

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, 2021 to December 31, 2021



FILED
09/26/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Matthew Murphy	01-01-21 to 12-31-22
Clerk-Treasurer	Holly Taylor	01-01-21 to 12-31-22
Executive Director	Steve Poulos	01-01-21 to 12-31-22
Chief Financial Officer	Alina Hahn	01-01-21 to 12-31-22
President of the Utilities Board of Directors	David Bengs	01-01-21 to 12-31-22



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, 2021, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibilities 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 Responsibilities

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, 2021, 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, 2021, 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.



Beth Kelley, CPA, CFE
Deputy State Examiner

September 12, 2022

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, 2021

<u>Assets</u>	2021	
	Water	Water Reclamation
Current assets:		
Cash and cash equivalents	\$ 4,578,829	\$ 1,993,185
Accounts receivable (net of allowance)	533,888	804,263
Other receivables	7,623	-
Collections held for others	30,321	-
Inventories	141,673	215,730
Total current assets	5,292,334	3,013,178
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	2,060,396	986,445
Reserve for Pratt bond	-	1,000,000
Improvement	7,591,529	10,394,923
Reserve for SRF loan	-	1,406,552
Construction account	-	62,909
Tank painting and maintenance	568,468	-
Customer deposits	37,782	-
Note receivable	-	32,853
Total restricted assets	10,258,175	13,883,682
Capital assets:		
Land, improvements to land and construction in progress	1,488,034	502,294
Other capital assets (net of accumulated depreciation)	65,078,719	38,860,668
Total capital assets	66,566,753	39,362,962
Total noncurrent assets	76,824,928	53,246,644
Total assets	82,117,262	56,259,822
<u>Deferred Outflows of Resources</u>		
Deferred OPEB items	83,371	101,829

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

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2021

	2021	
<u>Liabilities, Deferred Inflows and Net Position</u>	Water	Water Reclamation
Current liabilities:		
Accounts payable	161,757	111,850
Taxes payable	30,362	-
Accrued wages and benefits payable	48,113	44,801
Compensated absences	7,560	5,146
Deferred revenue	-	58,000
Current liabilities payable from restricted assets:		
Customer deposits payable	39,350	-
Collections held for others	-	66,227
Revenue bonds payable (current)	1,045,000	1,680,000
SRF loan	-	77,000
Leases payable	108,324	68,337
Accrued interest payable	144,967	243,427
	1,585,433	2,354,788
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discount)	16,942,294	15,481,865
SRF loan payable	-	817,000
Leases payable	647,280	442,500
Pratt DSR due to RDC payable	-	1,000,000
Compensated absences payable	165,839	112,870
Other post employment benefits obligation	218,687	224,366
	17,974,100	18,078,601
Total noncurrent liabilities		
Total liabilities	19,559,533	20,433,389
<u>Deferred Inflows of Resources</u>		
Deferred OPEB items	111,811	61,982
Deferred inflows	-	65,957
Total deferred inflows of resources	111,811	127,939
<u>Net Position</u>		
Invested in capital assets, net of related debt	47,823,855	20,796,260
Restricted for debt service	2,060,396	2,392,997
Restricted for other purposes	8,228,100	10,457,832
Unrestricted	4,416,938	2,153,234
Total net position	\$ 62,529,289	\$ 35,800,323

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, 2021

	2021	
	Water	Water Reclamation
		Water
Operating Revenues:		
Metered water revenue:		
Residential	\$ 3,707,543	\$ -
Commercial	1,120,615	-
Industrial	1,370,446	-
Multiple family dwellings	1,087,734	-
Public authorities	218,186	-
Water reclamation collection and treatment revenue	-	11,070,175
Water reclamation surcharges	-	-
Fire protection revenue	1,187,402	-
Penalties	5,113	19,856
Other	1,212,435	294,449
	9,909,474	11,384,480
Total operating revenues		
Operating expenses:		
Transmission and distribution	1,128,384	-
Pumping - operations and maintenance	647,423	180,222
Treatment and disposal - operations and maintenance	1,066,335	-
Customer accounts	756,287	-
Administration and general	1,415,917	1,860,082
Reclaimed water treatment - operations and maintenance	-	3,096,387
Reclaimed water distribution - operations and maintenance	-	1,035,704
Depreciation	1,608,114	3,373,812
	6,622,460	9,546,207
Total operating expenses		
Operating income (loss)	3,287,014	1,838,273
Nonoperating revenues (expenses):		
Interest and investment revenue	21,508	16,994
Miscellaneous revenue	20,671	-
Interest expense	(602,733)	(553,919)
Donations	-	(191,500)
Bond issuance costs	-	-
Pratt Surcharge	-	1,176,951
Payments to RDC	-	(1,176,951)
Transfers	7,398	(7,398)
	(553,156)	(735,823)
Total nonoperating revenues (expenses)		
Income (loss) before contributions and transfers	2,733,858	1,102,450
Contributions and Transfers:		
Contributions	1,018,165	190,519
In lieu of taxes	(759,643)	(771,845)
	258,522	(581,326)
Total contributions and transfers		
Change in net position	2,992,380	521,124
Total net position - beginning	59,536,909	35,279,199
Total net position - ending	\$ 62,529,289	\$ 35,800,323

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, 2021

	2021	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 9,992,251	\$ 11,359,534
Payments to suppliers and contractors and employees and benefits	(4,965,078)	(6,687,647)
Net cash provided by operating activities	<u>5,027,173</u>	<u>4,671,887</u>
Cash from noncapital financing activities:		
Nonoperating receipts	20,671	-
Transfers in (out)	7,398	(7,398)
In lieu of taxes	(759,643)	(771,845)
Net cash provided (used) by noncapital financing activities	<u>(731,574)</u>	<u>(779,243)</u>
Cash flows from capital and related financing activities:		
Contributions	1,018,165	-
Acquisition and construction of capital assets	(1,426,945)	(851,943)
Pratt surcharge collected	-	1,176,951
Payment to RDC	-	(1,176,951)
Principal paid on capital debt	(1,032,194)	(1,605,000)
Principal paid on loans	-	(74,000)
Interest paid on capital debt	(582,130)	(583,944)
Interest paid on loans	-	(31,998)
Principal paid on capital lease	(40,000)	(147,187)
Interest paid on capital lease	(24,500)	(27,473)
Notes receivable	-	11,193
Net cash provided (used) by capital and related financing activities	<u>(2,087,604)</u>	<u>(3,310,352)</u>
Cash flows from investing activities:		
Interest received	21,508	16,994
Net increase (decrease) in cash and cash equivalents	2,229,503	599,286
Cash and cash equivalents, January 1	12,607,501	15,244,728
Cash and cash equivalents, December 31	<u>\$ 14,837,004</u>	<u>\$ 15,844,014</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 3,287,014	\$ 1,838,273
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,608,114	3,373,812
Amortization	-	-
(Increase) decrease in assets:		
Accounts receivable	(55,294)	(58,962)
Other receivables	138,071	34,016
Inventories	(11,415)	16,360
Increase (decrease) in liabilities:		
Accounts payable	59,761	(532,202)
Taxes payable	850	-
Accrued wages and benefits payable	10,988	8,222
Compensated absence payable	(14,188)	(20,473)
Net other post-employment benefits obligation	(1,668)	12,841
Customer deposits	4,940	-
Total adjustments	<u>1,740,159</u>	<u>2,833,614</u>
Net cash provided by operating activities	<u>\$ 5,027,173</u>	<u>\$ 4,671,887</u>
Noncash investing, capital and financing activities:		
Contributions of Assets	\$ -	\$ 190,519
Donation of assets	-	(191,500)
Purchase of equipment by issuing lease payable	273,104	-

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

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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, 2021
(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 because their use is limited by applicable bond covenants.

The financial statements report \$10,258,175 and \$13,850,829 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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(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, Harrison West, for future improvements. This is due to the Water Reclamation Utility accepting Harrison West's storm water infrastructure; the utility receives funds that are to be used for any repairs to the associated assets. This is per "Memorandum of Understanding – Dedication of Right-Of-Way" from June 24, 2014. 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*
- Statement No. 93, *Replacement of Interbank Offered Rates*

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

- 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.

Other Post-Employment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Utilities' OPEB Plan and additions to/deductions from the Utilities' OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Utilities' OPEB Plan. For this purpose, the Utilities' OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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, 2021, the Water and Water Reclamation Utilities had deposit balances in the amount of \$14,837,004 and \$15,844,014, 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, 2021, was as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

<u>2021</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 1,488,034	\$ -	\$ -	\$ 1,488,034
Capital assets, being depreciated:				
Buildings	7,704,326	78,539		7,782,865
Improvements other than buildings	649,838			649,838
Infrastructure	51,172,023	908,202	(14,153)	52,066,072
Machinery, equipment, and vehicles	19,442,448	825,060	(360,584)	19,906,924
Totals	78,968,635	1,811,801	(374,737)	80,405,699
Less accumulated depreciation for:				
Building	(1,275,957)	(155,657)	-	(1,431,614)
Improvements other than buildings	(200,462)	(12,997)	-	(213,459)
Infrastructure	(10,538,570)	(1,041,322)	14,153	(11,565,739)
Machinery, equipment, and vehicles	(1,966,862)	(398,138)	248,832	(2,116,168)
Totals	(13,981,851)	(1,608,114)	262,985	(15,326,980)
Total capital assets, being depreciated, net	64,986,784	203,687	(111,752)	65,078,719
Total capital assets, net	\$ 66,474,818	\$ 203,687	\$ (111,752)	\$ 66,566,753
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2021				
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 693,794	\$ -	\$ (191,500)	\$ 502,294
Capital assets, being depreciated:				
Building	27,430,837	-	(209,174)	27,221,663
Improvements other than buildings	123,602	-	-	123,602
Machinery, equipment, and vehicles	37,089,418	315,473	(111,249)	37,293,642
Infrastructure	44,810,260	726,989	(19,384)	45,517,865
Totals	109,454,117	1,042,462	(339,807)	110,156,772
Less accumulated depreciation for:				
Building	(8,163,875)	(544,433)	209,174	(8,499,134)
Improvements other than buildings	(6,140,779)	(2,473)	-	(6,143,252)
Machinery, equipment, and vehicles	(27,687,951)	(2,360,272)	111,249	(29,936,974)
Infrastructure	(26,269,494)	(466,634)	19,384	(26,716,744)
Totals	(68,262,099)	(3,373,812)	339,807	(71,296,104)
Total capital assets, being depreciated, net	41,192,018	(2,331,350)	-	38,860,668
Total capital assets, net	\$ 41,885,812	\$ (2,331,350)	\$ (191,500)	\$ 39,362,962

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

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

	2021
Water	\$ 1,608,114
Water Reclamation	3,373,812
Total depreciation expense	\$ 4,981,926

C. Construction Commitments

The Utilities did not have any Construction work in progress as of December 31, 2021.

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, 2021, are as follows:

	Water Utility	Water Reclamation Utility
2022	\$ 135,594	\$ 93,337
2023	136,344	65,750
2024	135,594	65,000
2025	134,594	64,000
2026	64,000	64,000
2027-2031	294,000	294,000
Sub-Total	900,126	646,087
Less amount representing interest	(144,522)	(135,250)
Present value of net minimum lease payments	\$ 755,604	\$ 510,837

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

	Water Utility	Water Reclamation Utility
Machinery and equipment	\$ 458,104	\$ 464,457
Building	750,000	750,000
Accumulated depreciation	(129,162)	(424,461)
Totals	\$ 1,078,942	\$ 789,996

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(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 (Direct Placement)	2.17%	\$ 610,000	\$ -	\$ 610,000
2014B Water Utility: Improvements (Direct Placement)	2.70%	5,295,000	-	5,295,000
Subtotal		<u>5,905,000</u>	<u>-</u>	<u>5,905,000</u>
2014A Water Utility: Improvements (Open Market)	2%-3.625%	9,980,000	(57,702)	10,037,702
2018 Water Utility: Refunding (Open Market)	2.25% - 3%	2,030,000	(14,592)	2,044,592
Subtotal		<u>12,010,000</u>	<u>(72,294)</u>	<u>12,082,294</u>
Total		<u>\$ 17,915,000</u>	<u>\$ (72,294)</u>	<u>\$ 17,987,294</u>
Water Reclamation Utility:				
2015 Refunding Revenue Bonds (Open Market)	3%-4%	\$ 9,555,000	\$ (396,377)	\$ 9,951,377
2015 Water Reclamation Utility: Improvements (Open Market)	2%-3.375%	1,905,000	(14,809)	1,919,809
2019 Water Reclamation Utility (Open Market)	2%-3%	5,230,000	(60,679)	5,290,679
Total		<u>\$ 16,690,000</u>	<u>\$ (471,865)</u>	<u>\$ 17,161,865</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water				Water Reclamation	
	Open Market		Direct Placement		Open Market	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 40,000	\$ 414,288	\$ 1,005,000	\$ 150,247	\$ 1,680,000	\$ 540,525
2023	475,000	410,744	585,000	128,385	1,730,000	488,850
2024	485,000	399,100	605,000	112,455	1,795,000	425,000
2025	505,000	385,025	620,000	95,985	1,860,000	358,825
2026	525,000	370,350	630,000	79,178	1,920,000	289,500
2027-2031	5,240,000	1,645,955	1,210,000	58,320	4,510,000	662,478
2032-2036	4,740,000	473,058	1,250,000	25,380	2,135,000	283,184
2037-2041	-	-	-	-	1,060,000	49,097
Totals	<u>\$ 12,010,000</u>	<u>\$ 4,098,519</u>	<u>\$ 5,905,000</u>	<u>\$ 649,950</u>	<u>\$ 16,690,000</u>	<u>\$ 3,097,460</u>

2. Loans Payable

The Water Reclamation Utility has entered into various loan agreements (State Revolving Loan Fund (SRF)). Annual debt service requirements to maturity for the loans (based upon having drawn down all of the funds), are as follows:

CITY OF VALPARAISO UTILITIES
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2021
 (Continued)

	Water Reclamation Utility	
	Principal	Interest
2022	\$ 77,000	\$ 29,488
2023	79,000	26,876
2024	82,000	24,180
2025	85,000	21,400
2026	87,000	18,518
2027-2031	484,000	45,933
Totals	\$ 894,000	\$ 166,395

As of December 31, 2021, 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, 2021.

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, 2021, was as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility					
Revenue bonds payable	\$ 18,940,000	\$ -	\$ 1,025,000	\$ 17,915,000	\$ 1,045,000
Add: premium	79,488	-	7,194	72,294	-
Total revenue bonds payable	19,019,488	-	1,032,194	17,987,294	1,045,000
Capital lease	522,500	273,104	40,000	755,604	108,324
Compensated absences	187,587	-	14,188	173,399	7,560
Other post employment benefits obligations	137,841	80,846	-	218,687	-
Total Long-term liabilities	<u>\$ 19,867,416</u>	<u>\$ 353,950</u>	<u>\$ 1,086,382</u>	<u>\$ 19,134,984</u>	<u>\$ 1,160,884</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Reclamation Utility					
Revenue bonds payable	\$ 18,295,000	\$ -	\$ 1,605,000	\$ 16,690,000	\$ 1,680,000
Add: premium	541,541	-	69,676	471,865	-
Total revenue bonds payable	18,836,541	-	1,674,676	17,161,865	1,680,000
Loans payable	968,000	-	74,000	894,000	77,000
Capital lease	658,024	-	147,187	510,837	68,337
Compensated absences	138,489	-	20,473	118,016	5,146
Other post employment benefits obligations	112,275	112,091	-	224,366	-
Pratt project	1,000,000	-	-	1,000,000	-
Total Long-term liabilities	<u>\$ 21,713,329</u>	<u>\$ 112,091</u>	<u>\$ 1,916,336</u>	<u>\$ 19,909,084</u>	<u>\$ 1,830,483</u>

F. Restricted Assets

The balances of restricted asset accounts as of December 31, 2021 are as follows:

	Water Utility	Water Reclamation Utility
Revenue bond covenant account	\$ 2,060,396	\$ 986,445
Improvement	7,591,529	10,394,923
Reserve for SRF loan	-	1,406,552
Construction account	-	62,909
Tank Painting and Maintenance	568,468	-
Reserve for Pratt Bond	-	1,000,000
Customer deposits	37,782	-
Total restricted assets	<u>\$ 10,258,175</u>	<u>\$ 13,850,829</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

G. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 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 \$22,663,469. Principal and interest paid for the current year and total operating revenues were \$1,614,324 and \$9,909,474, 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 \$19,787,460. Principal and interest paid for the current year and total operating revenues were \$2,188,944 and \$11,384,480, 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.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

B. Other Postemployment Benefits

Plan Description

The City of Valparaiso administers a single-employer defined benefit healthcare plan which includes the Utility employees. The plan provides health insurance benefits for eligible retirees and their spouses through the Utilities' group health insurance plan, which covers both active and retired members. At December 31, 2021, there were 66 plan members. The Utilities' defined benefit OPEB plan, provides OPEB for all general employees who have reached age 55 with 20 years of service.

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, 2021, the Utilities had no required contributions to the plan. 2020 contributions were \$0.

	Water	Water Reclamation
Annual required contribution	\$ 5,582	\$ 7,740
Interest on net OPEB obligation	2,340	3,245
Adjustment to annual required contribution	72,924	101,106
Annual OPEB cost	80,846	112,091
Contributions made	-	-
Increase (decrease) in net OPEB obligation	80,846	112,091
Net OPEB obligation, beginning of year	137,841	112,275
Net OPEB obligation, end of year	\$ 218,687	\$ 224,366

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

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

At December 31, 2021, the Utilities reported a liability of \$443,053 for its net OPEB liability. The net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Utilities' OPEB liability was based on actuarial valuation of the Valparaiso City Utilities. The liability is proportionally shared between water and water reclamation.

For the year ended December 31, 2021, the Utilities recognized an OPEB expense debit of \$11,173. At December 31, 2021, the Utilities reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Water Utility:		
Difference between expected and actual experience	\$ 43,424	\$ (104,969)
Change of assumptions	39,947	(6,842)
Totals	\$ 83,371	\$ (111,811)
	Deferred Outflow of Resources	Deferred Inflow of Resources
Water Reclamation Utility:		
Difference between expected and actual experience	\$ 60,207	\$ (60,530)
Change of assumptions	41,622	(1,452)
Totals	\$ 101,829	\$ (61,982)

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, 2021</u>		
Water		
	Water Utility	Reclamation Utility
2022	\$ (5,037)	\$ (2,697)
2023	(5,037)	(2,697)
2024	(5,037)	(2,697)
2025	(5,113)	(2,737)
2026	1,468	786
Thereafter	26,187	14,018
Total	\$ 7,431	\$ 3,976

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

Actuarial Assumptions

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified:

Measurement Date	December 31, 2021
Actuarial Valuation Date	December 31, 2021; Liabilities of January 1, 2021 are based on an actuarial valuation date of January 1, 2020 projected to January 1, 2021 on a "no loss/no gain" basis
Mortality	Healthy general retirees: SOA Pub-2010 General Headcount Weighted Mortality fully generational using Scale MP-2021 Surviving Spouses: SOA Pub-2010 Continuing Survivor Headcount Weighted Mortality Table fully generational using MP -2021
Experience Study Date	N/A – No current study
Investment Rate of Return	N/A – No investments
Future Salary Increases	2.65% to 8.65%
Inflation	2.00%

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 2.25%. 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 increased from 2.12% as of January 1, 2021 to 2.25% as of December 31, 2021.

Sensitivity to Changes in the Discount Rate

The following presents the Water and Water Reclamation Utilities' proportionate shares of the net OPEB liability for the utilities as a whole, as well as what the respective proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25 percent) or 1-percentage-point higher (3.25 percent) than the current discount rate:

	1.25% 1% Decrease	2.25% Current Rate	3.25% 1% Increase
Net OPEB Liability			
Water Utility	\$ 237,723	\$ 218,687	\$ 200,678
Water Reclamation Utility	243,896	224,366	205,890

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 (7.0 percent decreasing to 3.5 percent) or 1-percentage-point higher (9.0 Percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

	7.0% decreasing to 3.5% 1% Decrease	8.0% decreasing to 4.5% Current Rate	9.0% decreasing to 5.5% 1% Increase
Net OPEB Liability:			
Water Utility	\$ 193,014	\$ 218,687	\$ 249,083
Water Reclamation Utility	198,026	224,366	255,551

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.

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. Assets of the plan are held in a trust. 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 \$206,218.37 and \$355,737.58, respectively. The pension forfeitures for 2021 are \$4,138 and the outstanding liability is \$0.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021
(Continued)

IV. Subsequent Event Note

On May 24, 2022, the City of Valparaiso Utilities entered into a professional agreement with Stantec Consulting Services Inc. for the Elden Kuehul Water Pollution Control Facility Upgrade Project (Project). The total amount of the agreement is not to exceed \$3,970,210.00. Funding for the Project is set through a future bonding process, that has not been set to date.

REQUIRED SUPPLEMENTARY INFORMATION

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

NET OPEB LIABILITY	2021	2020	2019	2018	2017
TOTAL OPEB LIABILITY					
Service cost	\$ 13,322	\$ 11,772	\$ 17,104	\$ 20,136	\$ 22,606
Interest	5,585	8,733	17,283	16,878	16,378
Change in Plan Provisions	-	-	(52,195)	-	-
Changes in assumptions	55,595	19,371	9,271	(16,586)	33,600
Differences between expected and actual experience	118,435	(45,876)	(138,751)	(64,260)	(32,656)
Benefit payments	-	-	-	(13,341)	(18,283)
Net change in Total OPEB Liability	192,937	(6,000)	(147,288)	(57,173)	21,645
Total pension liability - beginning of year	<u>250,116</u>	<u>256,116</u>	<u>403,404</u>	<u>460,577</u>	<u>438,932</u>
Total pension liability - end of year (1)	<u>\$ 443,053</u>	<u>\$ 250,116</u>	<u>\$ 256,116</u>	<u>\$ 403,404</u>	<u>\$ 460,577</u>
PLAN FIDUCIARY NET POSITION					
Contributions	\$ -	\$ -	\$ -	\$ 13,341	\$ 18,283
Benefit payments	-	-	-	(13,341)	(18,283)
Net change in Plan Fiduciary Net Position	-	-	-	-	-
Plan fiduciary net position - beginning of year	-	-	-	-	-
Plan fiduciary net position - end of year (2)	<u>\$ -</u>				
Total OPEB Liability (Asset) - End of Year (1) - (2)	<u>\$ 443,053</u>	<u>\$ 250,116</u>	<u>\$ 256,116</u>	<u>\$ 403,404</u>	<u>\$ 460,577</u>

Notes to Schedule:

*Information presented for the years information is available

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

	2021	2020	2019	2018	2017
1. Total OPEB Liability	\$ 443,053	\$ 250,116	\$ 256,116	\$ 403,404	\$ 460,577
2. Plan Fiduciary Net Position	-	-	-	-	-
3. Total OPEB Liability	<u>\$ 443,053</u>	<u>\$ 250,116</u>	<u>\$ 256,116</u>	<u>\$ 403,404</u>	<u>\$ 460,577</u>
4. Plan Fiduciary Net Position as a Percentage of Total OPEB Liability = (2) / (1)	-	-	-	-	-
5. Covered-Employee Payroll	\$ 3,972,549	\$ 3,733,036	\$ 3,650,891	\$ 3,397,167	\$ 3,322,413
6. Total OPEB Liability as a Percentage of Covered-Employee Payroll = (3) / (5)	11.15%	6.70%	7.02%	11.87%	13.86%

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	2021	2020	2019	2018	2017
Actuarially determined contribution**	\$ -	\$ -	\$ -	\$ 13,341	\$ 18,283
Actual employer contributions	-	-	-	13,341	18,283
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll**	\$ 3,972,549	\$ 3,733,036	\$ 3,650,891	\$ 3,397,167	\$ 3,322,413
Contributions as a percentage of covered - employee payroll	0.00%	0.00%	0.00%	0.39%	0.55%

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 8.0% in 2022 to 4.5% in 2029+
Inflation	2.00% per year
Payroll growth	2.65% to 8.65%
Discount Rate	2.25% as of December 31, 2021.

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/>.