

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

ANNUAL FINANCIAL REPORT

2006

HAMMOND PORT AUTHORITY

LAKE COUNTY, INDIANA



FILED
09/20/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Administrative Director	Nancy Cutka	01-01-06 to 12-31-07
Port Authority Director	Milan A. Kruszynski	01-01-06 to 12-31-07
Treasurer	Scott Rakos Gus Iatrides	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Chairman of the Board of Directors	Thomas Kuhn Scott Rakos	01-01-06 to 12-31-06 01-01-07 to 12-31-07



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE HAMMOND PORT AUTHORITY, 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, 2006. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Port Authority as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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, and do not, present fairly the financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The Port Authority has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to part of, the basic financial statements.

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 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 express no opinion on it.

STATE BOARD OF ACCOUNTS

April 25, 2007

HAMMOND PORT AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2006

Assets

Current assets:	
Operating cash and cash equivalents	\$ 1,916,369
Inventories - materials and supplies	6,322
Inventories - merchandise	47,510
Prepaid items	<u>101,871</u>
 Total current assets	 <u>2,072,072</u>
Restricted current assets:	
Passenger embarkation fee cash and cash equivalents	1,778,928
Passenger embarkation fee receivable	<u>165,792</u>
 Total restricted assets	 <u>1,944,720</u>
Capital assets:	
Land and construction in progress	530,961
Other capital assets (net of accumulated depreciation)	<u>15,023,458</u>
 Total capital assets	 <u>15,554,419</u>
 Total noncurrent assets	 <u>17,499,139</u>
 Total assets	 <u>19,571,211</u>

Liabilities

Current liabilities:	
Accounts payable	16,691
Accrued payroll and withholdings payable	4,868
Capital leases payable	<u>330,302</u>
 Total current liabilities	 <u>351,861</u>
Restricted current liabilities:	
Accounts payable	<u>358,948</u>
Noncurrent liabilities:	
Capital leases payable	<u>970,435</u>
 Total liabilities	 <u>1,681,244</u>

Net Assets

Invested in capital assets, net of related debt	14,253,682
Restricted for other purposes	1,944,720
Unrestricted	<u>1,691,565</u>
 Total net assets	 <u>\$ 17,889,967</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, 2006

Operating revenues:	
Marina slip rentals	\$ 2,546,714
Marina fuel sales	770,118
Marina winter storage	4,718
Marina store income	116,763
Other marina rentals	71,803
Golf course fees	782,586
Park rentals and fees	11,869
Other	<u>205,851</u>
 Total operating revenues	 <u>4,510,422</u>
Operating expenses:	
Marina operations:	
Salaries and wages	597,790
Employee pensions and benefits	185,697
Materials and supplies	42,831
Fuel purchased	598,936
Utilities	139,637
Store expense	145,434
Contractual services	1,055,496
Other services and charges	514,316
Administration and general	255,386
Golf course operations:	
Salaries and wages	414,499
Employee pensions and benefits	105,700
Materials and supplies	264,255
Utilities	74,288
Store expense	99,184
Other services and charges	39,291
Park operations:	
Salaries and wages	114,962
Employee pensions and benefits	13,191
Materials and supplies	6,795
Utilities	10,810
Other services and charges	14,139
Insurance	198,668
Payment in lieu of taxes	500,000
Depreciation	<u>916,364</u>
 Total operating expenses	 <u>6,307,669</u>
 Operating loss	 <u>(1,797,247)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	68,750
Passenger embarkation fees (Note III.D.)	5,300,140
Breakwall project (Note III J.5.)	840,909
Wolf Lake restoration (Note III.H.)	407,691
Pledged revenue (Note III.B.)	(4,010,663)
Lost marsh litigation (Note III.K.)	(177,064)
City improvement projects	(348,729)
Interest expense	(79,793)
Loss on capital asset disposal	<u>(1,094)</u>
 Total nonoperating revenues (expenses)	 <u>2,000,147</u>
 Change in net assets	 202,900
Total net assets - beginning	<u>17,687,067</u>
Total net assets - ending	<u>\$ 17,889,967</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, 2006

Cash flows from operating activities:	
Receipts from customers and users	\$ 3,508,006
Payments to suppliers and contractors	(3,835,165)
Payments to employees	<u>(1,125,946)</u>
Net cash used by operating activities	<u>(1,453,105)</u>
Cash flows from noncapital financing activities:	
Passenger embarkation fees	5,423,450
Pledged revenue	(4,010,663)
Wolf Lake restoration	407,691
Breakwall project	840,909
Lost marsh litigation	(177,064)
City improvement projects	<u>(348,729)</u>
Net cash provided by noncapital financing activities	<u>2,135,594</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(642,337)
Principal paid on capital debt	(361,578)
Interest paid on capital debt	<u>(79,793)</u>
Net cash used by capital and related financing activities	<u>(1,083,708)</u>
Cash flows from investing activities:	
Interest received	<u>68,750</u>
Net increase in cash and cash equivalents	(332,469)
Cash and cash equivalents, January 1	<u>4,027,766</u>
Cash and cash equivalents, December 31	<u>\$ 3,695,297</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	<u>\$ (1,797,247)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	916,364
(Increase) decrease in assets:	
Inventories - materials and supplies	(2,368)
Inventories - merchandise	63,859
Prepaid items	30,101
Increase (decrease) in liabilities:	
Accounts payable	337,297
Accrued payroll and withholdings payable	1,305
Deferred revenue	<u>(1,002,416)</u>
Total adjustments	<u>344,142</u>
Net cash used by operating activities	<u>\$ (1,453,105)</u>
Noncash investing, capital and financing activities:	
Transfer of completed construction in progress projects	\$ 133,462
Deletion of obsolete capital assets	3,646

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 Port Authority (primary government) was established under the laws of the State of Indiana. The Port Authority operates under an appointed Board of Directors form of government and provides the following services: marina operation and construction, golf course operation, and lakefront park operation.

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 represents a substantial portion of the City's discretely presented component unit.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; 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 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.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds 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.

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, 2006, the Port Authority had no investments.

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

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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 balance sheet 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 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.

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 75 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 4 days per year. Personal leave does not accumulate from year to year.

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

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

II. Detailed Notes on All Funds

A. Deposits and Investments

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.

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 203,415	\$ -	\$ -	\$ 203,415
Construction in progress	<u>115,839</u>	<u>345,169</u>	<u>133,462</u>	<u>327,546</u>
 Total capital assets, not being depreciated	 <u>319,254</u>	 <u>345,169</u>	 <u>133,462</u>	 <u>530,961</u>
Capital assets, being depreciated:				
Improvements other than buildings	11,451,640	240,812	-	11,692,452
Buildings	5,209,611	-	-	5,209,611
Machinery and equipment	<u>3,882,741</u>	<u>189,819</u>	<u>3,646</u>	<u>4,068,914</u>
 Totals	 <u>20,543,992</u>	 <u>430,631</u>	 <u>3,646</u>	 <u>20,970,977</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,608,618	235,898	-	2,844,516
Buildings	676,286	104,192	-	780,478
Machinery and equipment	<u>1,748,803</u>	<u>576,274</u>	<u>2,552</u>	<u>2,322,525</u>
 Totals	 <u>5,033,707</u>	 <u>916,364</u>	 <u>2,552</u>	 <u>5,947,519</u>
 Total capital assets, being depreciated, net	 <u>15,510,285</u>	 <u>(485,733)</u>	 <u>1,094</u>	 <u>15,023,458</u>
 Total capital assets, net	 <u>\$ 15,829,539</u>	 <u>\$ (140,564)</u>	 <u>\$ 134,556</u>	 <u>\$ 15,554,419</u>

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2006</u>
Bird Sanctuary Trail Construction*	\$ 38,488	\$ 38,448
Lost Marsh Club House*	<u>289,098</u>	<u>289,098</u>
Totals	<u>\$ 327,586</u>	<u>\$ 327,546</u>

*Construction projects not complete; however, funds have not been committed.

D. Leases

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 these capital leases as of December 31, 2006, are as follows:

2007	\$ 392,500
2008	373,768
2009	342,076
2010	<u>340,413</u>
Total minimum lease payments	1,448,757
Less amount representing interest	<u>148,020</u>
Present value of net minimum lease payments	<u>\$ 1,300,737</u>

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

Machinery and equipment	\$ 1,884,268
Accumulated depreciation	<u>565,282</u>
Net machinery and equipment	<u>\$ 1,318,986</u>

E. Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases payable	<u>\$ 1,662,315</u>	<u>\$ -</u>	<u>\$ 361,578</u>	<u>\$ 1,300,737</u>	<u>\$ 330,302</u>

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Passenger embarkation fee cash and cash equivalent	\$ 1,778,928
Passenger embarkation fee receivable	<u>165,792</u>
 Total restricted assets	 <u>\$ 1,944,720</u>

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; 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. There were no significant reductions in insurance by major category of risk.

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 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 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)

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

C. Lost Marsh Golf Course Construction

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. The Port Authority has not had to transfer any funds for this purpose.

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 complete 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.

D. Embarkation Fee Sharing

The Port Authority receives an estimated \$5,500,000 per year in embarkation fees from the gaming casino.

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 will continue to pay \$500,000 annually in the years 2007 through 2009. The Port Authority paid \$775,000 for a lawsuit pertaining to the golf course on behalf of the City from embarkation fee sharing in 2006.

E. 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

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 resumed in 2006.

F. 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 Number 2. On September 7, 2006, the Port Authority passed Resolution 2006-02 which terminated the lease due to the Casino expansion project. The Casino paid the Port Authority \$2,750,000 for the old pavilion. The pavilion was subsequently demolished and the proceeds will be used to build a new pavilion in 2007.

G. 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 twenty years, beginning March 22, 2005, with three 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 ten dollars. The Port Authority will manage, operate, and maintain the parks.

H. 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.

I. 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 non-profit corporation, formed by participating area lenders to finance a Hammond Day Care Center.

J. 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 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.

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. 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 was made before March 1, 2007.
3. 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.
4. Horseshoe waived and deemed satisfied the 2002 Series B Redevelopment Taxable Revenue Bonds in favor of the City, which had a principal balance outstanding of \$2,700,000. The total of forgiven debt, which included principal and interest through January 31, 2006, was \$3,110,625.
5. The Port Authority and the City shall ensure the complete repair of the Hammond Marina breakwall on or before December 31, 2011. Horseshoe made a one-time payment to the Port Authority in the amount of \$750,000 by October 1, 2006, to be used for this purpose.
6. 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.

K. Lost Marsh Mitigation

On January 18, 2005, the Port Authority entered into an agreement with BASCOR Environmental, Inc., to design and transfer a Wolf Lake Mitigation site as part of the Lost Marsh project requirement by the U.S. Army Corp of Engineers and Indiana Department of Environmental Management. In 2006, the Port Authority paid \$177,064 for this site mitigation.

L. 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. Currently, one retiree receives this benefit. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, expenditures of \$3,240 were recognized for postemployment benefits.

M. Pension Plan

Public Employees' Retirement Fund

Plan Description

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 Port Authority authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Port Authority'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.

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)

HAMMOND PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
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
A COMPONENT UNIT OF THE CITY OF HAMMOND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES 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 April 25, 2007, with Milan A. Kruszynski, Port Authority Director; Nancy Cutka, Administrative Director; and Scott Rakos, Board Chairman. Our audit disclosed no material items that warrant comment at this time.