated)	<u>42,837,073</u>	<u>26,521,740</u>
Total net position - ending	<u>\$ 45,461,322</u>	<u>\$ 29,296,576</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, 2015

	2015	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 7,745,118	\$ 9,039,487
Payments to suppliers and contractors	(3,251,463)	(4,172,591)
Net cash provided by operating activities	4,493,655	4,866,896
Cash from noncapital financing activities:		
Nonoperating receipts	86,645	5
Transfers in (out)	9,219	(9,219)
In lieu of taxes	(759,643)	(771,845)
Net cash provided (used) by noncapital financing activities	(663,779)	(781,059)
Cash flows from capital and related financing activities:		
Contributions	1,702,926	254,177
Acquisition and construction of capital assets	(13,255,792)	(1,636,223)
Restricted payable - Pratt	-	500,000
SRF Loan Proceeds	-	282,920
Bond proceeds	-	13,615,109
Bond issuance costs	-	(267,567)
Principal paid on capital debt	(900,000)	(12,050,000)
Interest paid on capital debt	(641,307)	(936,568)
Principal paid on capital lease	(32,500)	(32,500)
Notes receivable	-	12,100
Net cash provided (used) by capital and related financing activities	(13,126,673)	(258,552)
Cash flows from investing activities:		
Interest received	40,897	8,119
Net cash provided (used) by investing activities	40,897	8,119
Net increase (decrease) in cash and cash equivalents	(9,255,900)	3,835,404
Cash and cash equivalents, January 1	20,677,128	4,797,427
Cash and cash equivalents, December 31	\$ 11,421,228	\$ 8,632,831
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 2,300,165	\$ 1,853,712
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,130,176	2,922,451
(Increase) decrease in assets:		
Accounts receivable/collections held for others	(15,875)	(113,781)
Other receivables	(64,410)	-
Inventories	11,045	(8,679)
Increase (decrease) in liabilities:		
Accounts payable	741,157	180,009
Taxes payable	3,818	-
Accrued wages and benefits payable	7,295	10,411
Compensated absence payable	(3,558)	1,937
Net other post employment benefits obligation	6,943	6,943
Customer deposits	(69,358)	-
Retainage payable	446,257	13,893
Total adjustments	2,193,490	3,013,184
Net cash provided by operating activities	\$ 4,493,655	\$ 4,866,896
Noncash investing, capital and financing activities:		
Purchase of equipment by issuing lease payable	\$ 37,410	\$ 82,950
Contributions	-	2,555,899

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 or Equity

1. Deposits and Investments

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

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

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$10,605,870 and \$7,923,205 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
Infrastructure	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	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

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 trivial and do not affect the overall presentation of the financial statements

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2015, the Water and Water Reclamation Utilities had deposit balances in the amount of \$11,421,228 and \$8,632,831, 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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Reclassification	Ending Balance
Water Utility:					
Capital assets, not being depreciated:					
Land	\$ 413,126	\$ 10,000	\$ -	\$ -	\$ 423,126
Construction in progress	<u>1,490,858</u>	<u>11,485,433</u>	<u>-</u>	<u>-</u>	<u>12,976,291</u>
Total capital assets, not being depreciated	<u>1,903,984</u>	<u>11,495,433</u>	<u>-</u>	<u>-</u>	<u>13,399,417</u>
Capital assets, being depreciated:					
Building	5,014,220	-	-	-	5,014,220
Improvements other than buildings	32,981,409	-	-	(32,392,636)	588,773
Infrastructure	-	1,553,909	(4,063)	32,392,636	33,942,482
Machinery, Equipment, and Vehicles	<u>17,058,067</u>	<u>265,358</u>	<u>(360,112)</u>	<u>-</u>	<u>16,963,313</u>
Totals	<u>55,053,696</u>	<u>1,819,267</u>	<u>(364,175)</u>	<u>-</u>	<u>56,508,788</u>
Less accumulated depreciation for:					
Building	(935,072)	(100,284)	-	-	(1,035,356)
Improvements other than buildings	(6,324,009)	(11,775)	-	6,197,529	(138,255)
Infrastructure	-	(678,850)	4,063	(6,197,529)	(6,872,316)
Machinery, Equipment, and Vehicles	<u>(2,312,768)</u>	<u>(339,267)</u>	<u>338,614</u>	<u>-</u>	<u>(2,313,421)</u>
Totals	<u>(9,571,849)</u>	<u>(1,130,176)</u>	<u>342,677</u>	<u>-</u>	<u>(10,359,348)</u>
Total capital assets, being depreciated, net	<u>45,481,847</u>	<u>689,091</u>	<u>(21,498)</u>	<u>-</u>	<u>46,149,439</u>
Total capital assets, net	<u>\$ 47,385,831</u>	<u>\$ 12,184,524</u>	<u>\$ (21,498)</u>	<u>\$ -</u>	<u>\$ 59,548,857</u>
Water Reclamation Utility:					
Capital assets, not being depreciated:					
Land	\$ 575,915	\$ -	\$ -	\$ -	\$ 575,915
Construction in progress	<u>416,286</u>	<u>697,386</u>	<u>(425,436)</u>	<u>-</u>	<u>688,236</u>
Total capital assets, not being depreciated	<u>992,201</u>	<u>697,386</u>	<u>(425,436)</u>	<u>-</u>	<u>1,264,151</u>
Capital assets, being depreciated:					
Building	26,713,755	-	-	-	26,713,755
Improvements other than buildings	116,067	11,150	-	-	127,217
Distribution and collection systems	54,327,400	1,507,626	(2,480)	(20,408,300)	35,424,246
Machinery and equipment	<u>9,629,468</u>	<u>2,602,078</u>	<u>(154,753)</u>	<u>20,408,300</u>	<u>32,485,093</u>
Totals	<u>90,786,690</u>	<u>4,120,854</u>	<u>(157,233)</u>	<u>-</u>	<u>94,750,311</u>
Less accumulated depreciation for:					
Building	(5,440,793)	(534,275)	-	-	(5,975,068)
Improvements other than buildings	(6,160,547)	(2,544)	-	-	(6,163,091)
Distribution and collection systems	(26,963,726)	(360,632)	-	10,238,518	(17,085,840)
Machinery and equipment	<u>(11,308,161)</u>	<u>(2,025,000)</u>	<u>39,500</u>	<u>(10,238,518)</u>	<u>(23,532,179)</u>
Totals	<u>(49,873,227)</u>	<u>(2,922,451)</u>	<u>39,500</u>	<u>-</u>	<u>(52,756,178)</u>
Total capital assets, being depreciated, net	<u>40,913,463</u>	<u>1,198,403</u>	<u>(117,733)</u>	<u>-</u>	<u>41,994,133</u>
Total capital assets, net	<u>\$ 41,905,664</u>	<u>\$ 1,895,789</u>	<u>\$ (543,169)</u>	<u>\$ -</u>	<u>\$ 43,258,284</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	2015
Water	\$ 1,130,176
Water Reclamation	\$ 2,922,451

C. Construction Commitments

Construction work in progress is composed of the following:

Water	2015	
Project	Expended to December 31,	Committed
2014 Water Bond Projects/Upgrades	\$ 12,976,291	\$ 1,555,709
Water Reclamation	2015	
Project	Expended to December 31,	Committed
2015 Water Rec Bond Projects/Upgrades	\$ 688,236	\$ 1,446,771

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 and for various equipment. Future minimum lease payments and present values of the net minimum lease payments under this capital lease as of December 31, 2015, are as follows:

	Water Utility	Water Reclamation Utility
2016	\$ 83,664	\$ 93,337
2017	84,165	93,837
2018	65,500	94,087
2019	65,500	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
Less amount representing interest	304,920	307,311
Present value of net minimum lease payments	\$ 739,910	\$ 785,450

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	\$ 69,910	\$ 137,950
Building	750,000	750,000
Accumulated depreciation	(31,398)	(43,795)
 Totals	 \$ 788,512	 \$ 844,155

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%	\$ 2,140,000	\$ 21,927	\$ 2,118,073
2013 Water Utility: Improvements	2.17%	3,975,000	-	3,975,000
2014A Water Utility: Improvements	2%-3.625%	10,345,000	(82,432)	10,427,432
2014B Water Utility: Improvements	2.70%	7,185,000	-	7,185,000
 Total		 \$ 23,645,000	 \$ (60,505)	 \$ 23,705,505
Water Reclamation Utility:				
2013 Refunding Revenue Bonds	1.99%	\$ 6,415,000	\$ -	\$ 6,415,000
2015 Refunding Revenue Bonds	3%-4%	10,200,000	(787,324)	10,987,324
2015 Water Reclamation Utility: Improvements	2%-3.375%	2,565,000	(21,600)	2,586,600
 Total		 \$ 19,180,000	 \$ (808,925)	 \$ 19,988,925

Revenue bonds debt service requirements to maturity are as follows:

	Water		Water Reclamation	
	Principal	Interest	Principal	Interest
2016	\$ 915,000	\$ 729,052	\$ 1,225,000	\$ 462,019
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
2021-2025	5,300,000	2,797,764	7,455,000	1,808,651
2026-2030	6,250,000	1,904,796	4,650,000	420,484
2031-2035	7,360,000	752,913	725,000	62,241
 Totals	 \$ 23,645,000	 \$ 8,884,231	 \$ 19,180,000	 \$ 4,839,707

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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
2016	\$ 63,000	\$ 43,389
2017	65,000	41,249
2018	67,000	39,041
2019	69,000	36,767
2020	71,000	34,425
2021-2025	397,000	133,941
2026-2030	468,000	61,840
2031-2035	103,000	2,612
Totals	\$ 1,303,000	\$ 393,262

As of December 31, 2015, 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, 2015.

3. Restricted Payable - Pratt

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, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 24,545,000	\$ -	\$ 900,000	\$ 23,645,000	\$ 915,000
Add: premium	86,554	-	4,122	82,432	-
Less: discount	23,936	-	2,009	21,927	-
Total revenue bonds payable	24,607,618	-	902,113	23,705,505	915,000
Capital lease	735,000	37,410	32,500	739,910	53,865
Compensated absences	152,093	-	3,558	148,535	6,476
Net OPEB	7,712	6,943	-	14,655	-
Total Long-term liabilities	\$ 25,502,423	\$ 44,353	\$ 938,171	\$ 24,608,605	\$ 975,341

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Reclamation Utility					
Revenue bonds payable	\$ 18,370,000	\$ 12,800,000	\$ 11,990,000	\$ 19,180,000	\$ 1,225,000
Add: premium	-	815,109	6,184	808,925	-
Less: discount	44,781	-	44,781	-	-
Total revenue bonds payable	18,325,219	13,615,109	11,951,403	19,988,925	1,225,000
Loans payable					
Capital lease	1,080,080	282,920	60,000	1,303,000	63,000
Compensated absences	735,000	82,950	32,500	785,450	62,464
Restricted payable - Pratt	117,154	1,938	-	119,092	5,192
Net OPEB	-	500,000	-	500,000	-
	7,711	6,943	-	14,654	-
Total Long-term liabilities	<u>\$ 20,265,164</u>	<u>\$ 14,489,860</u>	<u>\$ 12,043,903</u>	<u>\$ 22,711,121</u>	<u>\$ 1,355,656</u>

F. Restricted Assets

The balances of restricted asset accounts are as follows:

	Water Utility 2015	Water Reclamation Utility 2015
Customer deposits	\$ 63,389	\$ -
Improvement	2,853,227	3,565,631
Reserve for SRF loan	-	942,963
Revenue bond covenant account	1,177,808	1,215,053
Retainage	446,257	13,893
Tank painting and maintenance	39,006	-
Notes Receivable	-	105,400
Construction account	6,026,183	2,080,265
Total restricted assets	<u>\$ 10,605,869</u>	<u>\$ 7,923,205</u>

G. Restatement of Net Position

For the fiscal year ended December 31, 2015, certain changes have been made to the financial statements to more appropriately reflect financial activity.

The prior period adjustment reflects the implementation of GASB 45 to recognize the liabilities associated with other post-employment employee retirement.

Opinion Unit	Balance as Reported December 31, 2014	Prior Period Adjustments	Balance as Restated January 1, 2015
Water Utility:			
Statement of Revenues, Expenses, and			
Changes in Net Position			
GASB 45 Net OPEB Liability	\$ 42,844,785	\$ (7,712)	\$ 42,837,073
Water Reclamation Utility:			
Statement of Revenues, Expenses, and			
Changes in Net Position			
GASB 45 Net OPEB Liability	\$ 26,529,451	\$ (7,711)	\$ 26,521,740

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 20 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$32,529,231. Principal and interest paid for the current year and total operating revenues were \$1,507,957 and \$7,825,403, respectively.

Water Reclamation Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 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 2035. Annual principal and interest payments are expected to require less than 20 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$24,019,707. Principal and interest paid for the current year and total operating revenues were \$1,815,706 and \$9,153,268, 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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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, 2015, the Water and Water Reclamation Utilities contributed \$9,305 and \$9,304, respectively, 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>7,712</u>	<u>7,711</u>
Net OPEB obligation, end of year	<u>\$ 14,655</u>	<u>\$ 14,654</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 2015 and the preceding year were as follows:

Water			
Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-14	\$ 16,248	53%	\$ 7,712
12-31-15	16,248	57%	14,655

Water Reclamation			
Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-14	\$ 16,247	53%	\$ 7,711
12-31-15	16,247	57%	14,654

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.

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$161,822 and \$228,553, respectively.

E. Reclassification of Capital Assets and Accumulated Depreciation

In order to more accurately report the class types of our capital assets, we have moved \$32,392,636 from improvements other than buildings to infrastructure for the Water Utility. In addition, we moved \$20,408,300 from Water Reclamation infrastructure to machinery and equipment.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. 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 will increase by 19.01%. On July 1, 2014, the rates increased by 10.76% and the final phase will increase rates by 2.79% on January 1, 2016. The sewer rates will increase on the same schedule but will increase by 18%, 8% and 4% 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.

REQUIRED SUPPLEMENTARY INFORMATION

The Required Supplementary Information presented was prepared by management of the Utilities. It is presented as intended by the Utilities.

CITY OF VALPARAISO UTILITIES
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Healthcare Plan
 Water

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
12-31-14	\$ -	\$ 210,661	\$ (210,661)	0%	\$ 1,635,146	12.9%
12-31-15	*	*	*	*	*	*

* Information not available.

Healthcare Plan
 Water Reclamation

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
12-31-14	\$ -	\$ 137,795	\$ (137,795)	0%	\$ 1,526,075	9.0%
12-31-15	*	*	*	*	*	*

* 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/>.