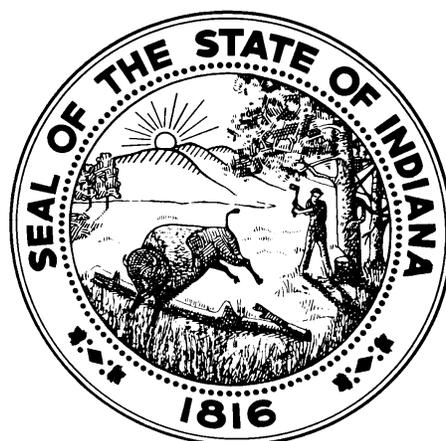


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

ANNUAL FINANCIAL REPORT

2007

WATER UTILITY  
CITY OF HAMMOND  
LAKE COUNTY, INDIANA



**FILED**  
09/29/2008



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## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Barbara Cardwell	01-01-07 to 12-31-08
Mayor	Thomas M. McDermott, Jr.	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	William J. O'Connor	01-01-07 to 12-31-08
President of the Common Council	Daniel Repay	01-01-07 to 12-31-08
Office Manager	Deborah Van Meter	01-01-07 to 12-31-08
Superintendent	Gary Williams (Interim)	01-01-07 to 02-13-07
Chief Executive Operator of the Water Utility	Edward Krusa	02-14-07 to 12-31-08
President of the Utility Service Board	Edward Krusa Chester Smithers Sharon Daniels	01-01-07 to 02-13-07 02-14-07 to 03-21-07 03-22-07 to 12-31-08



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Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE WATER UTILITY, CITY OF HAMMOND, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water Utility, a department of the City of Hammond, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utility'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 Water Utility, City of Hammond, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Hammond as of December 31, 2007, 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 business-type activities for the Water Utility, as of December 31, 2007, 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 Utility has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be 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 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 express no opinion on it.

STATE BOARD OF ACCOUNTS

August 5, 2008

WATER UTILITY  
CITY OF HAMMOND  
STATEMENT OF NET ASSETS  
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 9,871,996
Accounts receivable	720,097
Inventories	333,963
Prepaid items	109,007
Due from sanitary	85
Due from refuse	<u>24</u>
 Total current assets	 <u>11,035,172</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Customer deposits	<u>742,763</u>
Capital assets:	
Land, land rights, and construction in progress	765,111
Other capital assets (net of accumulated depreciation)	<u>26,822,669</u>
 Total capital assets	 <u>27,587,780</u>
 Total noncurrent assets	 <u>28,330,543</u>
 Total assets	 <u>39,365,715</u>

Liabilities

Current liabilities:	
Accounts payable	248,815
Accrued payroll and withholding payable	112,808
Taxes payable	19,695
PERF payable	53,541
Current liabilities payable from restricted assets:	
Customer deposits	<u>767,635</u>
 Total current liabilities	 <u>1,202,494</u>
Noncurrent liabilities:	
Compensated absences	<u>111,310</u>
 Total liabilities	 <u>1,313,804</u>

Net Assets

Invested in capital assets	27,587,780
Restricted for customer deposits	742,763
Unrestricted	<u>9,721,368</u>
 Total net assets	 <u>\$ 38,051,911</u>

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

WATER UTILITY  
CITY OF HAMMOND  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Year Ended December 31, 2007

Operating revenues:	
Metered water revenue:	
Residential	\$ 1,768,434
Commercial	7,084,520
Other water revenue	<u>277,496</u>
 Total operating revenues	 <u>9,130,450</u>
 Operating expenses:	
Water treatment:	
Salaries and wages	782,244
Employee pensions and benefits	69,763
Purchased power	1,020,560
Chemicals	614,935
Materials and supplies	105,756
Contractual services	400,589
Insurance	396,662
Miscellaneous	3,117
Transmission and distribution:	
Salaries and wages	814,737
Employee pensions and benefits	77,190
Materials and supplies	510,753
Contractual services	73,694
Transportation expense	51,091
Insurance	535,804
Miscellaneous	2,998
Customer accounts:	
Salaries and wages	518,269
Employee pensions and benefits	48,380
Contractual services	117,139
Transportation expense	7,106
Insurance	327,196
Bad debt expense	151
Miscellaneous	2,109
Administrative and general:	
Salaries and wages	555,561
Employee pensions and benefits	37,788
Materials and supplies	142,829
Insurance	286,036
Taxes	253,235
Depreciation	1,310,661
Miscellaneous	<u>87,739</u>
 Total operating expenses	 <u>9,154,092</u>
 Operating loss	 <u>(23,642)</u>
 Nonoperating revenues (expenses):	
Interest and investment revenue	436,521
Transfer from Port Authority	1,500,000
Loss on disposition of assets	<u>(5,331)</u>
 Total nonoperating revenues (expenses)	 <u>1,931,190</u>
 Income before contributions and transfers	 1,907,548
 Capital contributions	1,665,859
Transfers to City	<u>(615,000)</u>
 Change in net assets	 2,958,407
Total net assets - beginning	<u>35,093,504</u>
Total net assets - ending	<u>\$ 38,051,911</u>

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

WATER UTILITY  
CITY OF HAMMOND  
STATEMENT OF CASH FLOWS  
As Of And For The Year Ended December 31, 2007

Cash flows from operating activities:	
Receipts from customers and users	\$ 8,673,058
Payments to suppliers and contractors	(4,729,118)
Payments to employees	<u>(2,887,585)</u>
Net cash provided by operating activities	<u>1,056,355</u>
Cash flows from noncapital financing activities:	
Transfers from Port Authority	1,500,000
Transfers to City	<u>(615,000)</u>
Net cash provided by noncapital financing activities	<u>885,000</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(1,195,428)</u>
Cash flows from investing activities:	
Interest received	<u>436,521</u>
Net increase in cash and cash equivalents	1,182,448
Cash and cash equivalents, January 1	<u>9,432,311</u>
Cash and cash equivalents, December 31	<u>\$ 10,614,759</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (23,642)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,310,661
Bad debt expense	151
(Increase) decrease in assets:	
Accounts receivable	(475,745)
Inventories	(24,236)
Prepaid items	(7,596)
Due from sanitary	167
Due from refuse	75
Due from state	8,654
Due from federal	9,457
Increase in liabilities:	
Accounts payable	219,695
Accrued payroll and withholding payable	10,013
Taxes payable	5,788
PERF payable	7,625
Customer deposits	8,954
Compensated absences	<u>6,334</u>
Total adjustments	<u>1,079,997</u>
Net cash provided by operating activities	<u>\$ 1,056,355</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 1,665,859
Transfer of completed construction in progress projects	1,162,800
Deletion of obsolete capital assets	116,909

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

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utility 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 Utility, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other 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 and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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 Utility'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 Utility 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.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

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

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Restricted Assets

Customer Deposits are classified as restricted assets on the Statement of Net Assets balance sheet because assets on hand are refundable upon termination of services.

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>
Source and supply	\$ 5,000	Straight-line	15 years
Distribution lines	5,000	Straight-line	15 years
Pumping equipment	5,000	Straight-line	5 to 10 years
Treatment equipment	5,000	Straight-line	5 to 10 years
General building	15,000	Straight-line	20 to 50 years
General 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 – Utility employees earn sick leave at the rate of  $\frac{3}{4}$  of a day per month. Unused sick leave may be accumulated to a maximum of 75 days. Upon separation of employment, sick leave is paid to employees that have been employed at least 10 years at the rate of 1 day's pay for each 4 unused accumulated sick days or after 15 years of employment at the rate of 1 day's pay for each 2 unused accumulated sick days.

b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. However, unused vacation leave is paid to employees through cash payments upon separation from employment.

c. Personal Leave – Utility employees earn personal leave at the rate of  $\frac{1}{4}$  of a day per month, if employed on January 1 of that year. Personal leave does not accumulate from year to year. Unused personal leave is added to accumulated sick leave to a maximum of 75 days. Unused personal leave is not paid to employees upon separation from employment.

No liability is reported for vacation and personal leave.

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 134,466	\$ -	\$ -	\$ 134,466
Construction in progress	448,446	1,344,999	1,162,800	630,645
Total capital assets, not being depreciated	582,912	1,344,999	1,162,800	765,111
Capital assets, being depreciated:				
Source and supply	1,790,871	-	-	1,790,871
Distribution lines	33,787,122	2,509,500	38,995	36,257,627
Pumping equipment	8,616,230	75,356	-	8,691,586
Treatment equipment	11,149,249	-	-	11,149,249
General building	654,605	-	-	654,605
General equipment	1,553,170	94,232	77,914	1,569,488
Totals	57,551,247	2,679,088	116,909	60,113,426
Less accumulated depreciation for:				
Source and supply	921,963	116,705	-	1,038,668
Distribution lines	18,677,218	512,120	38,995	19,150,343
Pumping equipment	3,189,619	430,498	-	3,620,117
Treatment equipment	7,854,816	120,763	-	7,975,579
General building	297,611	27,977	-	325,588
General equipment	1,150,447	102,598	72,583	1,180,462
Totals	32,091,674	1,310,661	111,578	33,290,757
Total capital assets, being depreciated, net	25,459,573	1,368,427	5,331	26,822,669
Total capital assets, net	\$ 26,042,485	\$ 2,713,426	\$ 1,168,131	\$ 27,587,780

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Committed
Schliecher subdivision phase 1	\$ 74,360	\$ 69,454	\$ 4,906
New water storage tanks	253,015	78,303	174,712
New intake	135,600	135,324	276
Calumet Avenue water main move	682,580	205,406	477,174
Two new water storage tanks and pump station	202,200	10,068	192,132
Brickwork and structural repair	184,450	129,773	54,677
Munster/Chicago Heights control valve vaults	20,000	2,317	17,683
Totals	<u>\$ 1,552,205</u>	<u>\$ 630,645</u>	<u>\$ 921,560</u>

D. Transfers to the City

Interfund transfers at December 31, 2007, were as follows:

Transfer From	Transfer To City General Fund
Water Utility	<u>\$ 615,000</u>

E. Customer Deposit Cash/Payable

At December 31, 2007, the customer deposit cash did not agree with customer deposit payable by \$24,872 due to a timing delay in transferring operating cash to customer deposit cash.

III. Other Information

A. Risk Management

The Utility 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; 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.

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Medical Benefits and Job Related Illnesses or Injuries to Employees and Liability Insurance

The City (including the Utility) has chosen to establish a risk financing fund for risks associated with medical, vision, dental, workers' compensation, and liability claims. The risk financing fund is accounted for in the City's 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 \$125,000 per year. A premium is charged to each fund that accounts for payroll. The total charge allocated to each off 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. 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.

Beginning January 1, 2008, the Utility no longer participates in the City's self-insurance plan and replaced the plan with commercial insurance coverage.

Unemployment Compensation

The City (including the Utility) 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 of the City) where assets are set aside for claim settlements and the Utility reimburses the City from the Utility's Unemployment Compensation Account. 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. 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. 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.

B. Intergovernmental Agreement

The Port Authority and Hammond Water Utility entered into an Intergovernmental Agreement dated June 20, 1996, to which the Port Authority agreed to distribute embarkation fees to the Water Utility. 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, 2007, the Port Authority had distributed a total of \$9,200,000 to the Water Utility which resulted in a balance of \$2,800,000 due to the Water Utility.

C. Postemployment Benefits

In addition to the pension benefits described below, the Utility provides postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the Utility on or after attaining age 50 with at least 15 years of service. Currently, 15 retirees meet these eligibility requirements. The Utility provides \$1,500 per month per retiree and the retiree pays the balance of the premium. Expenditures for those post employment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2007, expenditures of \$253,500 were recognized for post employment benefits.

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Rate Structure

The current rate structure was approved by the Indiana Utility Regulatory Commission on June 18, 1985.

E. Agent Services

The Utility provides billing and collection services for the City and Sanitary District of Hammond, and as such, acts as their agent.

F. Customer Cities

The Utility sells water to 10 neighboring cities and towns. Revenues attributable to these cities and towns for 2007 are as follows:

City	Metered Revenue
Burnham	\$ 119,628
Calumet City	1,083,761
Chicago Heights	1,820,203
Ford Heights	29,373
Griffith	318,619
Highland	735,039
Lansing	1,207,933
Munster	848,011
South Holland	24,012
Village of Lynwood	29,414
Total	\$ 6,215,993

G. Subsequent Event

Beginning January 1, 2008, the Utility no longer participates in the City's self-insurance plan for medical benefits and job related illnesses or injuries to employees and liability insurance and have replaced the plan with commercial insurance coverage. They continue to pay for unemployment compensation through the City.

H. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utility, 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

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Utility 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 Utility'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 Utilities 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 proprietary funds).

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,316,718
Interest on net pension obligation	(43,004)
Adjustment to annual required contribution	49,007
Annual pension cost	1,322,721
Contributions made	1,057,130
Increase in net pension obligation	265,591
Net pension obligation, beginning of year	(593,163)
Net pension obligation, end of year	\$ (327,572)

WATER UTILITY  
CITY OF HAMMOND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	PERF
Contribution rates:	
Utility	5.75%
Plan members	3%
Actuarial valuation date	07-01-07
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	06-30-05	\$ 911,922	101%	\$ (789,779)
	06-30-06	1,171,035	83%	(593,163)
	06-30-07	1,322,721	80%	(327,572)

WATER UTILITY  
CITY OF HAMMOND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 19,522,708	\$ 22,345,580	\$ (2,822,872)	87%	\$ 19,211,969	(15%)
07-01-06	22,029,826	24,222,294	(2,192,468)	91%	20,163,321	(11%)
07-01-07	24,398,671	26,208,302	(1,809,631)	93%	20,196,194	(9%)

WATER UTILITY  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on August 5, 2008, with Sharon Daniels, President of the Utility Service Board; Edward Krusa, Chief Executive Operator of the Water Utility; Deborah Van Meter, Office Manager; and Sandra Winston, IT Supervisor. Our audit disclosed no material items that warrant comment at this time.