

**SHOREWOOD FOREST UTILITIES, INC.**  
**425 Utility Dr**  
**Valparaiso, IN 46385**  
**219-531-0706**

**BOARD OF DIRECTORS MEETING**

President, Terry Atherton  
Vice President, Randy Becker  
Vice-President, Gary Maxwell  
Secretary, Chuck McIntire  
Treasurer, Phil Litherland  
Assistant Treasurer, Donna Atherton

**Annual Members Meeting of July 9, 2012**

NOTE: All minutes are summarized to give the community the essential information of what has happened at meetings and what votes were taken. Board discussions and public comments are not presented verbatim.

Pursuant to a notice to Members of Shorewood Forest Utilities, Inc., Board President Terry Atherton called the July 9, 2012 Annual Members Meeting to order at 7:07 p.m. in the Shorewood Forest Clubhouse. Directors Phil Litherland, Gary Maxwell, Randy Becker, & Assistant Treasurer Donna Atherton were present. Also, in attendance were Plant Manager Forest Ash, Office Manager Linda Walla, Wastewater Operator Philip Burbrink, and several residents. Director Chuck McIntire was on vacation and was not in attendance.

**President's Report:**

President Atherton welcomed all members to the Annual Meeting. He explained that Shorewood Forest Utilities, Inc. is required by law to provide financial and operational reports to the members and will answer any questions regarding those reports or any other questions that the members may have.

President Atherton summarized the responsibilities of the Utility Board as follows:

- Provide for the collection and treatment of the wastewater in the service area of Shorewood Forest Utilities, while in compliance with all IDEM and EPA regulatory requirements.
- Comply with the commitments made to lenders.
- Manage in the most cost effective manner as reflected in our rates.
- Ensure adequate controls, i.e. policies and procedures are in place and being followed.

President Atherton explained that to effectively and efficiently operate a utility as complex as Shorewood Forest Utilities, Inc. requires diligence and involvement; we are a hands-on Board. If the Board fails to comply with any regulations, the results could be financially catastrophic to the community.

President Atherton stated that to manage effectively, there are three core components: Managerial, Financial, and Technical. He stated that if all three areas are properly met, then all members are happy. He stated that if the Board members cannot personally provide for these requirements, then the Board must supplement from outside resources, i.e. accountants, lawyers, engineers, and operators. President Atherton stated that Shorewood Forest Utilities, Inc. Board has been fortunate up to now, to have some very qualified volunteers who put in a lot of time to make sure the Utility is in accordance with the three core components. President Atherton made it clear that there is no training class for a Board Director; the best way to acquire knowledge is by getting involved and attending the meetings.

President Atherton stated that we are here tonight to answer the question, **“How did we do this past year as a Board in the three core areas?”**

President Atherton summarized as follows:

### **Managerial**

**Employees-** There have been no employee injuries in over a year. Full time plant workers have attended OSHA training. Seasonal plant employees were given refresher safety orientation. A safety audit was conducted and the following recommendations were implemented: fire extinguishers and eye wash stations were installed, and a “confined space” policy for entering manholes and lift stations was adopted. A safety manual was drafted and adopted, which contributed to maintaining our insurance rates at a very reasonable level.

**Customers-** We have improved the appearance of the plant, while making it safer, i.e. paved access road and parking area. We have also paved the roadway, in conjunction with the developer, to the Nature Preserve Lift Station. We have installed a new entrance sign to the Utility Plant and Office.

**Legal** – We have reduced our dependence on outside counsel; use as necessary without exposing the Utility to unnecessary risk.

### **Financial**

- Adopted 2012 Operating Budget.
  - Budget will continue to maintain our Debt Service Coverage Ratio
  - No late fees on any payments
  - Arguably one of the highest collection rates in the State
  - No write-offs in 2011
- Adopted Capitalization Policy- parameters that establish how and what purchases are to be capitalized.
- Prepared and adopted a 6-year Capital Improvements Plan based on the Master Plan Study done by McMahon and Associates (Engineers and Architects).
- Prepared a 6-year financial pro-forma. No rate increase is necessary currently or in the immediate future.
- Continued to improve our in-house accounting capabilities to reduce our dependence on outside assistance, i.e. accountants.
- Surpassed our obligation to maintain a 1.25 Debt Service Coverage Ratio
- Met our obligation to adequately provide for the maintenance and replacement of system assets to keep the Utility viable and maintain the value of our assets.

- Maintained greater than our self-imposed Operating Cash Balance of not less than 1 ½ times the cash requirement for a billing cycle. We have been maintaining more than three months of operating cash on hand.

## **Technical**

**Regulatory** - There have been no NPDES violations in the past 29 months. We have continued to supplement our regulatory operations with contracted operations assistance, but we have reduced the number of visits by half in 2012.

**Collection System** – We have cleaned and televised all of the sewers for the first time. We have implemented and completed a GIS (Geographic Information System) mapping of our system features. Any problem issues that were identified have been repaired. We have scheduled and implemented capital replacement of assets.

**Treatment Operations Master Plan** - We have identified 7 major improvements and \$2.8 million is needed for capital investments (new headworks and micro-strainer). We have identified all the funds needed, except for about \$800,000, which we will have to borrow, after approval by Members. A 6-year Capital Improvement Plan was prepared and adopted within our cash flow parameters. We will be able to maintain all our financial obligations without any rate increases.

## **Annual Operations Report - Plant Operations Manager Forest Ash**

**July 1, 2011-June 30, 2012**

### **Main Plant**

1. From July 1, 2011 to June 30, 2012, we treated 58,596,000 gallons of wastewater, an average of 4.8 million gallons a month, or 160,100 gallons per day. Under the terms of our NPDES Permit, we have a rated capacity of 450,000 gallons a day. We used 36% of our rated capacity. We removed an average of 99% of BOD, 99% of TSS, 99% of Ammonia, and 92% of Phosphorus. Over the span of one year, we have taken 760 effluent samples. Of those effluent samples taken, we have had 0 violations.
2. We removed 96,060 gallons of 3% bio-solids from the digester.
3. We installed new high-level alarms for the Backwash Lift Station, both filters and both digesters.
4. We sealed the roof on the Blower Building.
5. We painted the outside of the Filter Building.

### **Lift Stations**

1. We had 16 call outs: 5-NIPSCO related problems, 8-lift station breakdown, 3-811 emergency locates.
2. We are in the process of replacing broken float hangers, and replacing the old Wiki transmitters with more reliable Dwyer transmitters.

### **Sewer Lines & Manholes**

1. We completed 50 manhole repairs: 24 have been raised to ground level, and 26 have had the Rap-O sealant installed in-house.
2. We contracted out 8 manholes to be raised and adjusted.
3. We contracted with M.E. Simpson Co. to smoke test the Wexford, Amhurst, and Roxbury basins. We found one home that had their gutters connected to the sanitary sewer in violation of our Utility rules. The home owner was responsible for the removal of the connection and completed the repair at his expense.

4. M.E. Simpson Co. also obtained GPS locations for all manholes and provided us with an accurate map of our collection system.
5. Metz finished cleaning and televising the sewer lines.

#### **Other**

1. Installed a new sign at the Utility Dr. entrance to the Plant and Office.
2. Hired McMahan and Associates to renew our NPDES permit.
3. Locked in bids for the following: replace 378 feet of sagging sewer line located off of Wexford behind the homes; de-root 2,667 feet of lines; slip-line 2,099 ft; and repair 5 manholes that have hydrogen sulfide damage.
4. Contracted out sandblasting and installation of Epoxy to the inside of Devon Lift Station, to prolong the life of the station.
5. Purchased a gas meter for confined space entry and established a confined space protocol.
6. Forest Ash has completed a 10-hour OSHA training course.

#### **Future Projects**

1. Replace the existing bar screen with a new Salsnes screening that will not only reduce the rags and grit that enter the plant, but should reduce the BOD count. This should increase the capacity of our plant, since the plant size is determined by the BOD intake.
2. Replace the existing steel aeration tanks- number 1 and 2 with a single concrete tank.
3. Add variable frequency drives (VFDs) to the blowers so we can better control the air in the aeration tanks and the digesters. The cost for electrical usage should be reduced as much as 10% to 20%.
4. Replace the existing air lifts for the return and the wasting with automated pumps, so we can better control the waste and the return of the aeration tanks.
5. Install a D.O. probe in the aeration tank to control the VFD. This will allow the motor to speed up or slow down, depending on the BOD demand.

President Atherton asked Forest if a letter regarding the Wexford Project (repair of the sagging line) has been prepared to let customers know what will need to be done and when. Forest replied that he has prepared the letter, but is waiting on a confirmation date from Alex Metz, the company doing the repairs.

Director Litherland asked Forest if there will be an interruption of service during the Wexford project and how long will the project take. Forest replied that the project will take 5 days, but we will by-pass the sewage during the repair, without any interruption of service. Director Litherland inquired if the pipe was clay and Forest responded that it was.

Marcia Casassa (Lot 618) asked Forest how long the life of the Devon Lift Station will be extended by sandblasting. Forest replied that we can prolong the life of the Devon Lift Station by 5 to 7 years. Forest explained that with all the other capital improvements that we are currently doing, we do not have the capital to replace the lift station.

#### **Annual Financial Report – Treasurer Phil Litherland**

Treasurer Phil Litherland presented comparative financial highlights, a comparative statistics bar graph, and comparative balance sheet and profit and loss statements, comparing fiscal year 2011 with FY 2010. (*Finalized financial statements for the year ended December 31, 2011 and the 2011 tax returns are available to Members upon request*). He stated that the Corporation is financially healthy. He also pointed out that the Debt Service Coverage Ratio for year ended December 31, 2011 is 1.93, indicating the Corporation is doing very well. We are required to maintain at least a 1.25 debt service coverage ratio to be in compliance with our Bond Covenants.

The debt service coverage ratio is computed by dividing our net ordinary income by the annual interest and principle bond payments.

	<b>FY 2011</b>	<b>FY 2010</b>
Capital Replacement Fund	118,601.29	103,208.05
Capacity Fees Fund	514,093.21	526,113.62
<b>Total Operating Funds</b>	<b>329,754.36</b>	<b>295,138.13</b>
Months of Cash On Hand	6.60	5.90
Income From Operations	418,268.31	410,285.74
Operating Expenses	333,733.77	389,720.98
Bond Payments	216,584.55	216,464.40
Net Income	148,080.95	150,209.02
Debt Service Coverage Ratio	1.93	1.90

**Questions ensued regarding the financial statements:**

Director Litherland asked President Atherton how many sewer taps were budgeted for in 2012. President Atherton stated that we budgeted for 10 sewer taps and we currently have 14 taps. Most of the new taps are from the Sagamore Subdivision.

Cindy Kirby (lot 467) complimented the Board on their accomplishments and hard work. She asked why there was a large difference in the revenues billed when comparing 2010 and 2011. Donna Atherton, Assistant Treasurer responded that some of the difference was due to the way revenues were categorized in previous years. In prior years, the interest earned from the bonds was added to the revenue billed category. Currently, the “revenues billed” category only reflects the income earned from sewer charges and tap-in fees. The interest earned from revenue bonds is considered to be restricted “other income”. It is not revenue received from the operations of the Utility.

Another reason for the aberration in “revenues billed” is that we received a refund in 2010 in the amount of \$46,851.00 for Sales Taxes and Utilities Receipt Taxes that we paid in error. Donna Atherton stated that when she first became a Board Officer, she reviewed the tax returns, along with Treasurer Litherland and they noticed we had paid taxes that we were explicitly exempt from paying. Donna was able to get the maximum three year’s taxes refunded.

Cindy Kirby (lot 467) asked the Board to identify what the greatest contributing factor was in reducing the operating expenses of the Utility from 2010 to the present. Assistant Treasurer, Donna Atherton replied that the Utility reduced staff and benefits. Cindy then inquired whether all the members on the Board have the same views. She stated that the Utility Board seems to have a clear mission: to do what is best for the community. President Atherton stated that he

appreciated the praise, but gives this Board credit for getting engaged, however, it wasn't always that way and there were disagreements. President Atherton stated that once the Board came to a common mind on goals, things began working out very well. President Atherton stated that it takes a lot of work, and more work than what he would personally like to put in, but it is starting to pay off. Office Manager Linda Walla interjected that she can personally attest to how many long hours her supervisor, Assistant Donna Atherton puts in. Linda stated that Donna personally oversees the Office policies and Utility finances on a daily basis.

Betsy Kirby (lot 843) complimented the Utility Board on how well they have managed the Utilities. Betsy remembered in prior years, how Shorewood Forest Utilities, Inc. was experiencing a deficit and there was talk of raising rates to cover the deficit; now, a 6-year financial pro-forma was prepared and the results indicate that no rate increase is necessary.

Director Litherland commented that Shorewood Forest Utilities, Inc. has a collection process in place for those customers who are not paying their sewer bills. Shorewood Forest Utilities, Inc will disconnect the service. He stated that all costs associated with terminating and reconnecting the service will be the responsibility of the owner and dig- up costs can be very expensive. Also, Director Litherland stated that we are required to notify the Porter County Board of Health when sewer service has been disconnected. The Board of Health will then declare the property as being unfit for human habitation, and will expect the owners to vacate the property. Director Litherland stated that fortunately, we have not yet had to dig-up anybody's property for non-payment of sewer charges.

Director Litherland pointed out on the comparative balance sheet, the large dollar change in total assets. He explained that the developer of Arbor Lakes was required to replace the Lift Station and turn over the ownership to us, which he did. That is why we have a large increase in total assets, without a large reduction in cash flow.

Betsy Kirby (lot 843) asked the Board to identify the types of capital improvements that were scheduled to be made. Assistant Donna Atherton explained that since Shorewood Forest Utilities, Inc. was a non-for profit organization, we are not allowed to make a profit. Any excess funds occurring at the end of the year are transferred into restricted accounts designated for the sole purpose of either replacing assets or increasing capacity such as those projects listed by Forest Ash in his report. For example, this year's tax return indicates excess funds of approximately \$148,000, which will all be used for capital projects.

President Atherton stated that there are 7 major projects that McMahon Engineering has recommended in their final report of the Shorewood Forest Utilities, Inc. improvements. He went on to explain that these projects are primarily for the plant, in order to restore and maintain our rated capacity and reduce operating costs. President Atherton stressed that we need to make sure we have all the capacity that we are permitted to have. The Board asked McMahon to focus on recommending those projects first, that give us the best return on our investment. President Atherton explained that the head works, where all the sewage comes into, is a screen system that is currently about as effective as a sidewalk grate in Chicago and it is high maintenance as well. One of the first recommended projects will be to purchase and install new technology called the "Salsnes Filter", which is a micro-strainer and is extremely effective at filtering the solids. This will save us in maintenance costs, and about 20% in electrical costs as well as reducing the BOD loading on the aeration tanks. President Atherton stated that a future project will be to replace the deteriorating steel tanks No. 1 and No. 2. He stated that we will have to borrow about \$800,000 to fund this project. He explained that we also have to do filtration improvements, as well as lift station improvements.

Betsy Kirby (lot 843) asked if the Board adopted all of McMahon's recommendations. President Atherton stated that we accepted about 90% of their recommendations.

Betsy Kirby (lot 843) inquired about the subject of not having to pay late fees on any payments. Office Manager Linda Walla stated that because of office policies and procedures that are in place, we pay our bills on time. We cut checks on the 10<sup>th</sup>, 20<sup>th</sup>, and 30<sup>th</sup> of every month.

Marcia Casassa (lot 618) wanted to know if the garbage disposal system that each house in Shorewood is required to have, affects the aeration system. President Atherton stated that it does affect the aeration system and that is why our BOD's are so high compared to other areas. He explained that we are adding extra biological material that has to also be treated.

Tom Szefc (lot 878) acknowledged Assistant Treasurer Donna Atherton for all the expertise that she brings to the table and for all the long hours she puts in as a volunteer.

President Atherton stressed to the membership, that we all need to develop the capabilities within the membership and not be too dependant on just one or two members to do any kind of work. He stated that when you get too dependant on someone, you aren't developing your own capabilities and that isn't good for the organization. Once again, President Atherton conveyed the message for members to get involved, come to meetings, ask questions, and run for office. President Atherton reminded the membership that next year, at our Annual Meeting July 8, 2013, we will have an election. Two seats that are currently held by Phil Litherland and Gary Maxwell will be up for renewal or replacement. The year after that, three positions will be up for election.

Marcia Casassa (lot 618) inquired how the billing change was coming along. Assistant Treasurer Donna Atherton stated that we have our billing procedures in place and have formatted our billing statements. She also stated that a letter informing our customers about the Indiana American Water billing change will be sent out soon.

**Adjournment:**

The meeting was adjourned at 8:17 p.m.