

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

ANNUAL FINANCIAL REPORT

2007

SANITARY DISTRICT

CITY OF HAMMOND

LAKE COUNTY, INDIANA



FILED
11/07/2008

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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 McDermott, Jr.	01-01-04 to 12-31-11
President of the Board of Sanitary Commissioners	Stanley J. Dostatni	01-01-07 to 12-31-08
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
District Manager	Michael T. Unger, Ph.D.	01-01-07 to 12-31-08
Business Manager	William E. Biller	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SANITARY DISTRICT, CITY OF HAMMOND, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Sanitary District, 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 District'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 Sanitary District, 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 District. 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 Sanitary District, 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.

The District 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 basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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

August 20, 2008

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	Wastewater Utility	Storm Water Utility
Current assets:		
Cash and cash equivalents	\$ (367,359)	\$ 518,757
Cash with fiscal agent	143,999	1,931
Accounts receivable (net of allowance)	811,596	27,055
Taxes receivable (net of allowance)	2,101,216	-
Intergovernmental receivable	17,065	-
Inventories	664,088	-
Prepaid items	298,706	-
	3,669,311	547,743
Total current assets		
Noncurrent assets:		
Restricted cash, cash equivalents, investments, and receivables:		
Bond and interest cash and investments	978,035	-
Construction/replacement cash and investments	6,025,746	-
Cash with fiscal agent	17,254,613	-
Taxes receivable (net of allowance)	2,866,119	-
Intergovernmental receivable	74,234	-
	27,198,747	-
Total restricted assets		
Deferred charges	480,448	-
	480,448	-
Capital assets:		
Land and construction in progress	8,043,858	-
Other capital assets (net of accumulated depreciation)	114,236,139	-
	122,279,997	-
Total capital assets		
Total noncurrent assets	149,959,192	-
Total assets	153,628,503	547,743
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	482,905	-
Accrued payroll and withholdings payable	211,014	-
Tax anticipation warrants payable	1,123,581	-
Current liabilities payable from restricted assets:		
Accounts payable	29,122	-
Contracts payable	637,838	-
Tax anticipation warrants payable	399,893	-
Loans payable	2,540,000	-
General obligation bonds payable	400,000	-
Accrued interest payable	1,139,988	-
	6,964,341	-
Total current liabilities		
Noncurrent liabilities:		
Loans payable	45,403,179	-
General obligation bonds payable (net of unamortized discounts)	5,828,309	-
Compensated absences	91,327	-
	51,322,815	-
Total noncurrent liabilities		
Total liabilities	58,287,156	-
<u>Net Assets</u>		
Invested in capital assets, net of related debt	68,632,398	-
Restricted for debt service	2,362,250	-
Restricted for capital improvements	22,629,656	-
Unrestricted	1,717,043	547,743
	95,341,347	547,743
Total net assets	\$ 95,341,347	\$ 547,743

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

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

	Wastewater <u>Utility</u>	Storm Water <u>Utility</u>
Operating revenues:		
Residential sales	\$ 3,479,702	\$ -
Commercial and industrial sales	5,631,747	-
Municipal sales	2,311,551	-
Flat rate revenues	-	322,853
Local tax distributions for sewer maintenance	2,906,965	-
Other charges for services	408,840	-
Other	<u>169,058</u>	<u>-</u>
 Total operating revenues	 <u>14,907,863</u>	 <u>322,853</u>
Operating expenses:		
Sewer maintenance operations:		
Salaries and wages	804,187	-
Employee pensions and benefits	407,067	-
Materials and supplies	109,231	-
Repairs and maintenance	82,721	-
Contractual services	1,094,757	-
Fuel purchased	51,990	-
Utilities	52,198	-
Insurance	87,690	-
Miscellaneous	36,616	-
Pretreatment:		
Salaries and wages	85,360	-
Employee pensions and benefits	51,238	-
Materials and supplies	547	-
Contractual services	96,672	-
Fuel purchased	3,832	-
Insurance	5,867	-
Miscellaneous	578	-
Plant maintenance and operations:		
Salaries and wages	959,300	-
Employee pensions and benefits	667,639	-
Chemicals	156,821	-
Materials and supplies	1,583	-
Repairs and maintenance	2,213,338	-
Contractual services	9,306	-
Utilities	1,631,139	-
Sludge removal	499,779	-
Insurance	220,374	-
Miscellaneous	11,292	-
Collection system:		
Salaries and wages	620,277	-
Employee pensions and benefits	430,139	-
Materials and supplies	1,181	-
Repairs and maintenance	936,649	-
Utilities	658,288	-
Insurance	87,366	-
Miscellaneous	4,038	-

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

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007
(Continued)

	Wastewater Utility	Storm Water Utility
Operating expenses (continued):		
Administration and general:		
Salaries and wages	881,951	-
Employee pensions and benefits	610,659	-
Materials and supplies	145,854	-
Repairs and maintenance	123,906	-
Contractual services	665,485	-
Utilities	102,053	-
Insurance	41,882	-
Miscellaneous	205,816	-
Storm Water:		
Contractual services	-	5,241
Depreciation	4,021,092	-
 Total operating expenses	 18,877,758	 5,241
 Operating income (loss)	 (3,969,895)	 317,612
Nonoperating revenues (expenses):		
Local tax distributions restricted for debt service	4,242,394	-
Interest earned on debt proceeds	581,923	-
Amortization of debt issuance costs	(42,492)	-
Interest expense	(1,819,751)	-
 Total nonoperating revenues (expenses)	 2,962,074	 -
 Income (loss) before contributions and transfers	 (1,007,821)	 317,612
Capital contributions	6,153,242	-
Transfers out to City	(501,870)	-
 Change in net assets	 4,643,551	 317,612
Total net assets - beginning	90,697,796	230,131
Total net assets - ending	\$ 95,341,347	\$ 547,743

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

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

	Wastewater Utility	Storm Water Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 13,760,092	\$ 319,253
Payments to suppliers and contractors	(9,396,985)	(5,241)
Payments to employees	(5,493,891)	-
	<u>(1,130,784)</u>	<u>314,012</u>
Net cash provided (used) by operating activities		
Cash flows from noncapital financing activities:		
Proceeds from tax anticipation warrants	1,780,108	-
Principal paid on tax anticipation warrants	(256,634)	-
Interest paid on tax anticipation warrants	(59,985)	-
Transfer out to City	(501,870)	-
	<u>961,619</u>	<u>-</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Local tax distributions/community customers portion for debt service	1,989,358	-
Proceeds from capital debt	25,283,699	-
Capital contributions	448,000	-
Acquisition and construction of capital assets	(5,212,783)	-
Principal paid on capital debt	(2,680,000)	-
Interest paid on capital debt	(1,173,139)	-
Bond discount paid on capital debt	(23,137)	-
Issuance cost paid on capital debt	(140,423)	-
	<u>18,491,575</u>	<u>-</u>
Net cash provided by capital and related financing activities		
Cash flows from investing activities:		
Interest received	581,923	-
	<u>581,923</u>	<u>-</u>
Net increase in cash and cash equivalents	18,904,333	314,012
Cash and cash equivalents, January 1	5,130,701	206,676
Cash and cash equivalents, December 31	<u>\$ 24,035,034</u>	<u>\$ 520,688</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (3,969,895)	\$ 317,612
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	4,021,092	-
(Increase) decrease in assets:		
Accounts receivable	12,590	(3,600)
Taxes receivable	(1,737,822)	-
Intergovernmental receivable	495,300	-
Deferred debits	82,161	-
Inventories	33,708	-
Prepaid items	(39,616)	-
Increase (decrease) in liabilities:		
Accounts payable	137,772	-
Accrued payroll and withholdings payable	3,707	-
Intergovernmental payable	(190,000)	-
Compensated absence payable	20,219	-
	<u>2,839,111</u>	<u>(3,600)</u>
Total adjustments		
Net cash provided (used) by operating activities	<u>\$ (1,130,784)</u>	<u>\$ 314,012</u>
Noncash investing, capital and financing activities:		
Acquisition of capital assets through contracts payable (net)	\$ 504,784	-
Contributions of capital assets from government	5,688,985	-
Transfer of completed construction in progress projects	1,601,266	-

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

SANITARY DISTRICT
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 District 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 District, 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 District'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 District 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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the District in June and in December. State statutes (IC 6-1.1-17-16) require the Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. Delinquent property taxes outstanding at year end, net of allowances for uncollectible accounts, are recorded as a receivable. The property taxes collected for the sewer maintenance function are classified as operating revenue since the expenses are an operating expense. The taxes collected for debt repayment are classified as nonoperating.

Property tax rates and levies for the 2006 pay 2007 were not established by February 15, 2007, as required by statute due to the continued delay in the completion of trending of the assessment of Lake County. This resulted in the property tax bills not being sent to taxpayers until December 2007 with a due date of January 31, 2008.

3. Inventories, Prepaid Items, and Deferred Debit

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 in both government-wide and fund financial statements.

Based upon an agreement between user cities/towns and the District, a set rate is paid. Annually, a study is performed to determine if the user cities/towns have underpaid or overpaid. The underpayments are reflected as deferred debits in addition to the unamortized balance of debt issuance costs.

4. Restricted Assets

Certain resources set aside for the repayment of debt and District improvements are classified as restricted assets on the statement of net assets in accordance with the debt instruments and grant agreements.

5. 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.

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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
Land improvements	\$ 5,000	Straight-line	25 to 60 years
Buildings	5,000	Straight-line	60 years
Building improvements	5,000	Straight-line	20 to 40 years
Major equipment	5,000	Straight-line	10 to 40 years
Minor equipment	5,000	Straight-line	3 to 10 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

6. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 75 days. For each 5 days earned in excess of the allowable accumulation, the excess days shall be converted to equal 1 regular vacation day. One week of accumulated sick leave is paid to union employees through cash payments upon termination if the employee has accumulated 75 days. Nonunion employees eligible for retirement, or upon separation of employment with at least 10 years of full-time service, will be reimbursed 1 day's pay for each 4 days of unused sick leave up to the accumulation of 75 days. Nonunion employees with at least 15 years of full-time service will be reimbursed 1 day's pay for each 2 days of unused sick leave, up to the accumulation of 75 days.
- b. Vacation Leave – District 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.
- c. Personal Leave – District union hourly employees earn personal leave at the rate of 3 days per year. District salaried and nonunion hourly employees earn personal leave at the rate of 4 days per year. Personal leave does not accumulate from year to year.

Sick leave is accrued when incurred.

No liability is reported for vacation and personal leave.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

SANITARY DISTRICT
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	\$ 497,919	\$ -	\$ -	\$ 497,919
Construction in progress	4,294,344	4,852,861	1,601,266	7,545,939
 Total capital assets, not being depreciated	 4,792,263	 4,852,861	 1,601,266	 8,043,858
Capital assets, being depreciated:				
Land improvements	93,936,976	6,705,242	-	100,642,218
Buildings	41,262,572	-	-	41,262,572
Building improvements	6,890,879	44,012	-	6,934,891
Major equipment	45,046,803	74,622	-	45,121,425
Minor equipment	2,053,186	1,779,081	-	3,832,267
 Totals	 189,190,416	 8,602,957	 -	 197,793,373
Less accumulated depreciation for:				
Land improvements	35,271,062	1,842,258	-	37,113,320
Buildings	17,673,589	684,842	-	18,358,431
Building improvements	4,201,030	174,912	-	4,375,942
Major equipment	20,897,413	1,165,364	-	22,062,777
Minor equipment	1,493,048	153,716	-	1,646,764
 Totals	 79,536,142	 4,021,092	 -	 83,557,234
 Total capital assets, being depreciated, net	 109,654,274	 4,581,865	 -	 114,236,139
 Total capital assets, net	 \$ 114,446,537	 \$ 9,434,726	 \$ 1,601,266	 \$ 122,279,997

B. Construction Commitments

Construction work in progress is composed of the following:

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Project	Total Project Authorized	Expended to December 31, 2007	Committed
Little Calumet River Combined Sewer Overflow	\$ 5,000,000	\$ 3,271,217	\$ 1,728,783
Combined Sewer Overflow Storage Basin	3,766,916	1,223,126	2,543,790
RAS Piping Upgrade	4,415,452	2,961,523	1,453,929
Kennedy Avenue North Generator	250,000	90,073	159,927
Totals	<u>\$ 13,432,368</u>	<u>\$ 7,545,939</u>	<u>\$ 5,886,429</u>

C. Operating Leases

The District has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for copiers. Rental expenditures for these leases were \$22,363. The following is a schedule by years of future minimum rental payments as of December 31, 2007:

2008	\$ 22,363
2009	15,415
2010	8,467
2011	<u>8,467</u>
Total	<u>\$ 54,712</u>

D. Short-Term Liabilities

The District may use short-term notes and loans, including tax anticipation warrants, to finance operations cash flow due to the delay in receipt of property tax collections.

Short-term debt activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Tax anticipation warrants payable	<u>\$ -</u>	<u>\$ 1,780,108</u>	<u>\$ 256,634</u>	<u>\$ 1,523,474</u>

E. Long-Term Liabilities

1. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the primary government. General obligation bonds currently outstanding at year end are as follows:

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Amount
2007 Special Taxing District bonds	4.25% to 4.5%	\$ 4,635,000
2003 Special Taxing District refunding bonds	6.12%	<u>1,615,000</u>
Total		<u>\$ 6,250,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Principal	Interest
2008	\$ 400,000	\$ 340,782
2009	810,000	267,802
2010	855,000	228,018
2011	890,000	186,147
2012	930,000	141,962
2013-2017	<u>2,365,000</u>	<u>173,849</u>
Totals	<u>\$ 6,250,000</u>	<u>\$ 1,338,560</u>

2. Loans Payable

The District has entered into various loans with the State Revolving Loan Fund (SRF). Under the terms of the loans, revenue bonds issued by the District have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the District improvements. Funds are loaned to the District as costs are accrued, to the maximum allowed. The District has drawn down all of the 1993, 1997, 1998, 2001A, 2006A and 2007 Loan program funds; however, the 2001B Loan Program Funds for \$10,500,000 is still being drawn down. Annual debt service requirements to maturity for the loans are as follows:

Year Ended December 31	Principal	Interest
2008	\$ 2,540,000	\$ 2,005,742
2009	2,630,000	1,738,905
2010	2,940,000	1,633,512
2011	2,905,000	1,520,650
2012	2,985,000	1,407,323
2013-2017	12,030,000	5,630,495
2018-2022	13,258,179	3,167,517
2023-2027	7,835,000	1,066,254
2028-2032	<u>820,000</u>	<u>16,974</u>
Totals	<u>\$ 47,943,179</u>	<u>\$ 18,187,372</u>

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 1,835,000	\$ 4,635,000	\$ 220,000	\$ 6,250,000	\$ 400,000
Less bond discount	-	(23,137)	(1,446)	(21,691)	-
 Total general obligation bonds payable	 1,835,000	 4,611,863	 218,554	 6,228,309	 400,000
Loans payable	29,754,480	20,648,699	2,460,000	47,943,179	2,540,000
Compensated absences	-	91,327	-	91,327	-
 Total long-term liabilities	 <u>\$ 31,589,480</u>	 <u>\$ 25,351,889</u>	 <u>\$ 2,678,554</u>	 <u>\$ 54,262,815</u>	 <u>\$ 2,940,000</u>

F. Restricted Assets

The balances of restricted asset accounts for debt repayment and improvements are as follows:

Bond and interest cash and cash equivalents	\$ 978,035
Construction/replacement cash and cash equivalents	6,025,746
Cash with fiscal agent	17,254,613
Taxes receivable (net of allowances)	2,866,119
Intergovernmental receivable	<u>74,234</u>
 Total restricted assets	 <u>\$ 27,198,747</u>

III. Other Information

A. Risk Management

The District 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.

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits

The City has chosen to establish a risk financing fund for risks associated with medical, vision, dental, worker's compensation, and liability claims. The District has chosen to participate in this fund for medical, vision, 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. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for employee 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. 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. However, claim liabilities cannot be reasonably estimated.

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

Unemployment Compensation

The District has chosen to establish a risk financing fund for risks associated with unemployment compensation claims. The risk financing fund is accounted for in the Unemployment Compensation Account where assets are set aside for claim settlements. 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.

The balance of claim liabilities during the past two years has not changed since there were no claims incurred or paid.

B. Subsequent Events

Property Tax Rates

Property tax rates and levies for the 2007 pay 2008 were not established by February 15, 2008, as required by statute due to the delay in the completion of trending of the assessment of Lake County. This will result in delays in billing, collection and distribution of tax revenues by the County for the District in 2008. As of August 13, 2008, Lake County has not sent property tax bills.

To offset the delay in tax collections, the District authorized the continuance of the 2007 remaining tax anticipation warrants balance of \$1,523,474 until June 2008. In addition, on January 2, 2008, the District received \$4,457,089 of tax anticipation warrants proceeds from the Indiana Bond Bank at an interest rate of 3%. The warrants are to be repaid when the 2008 property tax distributions are received.

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Circuit Breaker Tax Credit

Indiana Code 6-1.1-20.6 provides taxpayers with a tax credit (the "Circuit Breaker Tax Credit") for all property taxes in an amount that exceeds 2% of the gross assessed value of eligible property. For property taxes due and payable in 2008 and 2009, the Circuit Breaker Tax Credit is automatically applied only to the property taxes attributable to a taxpayer's qualified residential property. Beginning with property taxes due and payable in 2010 and thereafter, the property eligible for the Circuit Breaker Tax Credit is expanded to include all personal and real property of every type. The Circuit Breaker Tax Credit will result in a reduction of property tax collections for each political subdivision in which the Circuit Breaker Tax Credit is applied. A political subdivision may not increase its property tax levy or borrow money to make up for any property tax revenue shortfall due to the application of the Circuit Breaker Tax Credit.

The Department of Local Government Finance (DLGF) has taken an administrative position that existing law requires taxing units to fully fund any levies for the payment of outstanding debt service or lease rental obligations regardless of any reduction in property tax collections due to the application of the Circuit Breaker Tax Credit. The DLGF's position is that property taxes collected by a political subdivision must first be applied to pay debt service or lease rental obligations on all outstanding bonds or lease rental revenue bonds. If property tax collections are insufficient to fully fund debt service or lease rental levies due to the Circuit Breaker Tax Credit, the DLGF has indicated the taxing units must use nonproperty tax revenues or revenues from property tax levies for other funds (including operating) to offset revenue loss to the debt service fund.

Based on Legislative Services Agency (LSA) data, it is anticipated that the annual trending of assessed value and resulting reduction in tax rates in Lake County will reduce the loss of property tax revenues from the implementation of the Circuit Breaker Tax Credit. Pursuant to LSA data, the Circuit Breaker Tax Credit allocable to the District for budget years 2008 and 2009 is approximately \$489,746 each year. In budget year 2010 and thereafter, when the credit is expanded to apply to both real and depreciable personal property, LSA estimates the Circuit Breaker Tax Credit will be approximately \$1,238,581 each year.

Sanitation and Recycling Departments

In December 2007, the District approved Resolution 56-2007 assuming the cost of providing trash and waste collection and disposal to the residents of the City of Hammond from the City as of January 1, 2008. The District also approved Resolution 44-2007 establishing a user fee for the collection of trash and solid waste. The garbage user fee is \$15 per month unless the head of the household is over the age of 65 years or is disabled then such user fee is \$10 per month. In addition, the District assumed the City's capital lease for garbage trucks which had \$627,031.41 of principal and interest due as of December 31, 2007. A payment of \$209,010.47 is due on October 4, 2008, with the last annual payment due October 4, 2010.

Wastewater Service Rate Increase

In accordance with Indiana Code 36-9-25-11.3(d)(2)(B), the District petitioned the Indiana Utility Regulatory Commission (IURC) for a wastewater service rate increase during 2007. On January 4, 2008, the IURC approved a 38.34% rate increase based upon a cost of service study which results in a greater increase in flow rate for the industrial class when compared to the flow rate increase to the residential/commercial class.

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Contingent Liabilities

The District has been named as a defendant in various lawsuits for which the outcome cannot be reasonably determined.

D. Cash with Fiscal Agent

The Hammond and Munster Water Utilities serve as billing and collection agents for the District user charge system. The Hammond Water Utility deposits daily collections directly to the District's bank accounts. Thus, the amount reported as Cash with Fiscal Agent represents collections by the Munster Water Utility not yet remitted to the District.

In 2007, the District obtained a State Revolving Loan from the State of Indiana's State Revolving Loan Fund. The State placed the \$17,225,000 loan proceeds into a trust account in the District's name. The District will earn the interest from the trust account. Before any disbursements can be made from this trust account, the State must approve the drawdown in accordance with the loan agreement. Thus, the amount reported as Cash with Fiscal Agent – Restricted represents the balance in this trust account.

E. Transfers to City

The District transferred \$501,870 to the City as payment in lieu of taxes.

F. Consent Decree

In April of 1999, the District entered into a Consent Decree with the United States Environmental Protection Agency (EPA) to implement improvements to address the effects of sediment contamination in the West Branch of the Grand Calumet River.

For Combined Sewer Overflow (CSO) Control, the District was to initiate construction by May 1, 2004, for new reservoir and pump station improvements, sewer separations, sewer interceptors, and sewer interceptor improvements in order to eliminate the use of the Columbia, Sohl and Johnson Avenues CSOs. The projects are to be completed by May 1, 2009, and achieve operational status for all new or modified components and cease all discharges from Columbia, Sohl and Johnson Avenues CSOs. The failure to comply with any completion date specified and to remain in noncompliance for more than 90 days, the District shall not thereafter make any new hook-up, connection, or extension to its sewage system until the District certified to EPA and Indiana Department of Environmental Management (IDEM) that it has completed the requirement.

For any noncompliance of the Consent Decree requirements noted above, the stipulated penalty would be applicable based on the period of noncompliance. From the first to the 30th day of continuous violation, \$500 per day per violation; from the 31st to the 60th day of continuous violation, \$750 per day per violation; and after 60 days of continuous violation, \$1,000 per day per violation.

The District is required to report semi-annually to the EPA and IDEM on the status of the District's compliance with all requirements of the Decree. The reports were sent on June 15 and December 17, 2007.

A permit renewal application was submitted to IDEM on January 29, 1999. A new NPDES Permit was issued in 2006. Due to concerns regarding certain pollutant parameters, the permit has been petitioned by the District for administrative review. Also, the District has been advised by the EPA

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

and IDEM of their intent to seek civil penalties as provided in the existing Consent Decree. This is in regards for certain NPDES Permit pollutant parameter violations alleged to have occurred over the last five years, which the District denies the existence and/or the extent of these violations.

G. Postemployment Benefits

In addition to the pension benefits described below, the District provides postemployment medical insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the District on or after attaining age 65 with at least 15 years of service. Currently, 28 retirees meet these eligibility requirements. The District 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, 2007, expenditures of \$336,000 were recognized for postemployment benefits.

Beginning January 1, 2008, the District no longer participates in the City's self-insurance plan and replaced the plan with commercial insurance coverage. Thus, the retiree's portion, \$25, \$50, \$75, or \$100 per month depending upon age, is paid to the District.

H. Rate Structure

The current rate structure for the storm water customer charge was approved by the Common Council on January 23, 2006. The current rate structure for the treatment and disposal of wastewater was approved by the Indiana Utility Regulatory Commission on January 4, 2008. The rate structure for the collection of trash and solid waste was approved by the District on December 11, 2007.

I. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the District, 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 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 three percent 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:

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, which includes the District, 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 District is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole and is not presented as an asset/liability of the District.

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)
Contribution rates:	
District	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

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
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)

SANITARY DISTRICT
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%)

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

PAYROLL

1. The timesheets for the laboratory are not approved by a supervisor.
2. The Sanitary District's Maintenance Department provides daily sign-in sheets with a column for comments (vacation, sick, etc.). The comments column explanation is initialed by the data entry clerk. A summary sheet listing each employee, each day of the pay period, and the breakdown of the employee's time for each day is provided. However, neither the daily sign-in sheets nor the summary sheet is approved by the appropriate supervisor.
3. The service records for 15 employees had different beginning sick leave balances for 2007 than were reflected as the 2006 ending sick leave balances. The beginning balances were sometimes greater and sometimes less than the previous years' ending balances. The greatest difference noted was 15.50 days. One service record was noted as not completed for the year even though the employee was employed all year.
4. The IRS Employee's Withholding Allowance Certificate (Form W-4) was not presented for audit for four employees.
5. The Sewer Maintenance Department employees were not included in the listing provided to the County Treasurer as required by law.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 6-1.1-22-14 states: "On or before June 1 and December 1 of each year, the disbursing officer of each political subdivision shall certify the name and address of each person who has money due the person from the political subdivision to the county treasurer of each county in which the political subdivision is located."

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

ATTORNEY CONTRACT CONTROLS

The District's employment contract with the attorney allows reimbursement for out of pocket expenses on behalf of the District. However, the attorney was reimbursed \$2,220.35 for seminar costs, legal ads, and other miscellaneous costs, without presenting supporting documentation. Furthermore, during 2007, the attorney was paid \$104,720.39 by the District; however, the IRS Form 1099 Misc. for the reporting of Miscellaneous Income only reported \$74,120.39. The payments from funds other than sewer and operating were not considered in the preparation of the 1099 Misc. In addition, the taxable health insurance fringe benefit was not included on the Form 1099 Misc.

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS IN INDUSTRIAL BILLING

As stated in the prior report, a portion of an industrial customer's billing is based upon lab reports of testing and the related test results. The results are then summarized by the pretreatment department, and then the summary is used by the billing staff. Since information is manually inputted at multiple stages, this process increases the potential for errors to be made and not be detected during the performance of job duties.

Selected industrial customers' accounts tested for a billing period had errors on the summary reports, when the reports were compared to the supporting lab documents, which caused incorrect amounts to be billed. This resulted in customers being under or over billed, which also affects the revenue of the Sanitary District.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET DELETION CONTROLS

The District has not recorded or taken steps to determine deletions to the capital asset records. A physical inventory of assets has not been conducted in several years. The lack of control procedures over deletions, disposals, or obsolete assets could result in the overstatement of capital assets on the financial statements.

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory, should be taken every year for good internal control and for verifying account balances carried in the accounting records.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

NEGATIVE CASH BALANCES

At December 31, 2007, the District had two unrestricted funds that had negative cash balances. The Operations and Maintenance Fund and the Sewer Maintenance Department Fund had negative cash balances of \$784,908 and \$16,939, respectively. The negative cash balances of these funds are combined with the positive cash balances of other unrestricted funds (Pretreatment, GIS Electronic, Construction, and Unemployment) on the financial statements. As of December 31, 2007, the net cash balance of all unrestricted funds was a negative \$367,359.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES NOT ASSESSED

As noted in prior reports, the District is not applying a 10% penalty to customer accounts that have not been paid within 30 days of the due date in accordance with state statute.

Indiana Code 36-9-25-11 states in part:

"(f) If a fee established is not paid within thirty (30) days after it is due, the amount, together with a penalty of ten percent (10%) and a reasonable attorney's fee, may be recovered by the board from the delinquent user or owner of the property served in a civil action in the name of the municipality.

(g) Fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of filing of the notice of lien in the county recorder's office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under IC 36-9-23-33 and IC 36-9-23-3 . . ."

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

SPECIAL DISTRICT ANNUAL REPORT NOT ADVERTISED

The Sanitary District prepared the 2007 Special District Annual Report (SDAR) on March 27, 2008. However, this report was not advertised as required.

The district shall prepare and file an annual financial report, required under IC 5-11-1-4, with the State Board of Accounts. For single county districts that own a landfill, annual financial reports must be filed not later than 60 days after the close of the fiscal year. All other districts are required to file not later than 30 days after the close of the fiscal year. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 3)

Indiana Code 5-3-1-3 provides that each city controller or city and town clerk-treasurer shall have published an annual report of the receipts and expenditures of such city or town, showing the same "by funds and appropriations," within sixty days after the close of each calendar year. The total indebtedness at December 31 of such municipality must also be shown on this published report. The annual report is to be published one time in two newspapers unless there is only one newspaper in the city or town, in which case publication in the one newspaper is sufficient. If no newspaper is published in the city or town then publication is to be made in a newspaper published in the county in which the city or town is located and that circulates within the city or town. (Cities and Towns Bulletins and Accounting and Uniform Compliance Guidelines Manual, December, 2004)

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on August 25, 2008, with Stanley J. Dostatni, President of the Board of Sanitary Commissioners; Barbara Cardwell, Controller; Dr. Michael T. Unger, District Manager; William E. Biller, Business Manager; and Joseph P. Allegretti, District Attorney. The official response has been made a part of this report and may be found on pages 27 through 34.

SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE
HAMMOND, INDIANA 46327-1794
TELEPHONE (219) 853-6412 - 13 - 14 - 88
FAX (219) 853-6321

Board of Sanitary Commissioners

STANLEY J. DOSTATNI
KEN JAKUBCZAK
STEVEN R. FOWLER
LOUIS KARUBAS
RUSSELL A. SNYDER

September 2, 2008



MICHAEL T. UNGER, Ph.D.
District Manager
WILLIAM E. BILLER, C.P.A.
Business Manager
JOSEPH P. ALLEGRETTI
Legal Counsel

State Board of Accounts
ATTN: Mr. Larry Tippin
302 West Washington Street
Room E 418
Indianapolis, In 46204-2765

Re: Official Response – Hammond Sanitary District, Audit for 2007

Dear Mr. Tippin:

On Monday August 25, 2008 representatives of the Hammond Sanitary District met with your auditors. The purpose of this meeting was to review the audit results and comments for the 2007 audit. Enclosed is the District's official response to the State Board of Accounts' Audit Results and Comments for the calendar year 2007. Please include this response with the State Board of Accounts' Audit Report.

Sincerely,

A handwritten signature in cursive script, appearing to read "William E. Biller".

William E. Biller
Business Manager

Enclosure

Pc: Board of Commissioners
Joseph P. Allegretti
Michael T. Unger, District Manager
Cynthia David, Lake County Office SBA

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2007

Page 1

1. PAYROLL:

1. The timesheets for the laboratory are not approved by a supervisor.
2. The sanitary district's maintenance department provides daily sign-in sheets with a column for comments (vacation, sick, etc.). The comments column explanation is initialed by the data entry clerk. A summary sheet listing each employee, each day of the pay period, and the breakdown of the employee's time for each day is provided. However, neither the daily sign-in sheets nor the summary sheet is approved by the appropriate supervisor.
3. The service records for fifteen employees had different beginning sick leave balances for 2007 than what was reflected as the 2006 ending sick leave balances. The beginning balances were both greater and less than the previous year's ending balance with greatest difference noted of 15.50 days. One service record was noted as not completed for the year even though the employee was employed all year.
4. The IRS Employee's Withholding Allowance Certificate (Form W-4) was not presented for audit for four employees.
5. The sewer maintenance department employees were not included in the listing provided to the County Treasurer as required by law.

RESPONSE:

As to comments one and two the District agrees that timesheets should be approved by the department supervisor, and will take step to insure that timesheets are properly approved.

Comment three; three of the employees took advantage of the District 5 sick days for one vacation day program and their sheet was not noted to this effect. The employee in question (after numerous requests) failed to turn in timesheets for six months of the year. District's only recourse in this case would be to withhold employee's paycheck, and will require a Board policy statement. All other differences appear to be clerical errors. District will review the service record in question for the correct 2007 beginning balance, and will verify all ending 2007 and beginning 2008 balances.

Comment four; we will be more diligent in the future as it relates to requesting employee's to submit Form W-4 annually.

Comment five; we will again be more diligent in the future and either the Business Manager or District Manager will approve report before mailing.

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2007

Page 2

2. ATTORNEY CONTRACT CONTROLS

The District's employment contract with the attorney allows reimbursement for out of pocket expenses on behalf of the District. However, the attorney was reimbursed \$2,220.35 for seminar cost, legal ads, and other miscellaneous costs, without presenting supporting documentation. Furthermore, during 2007 the attorney was paid \$104,720.39 by the District. However the IRS Form 1099 Misc. for the reporting of Miscellaneous Income only reported \$74,120.39. The payment from funds other than sewer and operating were not considered in the preparation of the 1099 Misc. In addition, the taxable health insurance fringe benefit was not included on the 1099 Misc.

RESPONSE

Both the District and the Attorney are aware that reimbursement for expenses should be supported documentation. This was an oversight by both parties. The incorrect amount on Form 1099 was an oversight by District personnel. The fee from the issuance of the bond issue should have been included on the 1099. As to the attorney's contribution for health insurance the District accounting system report the net cash outlay for 1099 purposes. We will review the accounting systems logic and request a software modification to adjust for this comment. The District's insurance program passed by the Board in December 2007 allows for the outside contractors of the District to be members of the program. Furthermore this program was effective January 01, 2008 and in 2007 District was part of the Civil City of Hammond Self Insurance Program, and it was not offered to the attorney.

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2007

Page 3

3. **ERRORS IN INDUSTRIAL BILLINGS:**

As stated in prior reports, a portion of an industrial billing customer's billing is based upon lab reports of testing and the related test results. The results are then summarized by the pretreatment department, and then the summary is used by the billing staff. Since information is manually inputted at multiple stages, this process increases the potential for errors to be made and not being detected during the performance of job duties.

Selected industrial customers tested for a billing period had errors on the summary report, when the reports were compared to the supporting lab documents, which caused incorrect amounts to be billed. This resulted in customers being under or over billed, which also affected the revenues of the Sanitary District.

RESPONSE:

The District will agree that errors, as they relate to the billing process, have increased over the last year and half. One of the audit steps taken by the District is a year end reconciliation of the billing data as it relates to data maintained by the pretreatment department. For calendar year 2007 this audit process resulted in four errors being found and revised billing being issued. Unfortunately the audit error found would not have been noted by the internal review. The audit error was found by comparing the lab sheets to the pretreatment document and the internal review compares pretreatment documents to the industrial billing.

Effective January 2008 the District undertook a billing process to eliminate the number of times that data has to be manually imputed, which can lead to errors. The new system has the invoice being generated directly from the plant operating system (OPS) and data only being imputed once.

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2007

Page 4

4. CAPITAL ASSET DELETION CONTROL

The District has not recorded or taken steps to determine deletions to the capital asset records. A physical inventory of assets has not been conducted in several years. The lack of control procedure over deletion, disposal, or obsolete assets could result in the overstatement of capital assets on the financial statements.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records.

RESPONSE:

The District does take an annual physical inventory of the moveable equipment portion of its capital assets, when it renews the automobile and contractor equipment insurance policy each April. District agrees that its Capital Asset Ledger includes item that may be obsolete and or no longer in service. District will review the possibility of removing said items within the next calendar year,

5. NEGATIVE CASH BALANCES

At December 31, 2007, the District had two unrestricted funds that had negative balances. The Operation and Maintenance Fund and the Sewer Maintenance Department Fund had negative cash balances of \$784,908 and \$16,939, respectively. The negative cash balances of these funds are combined with the positive cash balances of other unrestricted funds (Pretreatment, GIS Electronic, Construction, and Unemployment) on the financial statements. As of December 31, 2007, the net cash balance of all unrestricted funds was a negative \$367,359.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit.

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2007

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RESPONSE:

District agrees that no fund should have a negative cash balance. The Sewer Maintenance is a property tax supported fund and the 2006/2007 property tax delay causes by the State of Indiana and Lake County is the reason for the overdrawn balance. The final 2006/2007 tax collections/disbursement was received by the District in January and February 2008. The Operation and Maintenance negative cash balance has been a major cause of concern by the District management for a number of years. The District did receive the approval of a rate increase for residential/commercial and industrial customer from the IURC in January 2008. The additional revenues and the continually controlling of expenditures by managements should result in a positive cash balance at December 31, 2008.

6. PENALTIES NOT ASSESSED:

As noted in the prior audit, the District is not applying a ten percent (10%) penalty to customer accounts that have not paid within thirty days of the due date in accordance with state statute.

IC 36-9-25-11 states in part”(f) If a fee established is not paid with thirty (30) days after it is due, the amount, together with a penalty of ten percent (10%) and a reasonable attorney’s fee, may be recovered by the board from the delinquent user or owner of the property served in a civil action in the name of the municipality. (g) Fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of filing of the notice of lien in the county recorder’s office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under IC 36-9-23-33 and IC 36-9-23-3...”

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RESPONSE:

The above statute does not authorize the District to apply a ten percent (10%) penalty to a customer's account not paid by the due date. The above statute only allows the District to collect a ten percent (10%) penalty (along with a reasonable attorney fee) if a civil action is brought against the delinquent user for unpaid user charges.

The action recommended by the State Board of Accounts may not be instituted by the District without appropriate legislative amendment.

The District does take civil action against real property that is delinquent for amounts greater than \$75 via the semi annual filing of liens with the county recorder and treasurer.

7. SPECIAL DISTRICT ANNUAL REPORT NOT ADVERTISED

The Sanitary District prepared the 2007 Special District Report (SDAR) on March 27, 2008. However, this report was not advertised as required.

The district shall prepare and file an annual financial report, required under IC 5-11-1-4, with the State Board of Accounts. For single county districts that own a landfill, annual financial reports must be filed not later than 60 days after the close of the fiscal year. All other districts are required to file not later than 30 days after the close of the fiscal year.

Indiana Code 5-3-1-3 provides that each city controller or city and town clerk-treasurer shall have published an annual report of the receipts and expenditures of such city or town, showing the same "by funds and appropriations," within sixty days after the close of each calendar year. The total indebtedness at December 31 of such municipality must also be shown on this published report.

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The annual report is to be published one time in two newspapers unless there is only one newspaper in the city or town, in which case publication in the one newspaper is sufficient. If no newspaper is published in the city or town then publication is to be made in a newspaper published in the county in which the city or town is located and that circulates within the city or town

RESPONSE:

The District agrees that the annual report is to be published within 60 days after the close of the fiscal year. The non publication for 2007 was an error by the District and said report will be published within the time frame in the future.