

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2005

HAMMOND PORT AUTHORITY

A COMPONENT UNIT OF THE CITY OF HAMMOND

LAKE COUNTY, INDIANA



**FILED**  
08/10/2006



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Barbara Cardwell	01-01-05 to 12-31-06
Mayor	Thomas McDermott, Jr.	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	William J. O'Connor	01-01-05 to 12-31-06
President of the Common Council	Daniel Repay Alfonso Salinas	01-01-05 to 12-31-05 01-01-06 to 12-31-06
Treasurer of the Port Authority	Scott Rakos	01-01-05 to 12-31-06
Port Authority Director	Milan Kruszynski	01-01-05 to 12-31-06
President of the Port Authority Board	Thomas Kuhn	01-01-05 to 12-31-06



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE PORT AUTHORITY, CITY OF HAMMOND, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Hammond Port Authority (Port Authority), a component unit of the City of Hammond, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Port Authority are intended to present the financial position, and the changes in financial position and cash flows of the component unit of the City that is attributable to the transactions of the Port Authority. They do not purport to, and do not, present fairly the financial position of the City of Hammond as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port Authority, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Funding Progress as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted of principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

April 27, 2006

HAMMOND PORT AUTHORITY  
STATEMENT OF NET ASSETS  
December 31, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 3,147,615
Inventories - materials and supplies	3,954
Inventories - merchandise	111,369
Prepaid items	<u>131,972</u>
Total current assets	<u>3,394,910</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Passenger embarkation fee	880,151
Passenger embarkation fee receivable	<u>289,102</u>
Total restricted assets:	<u>1,169,253</u>
Capital assets:	
Land, and construction in progress	319,254
Other capital assets (net of accumulated depreciation)	<u>15,510,286</u>
Total capital assets	<u>15,829,540</u>
Total noncurrent assets	<u>16,998,793</u>
Total assets	<u>20,393,703</u>

Liabilities

Current liabilities:	
Accounts payable	38,342
Accrued payroll and withholdings payable	3,563
Deferred revenue	1,002,416
Capital leases payable	<u>360,641</u>
Total current liabilities	<u>1,404,962</u>
Noncurrent liabilities:	
Capital leases payable	<u>1,301,674</u>
Total liabilities	<u>2,706,636</u>

Net Assets

Invested in capital assets, net of related debt	14,167,225
Restricted for other purposes	1,169,253
Unrestricted	<u>2,350,589</u>
Total net assets	<u>\$ 17,687,067</u>

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

HAMMOND PORT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2005

Operating revenues:	
Marina slip rentals	\$ 2,822,733
Marina fuel sales	1,030,962
Marina winter storage	285,868
Marina store income	169,675
Other marina rentals	77,526
Golf course fees	848,258
Park rentals and fees	15,372
Other	<u>218,280</u>
 Total operating revenues	 <u>5,468,674</u>
Operating expenses:	
Marina operations:	
Salaries and wages	598,766
Employee pensions and benefits	255,644
Materials and supplies	54,480
Fuel purchased	885,574
Utilities	196,579
Store expense	113,459
Contractual services	207,673
Other services and charges	350,818
Administration and general	248,492
Golf course operations:	
Other services and charges	1,545,342
Park operations:	
Salaries and wages	78,244
Contractual services	407,691
Other services and charges	246,546
Insurance	215,789
Payment in lieu of taxes	500,000
Depreciation	<u>579,805</u>
 Total operating expenses	 <u>6,484,902</u>
 Operating loss	 <u>(1,016,228)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	37,436
Passenger embarkation fees (Note IIIC)	5,526,736
Pledged revenue (Note IIIB)	(1,828,702)
Wolf lake restoration (Note IIIG)	(1,429,819)
Passenger embarkation fee sharing (Note IIIC)	(205,973)
City improvement projects	(28,469)
Interest expense	(52,118)
Loss on capital asset disposal	<u>(3,000)</u>
 Total nonoperating revenues	 <u>2,016,091</u>
 Change in net assets	 999,863
Total net assets - beginning	<u>16,687,204</u>
Total net assets - ending	<u>\$ 17,687,067</u>

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

HAMMOND PORT AUTHORITY  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2005

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,409,558
Payments to suppliers and contractors	(5,307,710)
Payments to employees	<u>(686,162)</u>
Net cash used by operating activities	<u>(584,314)</u>
Cash flows from noncapital financing activities:	
Passenger embarkation fees	5,361,214
Pledged revenue	(1,828,702)
Wolf lake restoration	(1,429,819)
Passenger embarkation fee sharing	(205,973)
City improvement projects	<u>(28,469)</u>
Net cash provided by noncapital financing activities	<u>1,868,251</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(317,241)
Principal paid on capital debt	(221,953)
Interest paid on capital debt	<u>(52,118)</u>
Net cash used by capital and related financing activities	<u>(591,312)</u>
Cash flows from investing activities:	
Interest received	<u>39,591</u>
Net increase in cash and cash equivalents	732,216
Cash and cash equivalents, January 1	<u>3,295,550</u>
Cash and cash equivalents, December 31	<u>\$ 4,027,766</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ <u>(1,016,228)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	579,805
(Increase) decrease in assets:	
Inventories - materials and supplies	5,442
Inventories - merchandise	(24,942)
Prepaid items	(1,062)
Decrease in liabilities:	
Accounts payable	(59,061)
Accrued payroll and withholdings payable	(9,152)
Deferred revenue	<u>(59,116)</u>
Total adjustments	<u>431,914</u>
Net cash used by operating activities	<u>\$ (584,314)</u>
Noncash investing, capital and financing activities:	
Borrowing under capital lease	\$ 1,884,268
Deletion of obsolete capital assets	8,467

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

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Port Authority and are not intended to present fairly the position of the City of Hammond (City), and the results of its operations and cash flows of its enterprise funds. The Port Authority, whose operations are controlled by the City, represents a substantial portion of the City's discretely presented component unit.

B. Fund Financial Statements

The component unit's financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. The Port Authority relies to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Port Authority are maintained on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

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.

The Port Authority distinguishes operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Port Authority's principal ongoing operations. The principal operating revenues of the Port Authority are charges to customers for sales and services. Operating expenses for the Port Authority include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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 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.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

State statute (IC 5-13-9) authorizes the Port Authority 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. As of December 31, 2005, the Port Authority had no investments.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

Materials and Supplies purchased throughout the year for repair and maintenance of the Port Authority are charged to expense accounts at the time of purchase. At year end, physical counts of significant inventories are made and valued using the first in/first out (FIFO) method. Appropriate entries are then made to adjust inventory and expense accounts.

Merchandise and fuel for resale purchased throughout the year for sale in the Port Authority store and fuel dock are charged to expense accounts at the time of purchase. At year end, physical counts of significant inventories are made and valued using the first in/first out (FIFO) method. Appropriate entries are then made to adjust inventory and expense accounts.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Restricted Assets

Passenger embarkation fees are classified as restricted assets on the statement of net assets because pursuant to a lease with the Hammond Redevelopment Commission, the fees are pledged for lease rental payments. For additional information, see note III B.

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	Estimated Useful Life
Buildings	\$ 2,000	Straight-line	50 years
Improvements other than buildings	2,000	Straight-line	50 years
Machinery and equipment	2,000	Straight-line	5 years

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.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Compensated Absences

- a. Sick Leave – Port Authority employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Port Authority employees earn vacation leave at rates from 10 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Unused vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave – Port Authority employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, or personal leave.

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 203,415	\$ -	\$ -	\$ 203,415
Construction in progress	<u>-</u>	<u>115,839</u>	<u>-</u>	<u>115,839</u>
 Total capital assets, not being depreciated	 <u>203,415</u>	 <u>115,839</u>	 <u>-</u>	 <u>319,254</u>
Capital assets, being depreciated:				
Buildings	5,209,611	-	-	5,209,611
Improvements other than buildings	11,436,368	15,272	-	11,451,640
Machinery and equipment	<u>1,820,810</u>	<u>2,070,398</u>	<u>8,467</u>	<u>3,882,741</u>
 Totals	 <u>18,466,789</u>	 <u>2,085,670</u>	 <u>8,467</u>	 <u>20,543,992</u>

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	572,094	104,192	-	676,286
Improvements other than buildings	2,365,945	242,673	-	2,608,618
Machinery and equipment	1,521,329	232,940	5,467	1,748,802
 Totals	 4,459,368	 579,805	 5,467	 5,033,706
 Total capital assets, being depreciated, net	 14,007,421	 1,505,865	 3,000	 15,510,286
 Total capital assets, net	 \$ 14,210,836	 \$ 1,621,704	 \$ 3,000	 \$ 15,829,540

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005	Committed	Required Future Funding
Port fencing	\$ 133,462	\$ 115,839	\$ 17,623	\$ -

D. Leases

1. Operating Leases

The Port Authority has entered into two operating leases having initial or remaining noncancelable terms exceeding one year for copy machines. Rental expenditures for these leases were \$6,154 and \$1,441, respectively. The following is a schedule by years of future minimum rental payments as of December 31, 2005:

2006	\$ 7,595
2007	7,595
Total	\$ 15,190

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Capital Leases

The Port Authority has entered into capital leases for golf carts and lawn mowers. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2005, are as follows:

2006	\$ 441,341
2007	392,502
2008	373,765
2009	342,075
2010	<u>340,412</u>
Total minimum lease payments	1,890,095
Less amount representing interest	<u>227,780</u>
Present value of net minimum lease payments	<u>\$ 1,662,315</u>

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

Machinery and equipment	\$ 1,884,268
Accumulated depreciation	<u>104,270</u>
Machinery and equipment (net)	<u>\$ 1,779,998</u>

E. Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases payable	<u>\$ -</u>	<u>\$ 1,884,268</u>	<u>\$ 221,953</u>	<u>\$ 1,662,315</u>	<u>\$ 360,641</u>

F. Restricted Assets

The balances of restricted asset accounts in the Port Authority are as follows:

Passenger embarkation fee cash and cash equivalent	\$ 880,151
Passenger embarkation fee receivable	<u>289,102</u>
Total restricted assets	<u>\$ 1,169,253</u>

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Other Information

A. Risk Management

The Port Authority is 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.

Medical Benefits

The City (including the Port Authority) has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$150,000 per year. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. A monthly premium is charged to each fund that accounts for payroll. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	2004	2005
Unpaid claims, beginning of fiscal year	\$ 2,581,946	\$ 6,109,216
Incurred claims and changes in estimates	18,794,037	15,220,283
Claim payments	15,266,767	13,931,426
Unpaid claims, end of fiscal year	\$ 6,109,216	\$ 7,398,073

Unemployment Compensation

The City (including the Port Authority) has chosen to establish a risk financing fund for risks associated with unemployment compensation claims. The risk financing fund is accounted for in the City's Unemployment Compensation Fund, an internal service fund, where assets are set aside for claim settlements. The total charge allocated to each of the funds is based on each fund's actual number of employees which have had claims. Provisions are also made for unexpected and unusual claims.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	2004	2005
Unpaid claims, beginning of fiscal year	\$ 424	\$ 11,123
Incurred claims and changes in estimates	241,714	511,898
Claim payments	231,015	508,233
Unpaid claims, end of fiscal year	\$ 11,123	\$ 14,788

B. Hammond Marina Lease

During 1999, the Port Authority exercised its option to purchase the Hammond Marina from DMS of Hammond, Inc. Simultaneously, the Port Authority conveyed the Hammond Marina to the Redevelopment Authority. The Redevelopment Authority then leased the Hammond Marina to the Redevelopment Commission. The Redevelopment Commission entered into an Operating Agreement with the Port Authority providing for the Port Authority to operate and maintain the Hammond Marina and pay all Net Revenues to the Redevelopment Commission.

In the event that the Port Authority's net revenues are insufficient to make timely lease rental payments, the Redevelopment Commission has agreed in the lease to levy an unlimited ad valorem tax on all property within the Redevelopment District sufficient to pay the lease rental payments when due.

Pursuant to the lease, the Redevelopment Commission has pledged to the payment of lease rental payments all net revenues of the Hammond Marina received from the Port Authority pursuant to an operating agreement dated as of April 15, 1999, between the Redevelopment Commission and the Port Authority. Net revenues consist of all regular fees and charges collected by the Port Authority (less payment of operating and maintenance expenses), plus all passenger payments (Embarkation Fees) received from the gaming casino. Net revenues will be deposited and held pursuant to a trust agreement dated April 15, 1999, by and among the Redevelopment Commission, the Port Authority, and Bank One Trust Company, the Trustee. On the last business day of each month, the Port Authority will transfer to the Trustee all net revenues into a "Net Revenue" trust account.

In addition, to facilitate construction of a golf course, the City sold Redevelopment District Revenue Bonds of 2001 for \$7,500,000. Per the registrar and paying agent agreement, Bank One Trust Company agreed to keep and maintain a bond principal and interest account and a reserve account for the repayment of the bonds. Pursuant to the first supplemental operating agreement dated as of August 1, 2001, the Hammond Port Authority agreed to transfer net revenues to the bond principal and interest account to the aggregate amount of the principal and interest due during that bond year.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

To continue the construction of a golf course, the City sold Redevelopment District Tax Increment Revenue Bonds of 2002 for \$6,000,000. Per the registrar and paying agent agreement, Bank One Trust Company agreed to keep and maintain a bond principal and interest account and a reserve account for the repayment of the bonds. The bonds are payable from the property taxes on incremental increases in assessed value of all real and certain personal property located within the Tax Increment Area. To the extent that tax increment revenue is not sufficient to pay principal and interest, gaming embarkation fees received by the Hammond Port Authority and available to the Redevelopment Commission, pursuant to a second supplemental operating agreement dated May 1, 2002, were pledged to pay principal and interest on the Bonds.

To continue the construction of a golf course, the City sold Redevelopment District Revenue Bonds of 2003 for \$2,950,000. Per the registrar and paying agent agreement, Bank One Trust Company agreed to keep and maintain a bond principal and interest account and a reserve account for the repayment of the bonds. Pursuant to the third supplemental operating agreement dated May 1, 2003, the Hammond Port Authority agreed, to the extent available, to transfer net revenues to the bond principal and interest account to the aggregate amount of the principal and interest due during that bond year.

During 2005, the Port Authority distributed \$1,828,702 to these debt service trust accounts.

C. Embarkation Fee Sharing

The Port Authority receives an estimated \$5,500,000 per year in embarkation fees from the gaming casino. In 2005, the Port Authority distributed \$25,000 to the Hammond Towle Theater Project.

On November 29, 2005, the Port Authority passed Resolution 2005-14 agreeing to reimburse the City for expenditures relating to the Lost Marsh Golf Course totaling \$1,680,973.90. The Port Authority paid \$180,973.90 during 2005, from embarkation fee sharing, and will pay \$500,000 annually in the years 2006 through 2008.

D. Intergovernmental Agreement with Hammond Water Department

The Port Authority and Hammond Water Department entered into an Intergovernmental Agreement dated June 20, 1996, to which the Port Authority agreed to distribute embarkation fees to the Water Department. The Port Authority agreed to distribute the lesser of (a) one-third of the amount of the embarkation fee received by the Port Authority in the most recent ended prior calendar quarter, or (b) \$375,000 quarterly, to a maximum of \$12,000,000. As of December 31, 2003, the Port Authority had distributed a total of \$7,300,000 to the Water Department which resulted in a balance of \$4,700,000 due to the Water Department. On October 26, 2004, the Port Authority passed Resolution 2004-13 which suspended the 2004 distributions to the Hammond Water Department. On February 22, 2005, the Port Authority passed Resolution 2005-01 which suspended the 2005 distributions to the Hammond Water Department. Distributions are scheduled to resume in 2006.

E. Hammond Yacht Club Lease

On August 3, 1999, the Port Authority entered into a lease agreement with the Hammond Yacht Club for room rental in the Harbor Pavilion Building 2. The term of the lease commences on July 1, 2000 and ends June 30, 2020. Annual lease rental income ranges from \$23,400 to \$42,000. During 2005, \$33,350 was received by the Port Authority for the rental of this building.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Property Leases

On March 22, 2005, the Port Authority entered into a lease and operating agreement with the Hammond Redevelopment Commission for the operation and maintenance of the Lost Marsh Golf Course and Environmental Recreation Area and related improvements. The lease is for a term not to exceed 20 years, beginning March 22, 2005, with 3 successive 20 year term renewal periods. The annual lease rental is \$1. The Port Authority will manage, operate, and maintain the golf course. In addition, the Port Authority will be responsible for the past, current and future obligations of the golf course.

On April 26, 2005, the Port Authority entered into a lease and operating agreement with the Hammond Park Department for the operation and management of Wolf Lake Park and Forsythe Park. The lease contains annual renewal options, with an annual lease rental of \$10 dollars. The Port Authority will manage, operate, and maintain the parks.

G. Wolf Lake Development and Restoration Project

The Port Authority has entered into various intergovernmental agreements with the Hammond Park Department, Hammond Water Utility, and the Hammond Redevelopment Commission for improvements and restoration of Wolf Lake Park. During 2005, the Port Authority paid \$1,429,819 for these projects.

On October 11, 2005, the Port Authority authorized Resolution 2005-11, an agreement with the Hammond Water Utility. This resolution will reimburse the Port Authority for \$407,690.84 in expenditures already paid toward the Wolf Lake Restoration Project, and contains an agreement for the Hammond Water Utility to pay the balance of the project costs of \$1,505,130.98 to the U.S. Army Corp of Engineers.

H. Hammond Redevelopment Commission Loan Guarantee

On September 24, 2002, the Port Authority entered into an agreement with the Hammond Redevelopment Commission. The Port Authority, in consideration of the contribution of the Hammond Redevelopment Commission to the development of the Hammond Marina and the City of Hammond, agreed to establish and maintain a demand deposit account in the minimum amount of \$75,000. This amount is a guaranty of the Redevelopment Commission for a loan in the amount of \$1,000,000 to the Woodland Child Development Center, Inc., a nonprofit corporation, by participating area lenders to finance a Hammond Day Care Center.

I. Postemployment Benefits

In addition to the pension benefits described below, the Port Authority provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Port Authority on or after attaining age 65 with at least 10 years of service. Currently, 1 retiree meets these eligibility requirements. The Port Authority provides \$1,000 per month per retiree and the retiree remits the balance of the premium to the City Controller. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2005, expenditures of \$12,000 were recognized for postemployment benefits.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

J. Subsequent Event

Casino Expansion and Forgiveness of Debt:

In February 2006, an agreement became effective among the City, Port Authority, Redevelopment Commission, Redevelopment Authority, and Horseshoe (Horseshoe) Hammond, LLC for casino expansion at the Hammond Marina. Some of the more significant terms of the agreement are as follows:

1. The Port Authority agrees to clear and close all areas of the Hammond Marina by or before 12:00 am on October 1, 2006.
2. The Port Authority shall keep the Hammond Marina closed until the Port Authority and Horseshoe agree in their reasonable discretion that the New Development Project has been completed or substantially completed, and that it is safe to reopen the Hammond Marina.
3. In consideration for closing the Hammond Marina to accommodate the New Development Project, Horseshoe shall pay the Port Authority for the 2007 season the total amount of \$3,500,000, which payment shall be made on or before March 1, 2007.
4. In connection with the New Development Plan, Horseshoe shall permanently remove up to 29 boat slips from the Hammond Marina. This removal in connection with previously removed boat slips means a total anticipated loss of 160 boat slips. Any additional boat slips removed by Horseshoe as part of the New Development Project, Horseshoe shall pay to the Port Authority any slip fees due for any such additional slips removed at the then current slip price.
5. The Port Authority agrees to sell to Horseshoe all right, title and interest in and to the Yacht Club building for the total sum of \$2,750,000. The closing of the sale of the Yacht Club building shall take place on or before October 15, 2006.
6. Horseshoe waives and deems satisfied the 2002 Series B Redevelopment Taxable Revenue Bonds in favor of the City, which has a principal balance outstanding of \$2,700,000, of which \$400,000 was already due, but remains unpaid as of December 31, 2005. The total of forgiven debt, which includes principal and interest through January 31, 2006 is \$3,110,625.
7. The Port Authority and the City shall ensure the complete repair of the Hammond Marina break wall on or before December 31, 2011. Horseshoe shall make a one-time payment to the Port Authority in the amount of \$750,000 on or before October 1, 2006, to be used for this purpose.
8. Any obligation of Horseshoe to make a payment to the Port Authority based on casino admissions is hereby eliminated. In lieu of such obligations, Horseshoe shall pay to the Port Authority a flat annual fee of \$7,000,000, which shall be paid in equal monthly installments. This payment shall commence as of the date the New Casino is open to the public for gaming.

HAMMOND PORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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9. Horseshoe shall advance to the City the amount of \$15,000,000 which shall be memorialized in a written document within 90 days following the effective date. The advance shall bear interest at a commercially reasonable rate to be determined by Horseshoe and the City and shall be satisfied through Horseshoe's deduction of any and all amounts which become due the City from Horseshoe in accordance with Section 5.01 of the Project Agreement, in excess of \$18,266,979 for any calendar year beginning with calendar year 2006.

K. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Port Authority, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Port Authority is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the Port Authority.

HAMMOND PORT AUTHORITY  
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Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 904,017
Interest on net pension obligation	(56,638)
Adjustment to annual required contribution	64,543
Annual pension cost	911,922
Contributions made	920,486
Decrease in net pension obligation	(8,564)
Net pension obligation, beginning of year	(781,215)
Net pension obligation, end of year	\$ (789,779)
Contribution rates:	
Port Authority	5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 866,712	90%	\$ (649,056)
	06-30-04	734,971	118%	(781,215)
	06-30-05	911,922	125%	(789,779)

HAMMOND PORT AUTHORITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 18,586,612	\$ 17,901,034	\$ 685,578	104%	\$ 17,270,930	4%
07-01-04	18,797,977	19,498,861	(700,884)	96%	18,447,579	(4%)
07-01-05	19,522,708	22,345,580	(2,822,872)	87%	19,211,969	(15%)

HAMMOND PORT AUTHORITY  
EXIT CONFERENCE

The contents of this report were discussed on May 1, 2006, with Milan Kruszynski, Port Authority Director; and Nancy Cutka, Administrative Director. Our audit disclosed no material items that warrant comment at this time.