

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

FINANCIAL STATEMENTS AUDIT REPORT

OF

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED

11/24/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Matthew Murphy	01-01-20 to 12-31-21
Clerk-Treasurer	Holly Taylor	01-01-20 to 12-31-21
Executive Director	Steve Poulos	01-01-20 to 12-31-21
Chief Financial Officer	Alina Hahn	01-01-20 to 12-31-21
President of the Utilities Board of Directors	David Bengs	01-01-20 to 12-31-21



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, 2020, 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 the 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Utilities, as of December 31, 2020, 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, 2020, 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 Changes in Net OPEB Liability, Schedule of Net OPEB Liability, and Schedule of Employer Contributions, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 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 Governmental 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

November 9, 2021

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, 2020

<u>Assets</u>	2020	
	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	\$ 3,552,871	\$ 2,079,864
Accounts receivable (net of allowance)	475,868	745,301
Other receivables	145,694	34,016
Collections held for others	33,047	-
Inventories	130,258	232,090
Total current assets	4,337,738	3,091,271
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	2,060,541	969,418
Reserve for Pratt bond	-	1,000,000
Improvement	6,492,337	9,551,390
Reserve for SRF loan	-	1,406,409
Construction account	-	237,647
Tank painting and maintenance	467,342	-
Customer deposits	34,410	-
Note receivable	-	44,900
Total restricted assets	9,054,630	13,209,764
Capital assets:		
Land, improvements to land and construction in progress	1,488,034	693,794
Other capital assets (net of accumulated depreciation)	64,986,784	41,192,018
Total capital assets	66,474,818	41,885,812
Total noncurrent assets	75,529,448	55,095,576
Total assets	\$ 79,867,186	\$ 58,186,847
<u>Deferred Outflows of Resources</u>		
Deferred OPEB items	\$ 22,912	\$ 17,791

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2020

<u>Liabilities, Deferred Inflows and Net Position</u>	2020	
	Water	Water Reclamation
<u>Current liabilities:</u>		
Accounts payable	\$ 101,996	\$ 710,279
Taxes payable	29,512	-
Accrued wages and benefits payable	37,125	36,579
Compensated absences	8,180	6,038
Deferred revenue	-	58,000
<u>Current liabilities payable from restricted assets:</u>		
Customer deposits payable	34,410	-
Revenue bonds payable (current)	1,025,000	1,605,000
SRF loan	-	74,000
Leases payable	40,000	147,187
Accrued interest payable	148,864	263,247
	<u>1,425,087</u>	<u>2,900,330</u>
 <u>Noncurrent liabilities:</u>		
Revenue bonds payable (net of unamortized discount)	17,994,488	17,231,541
SRF loan payable	-	894,000
Leases payable	482,500	510,837
Pratt DSR due to RDC payable	-	1,000,000
Compensated absences payable	179,407	132,451
Other post employment benefits obligation	137,841	112,275
	<u>18,794,236</u>	<u>19,881,104</u>
 Total liabilities	<u>\$ 20,219,323</u>	<u>\$ 22,781,434</u>
 <u>Deferred Inflows of Resources</u>		
Deferred OPEB items	133,866	77,194
Deferred inflows	-	66,811
	<u>133,866</u>	<u>144,005</u>
 Total deferred inflows of resources	<u>\$ 133,866</u>	<u>\$ 144,005</u>
 <u>Net Position</u>		
Invested in capital assets, net of related debt	\$ 46,932,830	\$ 21,423,247
Restricted for debt service	2,060,541	2,375,827
Restricted for other purposes	7,027,136	9,789,037
Unrestricted	3,516,402	1,691,088
	<u>59,536,909</u>	<u>35,279,199</u>
 Total net position	<u>\$ 59,536,909</u>	<u>\$ 35,279,199</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
For The Year Ended December 31, 2020

	2020	
	Water	Water Reclamation
Operating Revenues:		
Metered water revenue:		
Residential	\$ 3,758,823	\$ -
Commercial	1,081,866	-
Industrial	1,328,244	-
Multiple family dwellings	1,078,487	-
Public authorities	196,090	-
Water reclamation collection and treatment revenue	-	10,780,353
Water reclamation surcharges	-	763
Fire protection revenue	1,172,843	-
Penalties	5,298	15,704
Other	1,152,616	308,395
	<u>9,774,267</u>	<u>11,105,215</u>
Operating expenses:		
Transmission and distribution	1,036,986	-
Pumping - operations and maintenance	673,039	168,953
Treatment and disposal - operations and maintenance	1,027,573	-
Customer accounts	815,304	-
Administration and general	1,273,147	2,012,420
Reclaimed water treatment - operations and maintenance	-	3,049,353
Reclaimed water distribution - operations and maintenance	-	1,021,878
Depreciation	1,579,373	3,342,212
	<u>6,405,422</u>	<u>9,594,816</u>
Total operating expenses	<u>6,405,422</u>	<u>9,594,816</u>
Operating income (loss)	<u>3,368,845</u>	<u>1,510,399</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	60,849	66,230
Miscellaneous revenue	6,707	-
Interest expense	(627,638)	(596,297)
Bond issuance costs	-	(17,370)
Pratt Surcharge	-	1,274,652
Payments to RDC	-	(1,274,652)
Transfers	17,171	(17,171)
	<u>(542,911)</u>	<u>(564,608)</u>
Total nonoperating revenues (expenses)	<u>(542,911)</u>	<u>(564,608)</u>
Income (loss) before contributions and transfers	<u>2,825,934</u>	<u>945,791</u>
Contributions and Transfers:		
Contributions	314,849	192,155
In lieu of taxes	(759,643)	(771,845)
	<u>(444,794)</u>	<u>(579,690)</u>
Total contributions and transfers	<u>(444,794)</u>	<u>(579,690)</u>
Change in net position	2,381,140	366,101
Total net position - beginning	<u>57,155,769</u>	<u>34,913,098</u>
Total net position - ending	<u>\$ 59,536,909</u>	<u>\$ 35,279,199</u>

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, 2020

	2020	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 9,710,280	\$ 10,989,288
Payments to suppliers and contractors and employees and benefits	(5,262,119)	(5,732,015)
Net cash provided by operating activities	4,448,161	5,257,273
Cash from noncapital financing activities:		
Nonoperating receipts	6,707	-
Transfers in (out)	17,171	(17,171)
In lieu of taxes	(759,643)	(771,845)
Net cash provided (used) by noncapital financing activities	(735,765)	(789,016)
Cash flows from capital and related financing activities:		
Contributions	314,849	37,255
Acquisition and construction of capital assets	(2,024,904)	(1,045,287)
Pratt surcharge collected	-	1,274,652
Payment to RDC	-	(1,174,684)
Bond issuance costs	-	(17,370)
Principal paid on capital debt	(1,005,000)	(1,470,000)
Principal paid on loans	-	(71,000)
Interest paid on capital debt	(613,628)	(567,254)
Interest paid on loans	-	(34,425)
Principal paid on capital lease	(37,500)	(187,259)
Interest paid on capital lease	(27,250)	(33,833)
Notes receivable	-	(38,589)
Net cash provided (used) by capital and related financing activities	(3,393,433)	(3,327,794)
Cash flows from investing activities:		
Interest received	60,849	66,230
Net increase (decrease) in cash and cash equivalents	379,812	1,206,693
Cash and cash equivalents, January 1	12,227,689	14,038,035
Cash and cash equivalents, December 31	\$ 12,607,501	\$ 15,244,728
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 3,368,845	\$ 1,510,399
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 1,579,373	\$ 3,342,212
Amortization		
(Increase) decrease in assets:		
Accounts receivable	55,053	(81,911)
Other receivables	(119,040)	(34,016)
Inventories	(13,616)	857
Increase (decrease) in liabilities:		
Accounts payable	(361,535)	559,463
Taxes payable	6,340	-
Accrued wages and benefits payable	(68,919)	(70,698)
Compensated absence payable	26,662	31,366
Net other post-employment benefits obligation	(8,583)	(399)
Customer deposits	(16,419)	-
Total adjustments	1,079,316	3,746,874
Net cash provided by operating activities	\$ 4,448,161	\$ 5,257,273
Noncash investing, capital and financing activities:		
Contributions of Assets	\$ -	\$ 154,900
Purchase of equipment by issuing lease payable	-	56,840

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

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 Outflows/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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

3. Restricted Assets

Certain proceeds of the revenue bonds, improvements, 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 \$9,054,630 and \$13,164,864 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>
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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(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 Outflows and Deferred Inflows

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future reporting periods and so will not be recognized as an outflow of resources (expense/expenditure/reduction of liability) until then. The Utilities have one item that qualifies for reporting in this category. The deferred outflow for other postemployment benefits.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future reporting periods and so will not be recognized as an inflow of resources (revenue) until that time. The Utilities have two types of items, one, the Water Reclamation Utility has an agreement with an organization for future improvements. The second deferred inflow is for other postemployment benefits items.

8. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 87, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus*

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

- Statement No. 93, *Replacement of Interbank Offered Rates*

- Statement No. 94, *Public Private and Public-Public Partnerships and Availability Payment Arrangements*

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years.

When they become effective, application of these standards may restate portions of these financial statements.

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, 2020, the Water and Water Reclamation Utilities had deposit balances in the amount of \$12,700,265 and \$15,382,889, 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, 2020, was as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

<u>2020</u>	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 1,488,034	\$ -	\$ -	\$ 1,488,034
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	1,488,034	-	-	1,488,034
Capital assets, being depreciated:				
Buildings	7,695,561	8,765	-	7,704,326
Improvements other than buildings	649,838	-	-	649,838
Infrastructure	49,914,325	1,271,451	(13,753)	51,172,023
Machinery, equipment, and vehicles	19,239,956	773,188	(570,696)	19,442,448
Totals	77,499,680	2,053,404	(584,449)	78,968,635
Less accumulated depreciation for:				
Building	(1,121,870)	(154,087)	-	(1,275,957)
Improvements other than buildings	(187,465)	(12,997)	-	(200,462)
Infrastructure	(9,528,883)	(1,023,440)	13,753	(10,538,570)
Machinery, equipment, and vehicles	(2,120,209)	(388,849)	542,196	(1,966,862)
Totals	(12,958,427)	(1,579,373)	555,949	(13,981,851)
Total capital assets, being depreciated, net	64,541,253	474,031	(28,500)	64,986,784
Total capital assets, net	\$ 66,029,287	\$ 474,031	\$ (28,500)	\$ 66,474,818

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

<u>2020</u>	Beginning Balance	Increases	Decreases	Ending Balance
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 693,794	\$ -	\$ -	\$ 693,794
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	693,794	-	-	693,794
Capital assets, being depreciated:				
Building	27,430,837	-	-	27,430,837
Improvements other than buildings	123,602	-	-	123,602
Machinery, equipment, and vehicles	36,508,233	696,995	(115,810)	37,089,418
Infrastructure	44,232,525	591,032	(13,297)	44,810,260
Totals	108,295,197	1,288,027	(129,107)	109,454,117
Less accumulated depreciation for:				
Building	(7,615,258)	(548,617)	-	(8,163,875)
Improvements other than buildings	(6,138,307)	(2,472)	-	(6,140,779)
Machinery, equipment, and vehicles	(25,438,068)	(2,334,693)	84,810	(27,687,951)
Infrastructure	(25,826,361)	(456,430)	13,297	(26,269,494)
Totals	(65,017,994)	(3,342,212)	98,107	(68,262,099)
Total capital assets, being depreciated, net	43,277,203	(2,054,185)	(31,000)	41,192,018
Total capital assets, net	\$ 43,970,997	\$ (2,054,185)	\$ (31,000)	\$ 41,885,812

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

	<u>2020</u>
Water	\$ 1,579,373
Water Reclamation	3,342,212

C. Construction Commitments

The Utilities did not have any Construction work in progress as of December 31, 2020.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

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. The Utilities also have capital leases for machinery and equipment purchases. Future minimum lease payments and present values of the net minimum lease payments under this capital lease as of December 31, 2020, are as follows:

	Water Utility	Water Reclamation Utility
2021	\$ 64,000	\$ 171,187
2022	65,000	93,337
2023	65,750	65,750
2024	65,000	65,000
2025	64,000	64,000
2026-2030	325,250	325,250
2031-2033	32,750	32,750
Sub-Total	681,750	817,274
Less amount representing interest	(159,250)	(159,250)
Present value of net minimum lease payments	\$ 522,500	\$ 658,024

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

	Water Utility	Water Reclamation Utility
Machinery and equipment		\$ 464,457
Building	750,000	750,000
Accumulated depreciation	(105,000)	(327,754)
Totals	\$ 645,000	\$ 886,703

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

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:				
2013 Water Utility: Improvements	2.17%	\$ 1,200,000	\$ -	\$ 1,200,000
2014A Water Utility: Improvements	2%-3.625%	9,980,000	(61,824)	10,041,824
2014B Water Utility: Improvements	2.70%	5,690,000	-	5,690,000
2018 Water Utility: Refunding	2.25% - 3%	2,070,000	(17,664)	2,087,664
Total		\$ 18,940,000	\$ (79,488)	\$ 19,019,488
Water Reclamation Utility:				
2013 Refunding Revenue Bonds	1.99%	\$ 615,000	\$ -	\$ 615,000
2015 Refunding Revenue Bonds	3%-4%	10,200,000	(461,535)	10,661,535
2015 Water Reclamation Utility: Improvements	2%-3.375%	2,015,000	(15,941)	2,030,941
2019 Water Reclamation Utility	2%-3%	5,465,000	(64,065)	5,529,065
Total		\$ 18,295,000	\$ (541,541)	\$ 18,836,541

Revenue bonds debt service requirements to maturity are as follows:

	Water		Water Reclamation	
	Principal	Interest	Principal	Interest
2021	\$ 1,025,000	\$ 589,324	\$ 1,605,000	\$ 583,944
2022	1,045,000	564,535	1,680,000	540,525
2023	1,060,000	539,129	1,730,000	488,850
2024	1,090,000	511,555	1,795,000	425,000
2025	1,125,000	481,010	1,860,000	358,825
2026-2030	4,905,000	1,899,327	5,990,000	859,729
2031-2035	8,690,000	752,913	2,245,000	341,847
2036-2040	-	-	1,390,000	82,684
Totals	\$ 18,940,000	\$ 5,337,793	\$ 18,295,000	\$ 3,681,404

CITY OF VALPARAISO UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020
 (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
2021	\$ 74,000	\$ 31,998
2022	77,000	29,488
2023	79,000	26,876
2024	82,000	24,180
2025	85,000	21,400
2026-2030	468,000	61,839
2031-2033	103,000	2,611
Totals	\$ 968,000	\$ 198,392

As of December 31, 2020, 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, 2020.

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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility					
Revenue bonds payable	\$ 19,945,000	\$ -	\$ 1,005,000	\$ 18,940,000	\$ 1,025,000
Add: premium	86,682	-	7,194	79,488	-
Less: discount	-	-	-	-	-
Total revenue bonds payable	20,031,682	-	1,012,194	19,019,488	1,025,000
Capital lease	560,000	-	37,500	522,500	40,000
Compensated absences	160,925	26,662	-	187,587	8,180
Other post employment benefits obligations	145,091	48,184	55,434	137,841	-
Total Long-term liabilities	\$ 20,897,698	\$ 74,846	\$ 1,105,128	\$ 19,867,416	\$ 1,073,180
Water Reclamation Utility					
Revenue bonds payable	\$ 19,765,000	\$ -	\$ 1,470,000	\$ 18,295,000	\$ 1,605,000
Add: premium	611,218	-	69,677	541,541	-
Less: discount	-	-	-	-	-
Total revenue bonds payable	20,376,218	-	1,539,677	18,836,541	1,605,000
Loans payable	1,039,000	-	71,000	968,000	74,000
Capital lease	788,443	56,840	187,259	658,024	147,187
Compensated absences	107,123	31,366	-	138,489	6,038
Other post employment benefits obligations	111,025	9,558	8,308	112,275	-
Pratt project	900,032	99,968	-	1,000,000	-
Total Long-term liabilities	\$ 23,321,841	\$ 197,732	\$ 1,806,244	\$ 21,713,329	\$ 1,832,225

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

F. Restricted Assets

The balances of restricted asset accounts as of December 31, 2020 are as follows:

	Water Utility	Water Reclamation Utility
Revenue bond covenant account	\$ 2,060,541	\$ 969,418
Improvement	6,492,337	9,551,390
Reserve for SRF loan	-	1,406,409
Construction account	-	237,647
Tank Painting and Maintenance	467,342	-
Reserve for Pratt Bond	-	1,000,000
Customer deposits	34,410	-
	\$ 9,054,630	\$ 13,164,864
Total restricted assets		

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 2014A&B and refunding revenue bonds in 2013 and 2018. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2022, 2026, 2028 and 2035. Annual principal and interest payments are expected to require less than 17 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$24,277,793. Principal and interest paid for the current year and total operating revenues were \$1,618,628 and \$9,774,267, 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, 2015 and 2019 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, 2035 and 2039. 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 \$21,976,404. Principal and interest paid for the current year and total operating revenues were \$2,037,254 and \$11,105,215, respectively.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

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

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, 2020, the Utilities had no required contributions to the plan. 2019 contributions were \$0.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

	Water	Water Reclamation
Annual required contribution	\$ 14,225	\$ (2,453)
Interest on net OPEB obligation	10,552	(1,819)
Adjustment to annual required contribution	(32,027)	5,522
Annual OPEB cost	(7,250)	1,250
Contributions made	-	-
Increase (decrease) in net OPEB obligation	(7,250)	1,250
Net OPEB obligation, beginning of year	145,091	111,025
Net OPEB obligation, end of year	\$ 137,841	\$ 112,275

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

At December 31, 2020, the Utilities reported a liability of \$250,116 for its net OPEB liability. The net OPEB liability was measured as of December 31, 2020, 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 OPEB liability was based on actuarial valuation of the Valparaiso City Utilities.

For the year ended December 31, 2020, the Utilities recognized an OPEB expense credit of \$8,982. At December 31, 2020, 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
Difference between expected and actual experience	\$ -	\$ 127,291
Change of assumptions	22,912	6,575
Totals	\$ 22,912	\$ 133,866
Water Reclamation Utility:	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ -	\$ 73,402
Change of assumptions	17,791	3,792
Totals	\$ 17,791	\$ 77,194

CITY OF VALPARAISO UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020
 (Continued)

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

	<u>Year Ended December 31, 2020</u>	
	Water	Water
	Utility	Reclamation Utility
2021	\$ (19,205)	\$ (10,282)
2022	(19,205)	(10,282)
2023	(19,205)	(10,282)
2024	(19,205)	(10,282)
2025	(19,281)	(10,322)
Thereafter	<u>(14,853)</u>	<u>(7,953)</u>
Total	<u>\$ (110,954)</u>	<u>\$ (59,403)</u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2020 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%

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 2.12%. 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.

The discount rate decreased from 3.26% as of January 1, 2020 to 2.12% as of December 31, 2020.

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 (1.12 percent) or 1-percentage-point higher (3.12 percent) than the current discount rate:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

	1.12% 1% Decrease	2.12% Current Rate	3.12% 1% Increase
Net OPEB Liability			
Water Utility	\$ 147,531	\$ 137,841	\$ 128,449
Water Reclamation Utility	120,167	112,275	104,625

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 (6.5 percent decreasing to 3.5 percent) or 1-percentage-point higher (8.5 percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

	6.5% decreasing to 3.5% 1% Decrease	7.5% decreasing to 4.5% Current Rate	8.5% decreasing to 5.5% 1% Increase
Net OPEB Liability:			
Water Utility	\$ 121,973	\$ 137,841	\$ 156,559
Water Reclamation Utility	99,351	112,275	127,521

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. Ordinance No 25-2019 was adopted on October 28, 2019 established rates and charges for the use of and services rendered by the sewage works utility in the Damon Run service area.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Continued)

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 \$207,466 and \$363,540, respectively.

Schedules of Required Supplementary Information
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
Last 10 Years*

NET OPEB LIABILITY	2020	2019	2018
TOTAL OPEB LIABILITY			
Service cost	\$ 11,772	\$ 17,104	\$ 20,136
Interest	8,733	17,283	16,878
Change in Plan Provisions	-	(52,195)	-
Changes in assumptions	19,371	9,271	(16,586)
Differences between expected and actual experience	(45,876)	(138,751)	(64,260)
Benefit payments	-	-	(13,341)
Net change in Total Pension Liability	(6,000)	(147,288)	(57,173)
Total pension liability - beginning of year	256,116	403,404	460,577
Total pension liability - end of year (1)	\$ 250,116	\$ 256,116	\$ 403,404
PLAN FIDUCIARY NET POSITION			
Contributions	\$ -	\$ -	\$ 13,341
Net Transfers into (out of) Trust	-	-	-
Net investment income	-	-	-
Benefit payments	-	-	(13,341)
Administrative expenses	-	-	-
Other	-	-	-
Net change in Plan Fiduciary Net Position	-	-	-
Plan fiduciary net position - beginning of year	-	-	-
Plan fiduciary net position - end of year (2)	\$ -	\$ -	\$ -
Total Pension Liability (Asset) - End of Year (1) - (2)	\$ 250,116	\$ 256,116	\$ 403,404

Notes to Schedule:

*Information presented for the years information is available

Schedules of Required Supplementary Information
 SCHEDULE OF NET OPEB LIABILITY
 Last 10 Years*

	2020	2019	2018
1. Total OPEB Liability	250,116	256,116	\$ 403,404
2. Plan Fiduciary Net Position	-	-	-
3. Total OPEB Liability	<u>\$ 250,116</u>	<u>\$ 256,116</u>	<u>\$ 403,404</u>
4. Plan Fiduciary Net Position as a Percentage of Total OPEB Liability = (2) / (1)	-	-	-
5. Covered-Employee Payroll	\$ 3,733,036	\$ 3,650,891	\$ 3,397,167
6. Total OPEB Liability as a Percentage of Covered-Employee Payroll = (3) / (5)	6.70%	7.02%	11.87%

Notes to schedule:

* Information presented for the years information is available

Schedules of Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS
 Last 10 Years *

OPEB Contributions	2020	2019	2018
Actuarially determined contribution**	\$ -	\$ -	\$ 13,341
Actual employer contributions	-	-	13,341
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll**	\$ 3,733,036	\$ 3,650,891	\$ 3,397,167
Contributions as a percentage of covered - employee payroll	0.00%	0.00%	0.39%

Notes to schedule:

Valuation date:

**Actuarially determined contributions rates are calculated as of December 31.

Methods and assumptions used to determine most current contribution rate above:

Actuarial cost method	Entry age normal - level percent of salary
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Fair market value
Healthcare cost trend rates	Medical/Rx 7.5% in 2021 to 4.5% in 2027+
Inflation	2.25% per year
Payroll growth	2.25% to 4.25%
Discount Rate	2.12% as of December 31, 2020.

Other information:

None

*Information presented for the years information is 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/>.