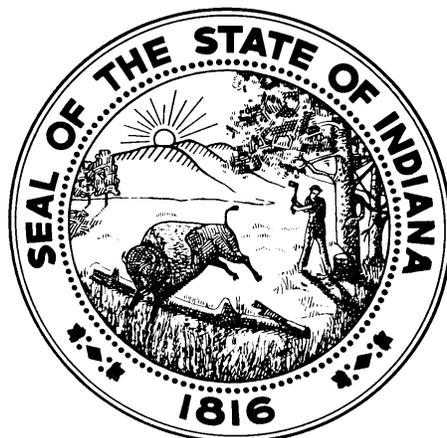


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF

SANITARY DISTRICT
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
12/31/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Barbara Cardwell Robert Lendi	01-01-08 to 12-31-08 01-01-09 to 12-31-09
Mayor	Thomas M. McDermott, Jr.	01-01-08 to 12-31-11
President of the Board of Sanitary Commissioners	Stanley J. Dostatni	01-01-08 to 12-31-09
President of the Board of Public Works and Safety	William J. O'Conner	01-01-08 to 12-31-09
President of the Common Council	Daniel Repay Homero Hinojosa	01-01-08 to 12-31-08 01-01-09 to 12-31-09
Sanitary District Manager	Michael T. Unger, Ph.D.	01-01-08 to 12-31-09
Business Manager	William E. Biller	01-01-08 to 12-31-09



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined 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, 2008. These financial statements are the responsibility of the Sanitary District's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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 of Hammond that is attributable to the transactions of the Sanitary District. They do not purport to, and do not, present fairly the financial position of the City of Hammond as of December 31, 2008, 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, 2008, 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 Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not examine the information and express no opinion on it.

The Sanitary District has not presented Management 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.

STATE BOARD OF ACCOUNTS

October 22, 2009

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF NET ASSETS
December 31, 2008

	2008			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,195,622	\$ 556,835	\$ 221,701	\$ 41,935
Cash with fiscal agent	-	4,985	71,774	-
Accounts receivable (net of allowance)	958,276	24,296	314,057	-
Taxes receivable	1,466,413	-	-	-
Intergovernmental receivable	10,194	-	-	-
Interfund receivables:				
Interfund loans	-	250,000	-	-
Inventories	670,275	-	-	-
Prepaid items	378,469	-	71,790	39,309
	<u>4,679,249</u>	<u>836,116</u>	<u>679,322</u>	<u>81,244</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Bond and interest cash and investments	2,969,922	-	-	-
Construction cash and investments	2,448,415	-	-	-
Cash with fiscal agent - construction	15,867,898	-	-	-
Taxes and accounts receivable	2,811,514	-	-	-
Intergovernmental receivable	19,295	-	-	-
	<u>24,117,044</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total restricted assets				
Deferred charges	475,295	-	-	-
Capital assets:				
Land, improvements to land and construction in progress	10,794,508	-	-	-
Other capital assets (net of accumulated depreciation)	118,072,649	-	948,110	374,198
	<u>128,867,157</u>	<u>-</u>	<u>948,110</u>	<u>374,198</u>
Total capital assets				
Total noncurrent assets				
Total assets	<u>158,138,745</u>	<u>836,116</u>	<u>1,627,432</u>	<u>455,442</u>
Liabilities				
Current liabilities:				
Accounts payable	818,717	445	144,958	5,332
Interfund payables:				
Interfund loans	-	-	-	250,000
Accrued payroll and withholdings payable	265,798	-	112,746	40,205
Compensated absences	97,517	-	6,788	3,605
Tax anticipation warrants payable	1,170,940	-	-	-
Capital leases payable	-	-	191,962	-
Current liabilities payable from restricted assets:				
Accounts payable	12,281	-	-	-
Contracts payable	167,748	-	-	-
Tax anticipation warrants payable	1,597,196	-	-	-
Loans payable	2,630,000	-	-	-
General obligation bonds payable	810,000	-	-	-
Accrued interest payable	951,386	-	-	-
	<u>8,521,583</u>	<u>445</u>	<u>456,454</u>	<u>299,142</u>
Total current liabilities				
Noncurrent liabilities:				
Loans payable	43,179,900	-	-	-
General obligation bonds payable (net of unamortized discounts and deferred amount on refunding)	5,021,201	-	-	-
Capital lease payable	-	-	201,081	-
	<u>48,201,101</u>	<u>-</u>	<u>201,081</u>	<u>-</u>
Total noncurrent liabilities				
Total liabilities	<u>56,722,684</u>	<u>445</u>	<u>657,535</u>	<u>299,142</u>
Net Assets				
Invested in capital assets, net of related debt	77,701,051	-	555,067	374,198
Restricted for debt service	3,232,854	-	-	-
Restricted for capital improvements	18,155,579	-	-	-
Unrestricted	2,326,577	835,671	414,830	(217,898)
	<u>\$ 101,416,061</u>	<u>\$ 835,671</u>	<u>\$ 969,897</u>	<u>\$ 156,300</u>
Total net assets				

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, 2008

	2008			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Operating revenues:				
Residential sales	\$ 5,195,801	\$ -	\$ -	\$ -
Commercial and industrial sales	4,368,466	-	-	-
Municipal sales	2,484,509	-	-	-
Flat rate revenues	-	310,434	3,904,681	-
Other charges for services	2,345,344	-	-	-
Local tax distributions for sewer maintenance	3,017,867	-	-	-
Sales of materials	-	-	-	528,089
Other	1,000,291	-	14,527	294,534
	<u>18,412,278</u>	<u>310,434</u>	<u>3,919,208</u>	<u>822,623</u>
Total operating revenues				
Operating expenses:				
Sewer maintenance and utility operations:				
Salaries and wages	826,270	-	1,407,552	555,761
Employee pensions and benefits	336,802	-	630,961	262,254
Materials and supplies	125,398	-	84,787	54,710
Repairs and maintenance	22,656	-	-	-
Contractual services	1,726,993	15,626	998,686	50,431
Fuel purchased	61,558	-	162,773	43,099
Utilities	58,021	-	-	-
Insurance	66,640	-	88,980	47,530
Miscellaneous	38,923	6,880	59,008	26,736
Pretreatment:				
Salaries and wages	69,438	-	-	-
Employee pensions and benefits	34,218	-	-	-
Materials and supplies	1,568	-	-	-
Repairs and maintenance	261,780	-	-	-
Contractual services	127,360	-	-	-
Fuel purchased	5,881	-	-	-
Insurance	6,653	-	-	-
Miscellaneous	274	-	-	-
Plant maintenance and operations:				
Salaries and wages	1,007,479	-	-	-
Employee pensions and benefits	482,165	-	-	-
Materials and supplies	187,182	-	-	-
Repairs and maintenance	2,204,128	-	-	-
Contractual services	16,836	-	-	-
Fuel purchased	33,473	-	-	-
Utilities	1,820,576	-	-	-
Insurance	229,306	-	-	-
Miscellaneous	407,844	-	-	-
Collection system:				
Salaries and wages	620,772	-	-	-
Employee pensions and benefits	297,091	-	-	-
Materials and supplies	2,231	-	-	-
Repairs and maintenance	1,309,696	-	-	-

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, 2008
(Continued)

	2008			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Operating expenses (continued):				
Collection system (continued):				
Contractual services	4,073	-	-	-
Fuel purchased	11,881	-	-	-
Utilities	719,657	-	-	-
Insurance	86,672	-	-	-
Miscellaneous	6,757	-	-	-
Administration and general:				
Salaries and wages	887,615	-	-	-
Employee pensions and benefits	637,948	-	-	-
Materials and supplies	73,665	-	-	-
Repairs and maintenance	125,174	-	-	-
Contractual services	445,073	-	-	-
Fuel purchased	6,389	-	-	-
Utilities	94,234	-	-	-
Insurance	40,758	-	-	-
Miscellaneous	438,526	-	-	-
Depreciation	4,179,886	-	146,553	68,671
	<u>20,147,520</u>	<u>22,506</u>	<u>3,579,300</u>	<u>1,109,192</u>
Total operating expenses				
Operating income (loss)	<u>(1,735,242)</u>	<u>287,928</u>	<u>339,908</u>	<u>(286,569)</u>
Nonoperating revenues (expenses):				
Local tax distributions	5,956,450	-	-	-
Interest earned on debt proceeds	834,345	-	-	-
Interest expense and fiscal agent fees	(2,191,097)	-	(30,194)	-
Amortization of debt issuance costs	(51,785)	-	-	-
Miscellaneous expense - Gain/loss on sale of assets	(987)	-	-	-
	<u>4,546,926</u>	<u>-</u>	<u>(30,194)</u>	<u>-</u>
Total nonoperating revenues (expenses)				
Income (loss) before contributions and transfers	2,811,684	287,928	309,714	(286,569)
Capital contributions	4,263,030	-	660,183	442,869
Transfers out	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	6,074,714	287,928	969,897	156,300
Total net assets - beginning	<u>95,341,347</u>	<u>547,743</u>	<u>-</u>	<u>-</u>
Total net assets - ending	<u>\$ 101,416,061</u>	<u>\$ 835,671</u>	<u>\$ 969,897</u>	<u>\$ 156,300</u>

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, 2008

	2008			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 18,863,532	\$ 313,193	\$ 3,742,530	\$ -
Payments to suppliers	(10,534,815)	(22,061)	(1,321,066)	(256,483)
Payments to employees	(5,138,824)	-	(1,918,979)	(774,205)
Other receipts	-	-	-	822,623
Net cash provided by operating activities	<u>3,189,893</u>	<u>291,132</u>	<u>502,485</u>	<u>(208,065)</u>
Cash flows from noncapital financing activities:				
Proceeds from tax anticipation warrants	4,952,323	-	-	-
Principal paid on tax anticipation warrants	(3,707,661)	-	-	-
Interest paid on tax anticipation warrants	(113,538)	-	-	-
Interfund loans	-	(250,000)	-	250,000
Transfers to City	(1,000,000)	-	-	-
Net cash provided (used) by noncapital financing activities	<u>131,124</u>	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>
Cash flows from capital and related financing activities:				
Local tax distributions/community customers debt service	6,065,995	-	-	-
Proceeds from capital debt	406,722	-	-	-
Acquisition and construction of capital assets	(6,977,987)	-	-	-
Principal paid on capital debt	(2,940,000)	-	(178,816)	-
Interest paid on capital debt	(2,263,269)	-	(30,194)	-
Net cash provided (used) by capital and related financing activities	<u>(5,708,539)</u>	<u>-</u>	<u>(209,010)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	834,345	-	-	-
Net cash provided (used) by investing activities	<u>834,345</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	(1,553,177)	41,132	293,475	41,935
Cash and cash equivalents, January 1	<u>24,035,034</u>	<u>520,688</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents, December 31	<u>\$ 22,481,857</u>	<u>\$ 561,820</u>	<u>\$ 293,475</u>	<u>\$ 41,935</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	<u>\$ (1,735,242)</u>	<u>\$ 287,928</u>	<u>\$ 339,908</u>	<u>\$ (286,569)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	4,179,886	-	146,553	68,671
(Increase) decrease in assets:				
Accounts receivable	(146,680)	2,759	(176,678)	-
Taxes receivable	634,803	-	-	-
Intergovernmental receivable	6,871	-	-	-
Deferred debits	(43,740)	-	-	-
Inventories	(6,187)	-	-	-
Prepaid items	(79,763)	-	(71,790)	(39,309)
Increase (decrease) in liabilities:				
Accounts payable	318,971	445	144,958	5,332
Accrued payroll and withholdings payable	54,784	-	112,746	40,205
Compensated absences payable	6,190	-	6,788	3,605
Total adjustments	<u>4,925,135</u>	<u>3,204</u>	<u>162,577</u>	<u>78,504</u>
Net cash provided by operating activities	<u>\$ 3,189,893</u>	<u>\$ 291,132</u>	<u>\$ 502,485</u>	<u>\$ (208,065)</u>
Noncash investing, capital and financing activities:				
Acquisition of capital assets through contracts payable (net)	\$ (470,090)	\$ -	\$ -	\$ -
Contributions of assets from City (net)	4,263,030	-	660,183	442,869
Transfer of completed construction in progress projects	7,538,844	-	-	-
Capital asset trade-ins	44,030	-	-	-

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 Sanitary 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 Sanitary District, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds. The Sanitary District comprises the Sanitary District, Storm Water Utility, Sanitation Utility, and Recycling Utility.

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 Sanitary 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 Sanitary 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 Sanitary District in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana 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 Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

In accordance with state statutes, all counties were required to reassess property values prior to billings taxes in 2008. Significant delays in the reassessment process have resulted in delays in billings taxes in 2008. Lake County 2007 pay 2008 tax rates were approved on November 14, 2008. Provisional bills for 50% of 2006 pay 2007 taxes were due October 29, 2008. The Sanitary District received advance draws on their 2008 taxes from the provisional billing during 2008. Lake County sent the final reconciliation bill for taxes payable in 2008 in January 2009 with payment due by February 6, 2009. The Sanitary District received their final settlement on March 27, 2009.

3. Inventories, Prepaid Items, and Deferred Charges

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 or overpayments are reported as deferred charges in addition to the un-amortized balance of debt issuance costs.

4. Restricted Assets

Certain resources set aside for the repayment of debt and Sanitary 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 – Sanitary District employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated up 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. Non-union 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 – Sanitary 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 – Sanitary District union hourly employees earn personal leave at the rate of 3 days per year. Sanitary 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 IC 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.

The Sanitary District's investments are categorized below to give an indication of the level of risk assumed by the Sanitary District at year end. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Sanitary District's name.

	Category 2	Reported Amount	Fair Value
Securities	\$ 5,056,812	\$ 5,056,812	\$ 5,056,812

B. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sanitary District:				
Capital assets, not being depreciated:				
Land	\$ 497,919	\$ -	\$ -	\$ 497,919
Construction in progress	7,545,938	10,289,495	7,538,844	10,296,589
Total capital assets, not being depreciated	8,043,857	10,289,495	7,538,844	10,794,508
Capital assets, being depreciated:				
Land improvements	100,642,218	7,538,844	-	108,181,062
Buildings	41,208,658	-	-	41,208,658
Buildings improvements	6,988,805	82,532	-	7,071,337
Major equipment	45,121,425	400,587	19,049	45,502,963
Minor equipment	3,832,267	21,001	24,983	3,828,285
Totals	197,793,373	8,042,964	44,032	205,792,305
Less accumulated depreciation for:				
Land improvements	37,113,320	1,980,772	-	39,094,092
Buildings	18,358,431	662,153	-	19,020,584
Building improvements	4,375,942	140,891	-	4,516,833
Major equipment	22,062,777	1,130,515	17,463	23,175,829
Minor equipment	1,646,764	265,555	-	1,912,319
Totals	83,557,234	4,179,886	17,463	87,719,657
Total capital assets, being depreciated, net	114,236,139	3,863,078	26,569	118,072,648
Total capital assets, net	\$ 122,279,996	\$ 14,152,573	\$ 7,565,413	\$ 128,867,156

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

	Beginning Balance	Increases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>
Sanitation Utility:			
Capital assets, being depreciated:			
Major equipment	\$ -	\$ 1,094,663	\$ 1,094,663
	<u> </u>	<u> </u>	<u> </u>
Less accumulated depreciation for:			
Major equipment	-	146,553	146,553
	<u> </u>	<u> </u>	<u> </u>
Total capital assets, being depreciated, net	\$ -	\$ 948,110	\$ 948,110
	<u> </u>	<u> </u>	<u> </u>
Recycling Utility:			
Capital assets, being depreciated:			
Major equipment	\$ -	\$ 25,705	\$ 25,705
Minor equipment	-	417,164	417,164
	<u> </u>	<u> </u>	<u> </u>
Totals	-	442,869	442,869
	<u> </u>	<u> </u>	<u> </u>
Less accumulated depreciation for:			
Major equipment	-	3,734	3,734
Minor equipment	-	64,937	64,937
	<u> </u>	<u> </u>	<u> </u>
Totals	-	68,671	68,671
	<u> </u>	<u> </u>	<u> </u>
Total capital assets, being depreciated, net	\$ -	\$ 374,198	\$ 374,198
	<u> </u>	<u> </u>	<u> </u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed
<u> </u>	<u> </u>	<u> </u>	<u> </u>
Combined Sewer Overflow Storage Basin (CSO)	\$ 5,030,601	\$ 1,561,958	\$ 3,468,643
Return Activated Sludge Piping Upgrade (RAS)	4,415,452	4,999,162	(583,710)
Columbia Avenue and Force Main	6,792,110	1,606,079	5,186,031
Generator Kennedy Avenue North Station	842,054	297,591	544,463
SCADA	500,000	127,266	372,734
Columbia Avenue Storm Sewer	2,000,000	1,704,533	295,467
	<u> </u>	<u> </u>	<u> </u>
Totals	\$ 19,580,217	\$ 10,296,589	\$ 9,283,628
	<u> </u>	<u> </u>	<u> </u>

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

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2008, is as follows:

Due From	Due To Storm Water Management Utility
Recycling Utility	\$ 250,000

Interfund balances resulted from the time lag between the dates that interfund loans are repaid.

E. Capital Lease

The Sanitary District assumed the obligation for a capital lease for a truck when they took over the operations of the Sanitation Department. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2008, are as follows:

2009	\$ 209,010
2010	<u>209,010</u>
Total minimum lease payments	418,020
Less amount representing interest	<u>24,977</u>
Present value of net minimum lease payments	<u>\$ 393,043</u>

F. Short-Term Liabilities

The Sanitary 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, 2008, was as follows:

	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Tax anticipation warrants payable	<u>\$ 1,523,474</u>	<u>\$ 4,952,323</u>	<u>\$ 3,707,661</u>	<u>\$ 2,768,136</u>

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

G. Long-Term Liabilities

1. General Obligation Bonds

The Sanitary 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:

Purpose	Interest Rates	Amount
2007 Special Taxing District bonds	4.25% to 4.5%	\$ 4,465,000
2003 Special Taxing District refunding bonds	6.12%	1,385,000
Total		<u>\$ 5,850,000</u>

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

Year Ended December 31	Principal	Interest
2009	\$ 810,000	\$ 267,802
2010	855,000	228,018
2011	890,000	186,147
2012	930,000	141,962
2013	970,000	94,649
2014-2018	<u>1,395,000</u>	<u>79,200</u>
Totals	<u>\$ 5,850,000</u>	<u>\$ 997,778</u>

2. Loans Payable

The Sanitary District has entered into various loans with the State Revolving Loan Fund (SRF). Under the terms of the loans, revenue bonds issued by the Sanitary District have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the Sanitary District improvements. Funds are loaned to the Sanitary District as costs are accrued, to the maximum allowed. The Sanitary 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 including interest of \$16,181,539, are as follows:

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

2009	\$	4,368,904
2010		4,573,513
2011		4,425,650
2012		4,392,323
2013		4,331,256
2014-2018		17,028,687
2019-2023		14,932,028
2024-2028		<u>7,939,078</u>
 Total	 \$	 <u>61,991,439</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
General obligation					
bonds payable	\$ 6,250,000	\$ -	\$ 400,000	\$ 5,850,000	\$ 810,000
Less bond discount	<u>(21,691)</u>	<u>-</u>	<u>(2,892)</u>	<u>(18,799)</u>	<u>-</u>
Total general obligation					
bonds payable	6,228,309	-	397,108	5,831,201	810,000
Loans payable	47,943,179	406,721	2,540,000	45,809,900	2,630,000
Compensated absences	<u>91,327</u>	<u>97,517</u>	<u>91,327</u>	<u>97,517</u>	<u>-</u>
Total long-term liabilities	<u>\$ 54,262,815</u>	<u>\$ 504,238</u>	<u>\$ 3,028,435</u>	<u>\$ 51,738,618</u>	<u>\$ 3,440,000</u>
Sanitation Utility:					
Capital leases payable	\$ -	\$ 571,859	\$ 178,816	\$ 393,043	\$ 191,962
Compensated absences	<u>-</u>	<u>6,788</u>	<u>-</u>	<u>6,788</u>	<u>-</u>
Total long-term liabilities	<u>\$ -</u>	<u>\$ 578,647</u>	<u>\$ 178,816</u>	<u>\$ 399,831</u>	<u>\$ 191,962</u>
Recycling Utility:					
Compensated absences	<u>\$ -</u>	<u>\$ 3,605</u>	<u>\$ -</u>	<u>\$ 3,605</u>	<u>\$ -</u>

H. Restricted Assets

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

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

Bond and interest cash and cash equivalents	\$ 2,969,922
Construction cash and cash equivalents	2,448,415
Cash with fiscal agent - construction	15,867,898
Taxes and accounts receivable	2,811,514
Intergovernmental receivable	<u>19,295</u>
 Total restricted assets	 <u><u>\$ 24,117,044</u></u>

I. Acquired Operations

As of January 1, 2008, the Sanitary District assumed operations from the City of garbage collection and recycling services. The City transferred the related assets and liabilities to the Sanitary District. The Sanitary District established each operation as a separate utility. The related assets and liabilities are reported in the Statement of Revenues, Expenses, and Other Changes in Fund Net Assets as contributions.

III. Other Information

A. Risk Management

The risks of 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 including postemployment benefits; 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.

Unemployment Compensation

The Sanitary 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 payouts, and other economic and social factors.

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

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

	2007	2008
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurrd claims and changes in estimates	-	2,292
Claim payments	-	2,292
	-	-
Unpaid claims, end of fiscal year	\$ -	\$ -

B. Subsequent Events

Property Tax Rates

Due to delays caused by trending of assessments, the assessed valuations of Lake County were not finalized by February 15, 2009, as required. Therefore, the 2008 pay 2009 property tax rates and levies, as well as related budget orders for 2009, were not established until July 31, 2009. Currently, the County is anticipating billing the 2008 pay 2009 taxes in two installments with due dates of October 29 and November 30, 2009.

To offset the delay in tax collections, the Sanitary District received \$3,092,306 of tax anticipation warrant proceeds from the Indiana Bond Bank at an interest rate of 2.50%. The warrants are to be repaid when the 2009 property tax distributions are received.

The final distribution of the 2008 property tax distributions which were received by the Sanitary District in March 2009 were used to retire the balances of tax anticipation warrants as of December 31, 2008.

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 two percent (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 non-property tax revenues or revenues from property tax levies for other funds (including operating) to offset revenue loss to the debt service fund.

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

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 Sanitary 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.

C. Contingent Liabilities

There are several pending claims against the Sanitary District for which liability cannot be reasonably estimated; however, it is expected that no pending claim has the potential to exceed the Sanitary District's insurance coverage.

As a result of heavy storms from 2006, 2007, and 2008, property owners within the Sanitary District have alleged damages by unspecified acts of negligence by the Sanitary District and Sanitary District employees. Additionally, several lawsuits seeking damages have been filed against the Sanitary District. The Sanitary District denies that any negligence of its personnel caused or contributed to any injuries or damages. The Sanitary District also believes that it is immune from liability for this kind of event under the terms of the Indiana Tort Claims Act and case law interpreting that Act. The extent of the Sanitary District's exposure is not known; however, the Sanitary District believes that all claims arising out of storm events can be resolved within the limits of the Sanitary District's insurance coverage.

D. Cash with Fiscal Agent

The Hammond and Munster Water Utilities serve as billing and collection agents for the Sanitary District user charge system. The Hammond Water Utility deposits daily collections directly to the Sanitary 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 Sanitary District, as well as cash held by the Hammond Water Utility, but not recognized by the Sanitary District as having been received.

In 2007, the Sanitary 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 Sanitary District's name. The Sanitary District will earn the interest from the trust account. Before any disbursements can be made from this trust account, the State must approve the draw down 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 Sanitary District transferred \$1,000,000 to the City as payment in lieu of taxes.

F. Consent Decree – Non-compliance

In April of 1999, the Sanitary 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.

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

For CSO Control, the Sanitary 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 were to be completed by May 1, 2009, and achieved operational status for all new or modified components and cease all discharges from Columbia, Sohl, and Johnson Avenues CSOs. In accordance with the Consent Decree failure to comply with any completion date specified and to remain in noncompliance for more than 90 days, the Sanitary District shall not thereafter make any new hook-up, connection, or extension to its sewage system until the Sanitary 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 Sanitary District is required to report semi-annually to the EPA and IDEM on the status of the Sanitary District's compliance with all requirements of the Decree.

The semiannual reports were sent on June 17 and December 17, 2008, and on June 15, 2009; however, the Sanitary District has not completed the CSO Control construction projects due to a lack of funding. As of September 16, 2009, the Sanitary District is negotiating with representatives of the EPA, the U.S. Department of Justice, and the IDEM to modify the terms of the Consent Decree. As of September 16, 2009, no penalties have been assessed against the Sanitary District.

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 Sanitary District for administrative review. Also, the Sanitary District has been advised by the EPA and IDEM of their intent to seek civil penalties as provided in the existing Consent Decree. The penalties sought are for certain NPDES Permit pollutant parameter violations alleged to have occurred over the last five years, which the Sanitary District denies the existence and/or the extent of these violations. The Sanitary District estimates the liability for any such penalties to be less than \$250,000.

G. Postemployment Benefits

Plan Description

Senior healthcare plans are single-employer defined benefit healthcare plan administered by Guardian and Anthem Insurance Companies. The plans provide Medicare supplemental insurance coverage to eligible retirees and their spouses. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the Sanitary District.

Funding Policy

The contribution requirements of plan members for the Sanitary District's health insurance plan are established by the Sanitary District's Board. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2008, the Sanitary District contributed \$103,000 to the plan. The amount the plan members contributed could not be

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

determined. Plan members required contributions are \$25, \$50, \$75, or \$100 per month based upon a sliding scale based upon a participant's age and whether coverage is for the retiree only or for the retiree and spouse.

H. Rate Structure

Wastewater Service Rate Increase

In accordance with Indiana Code 36-9-25-11.3(d)(2)(B), the Sanitary 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.

Storm Water Utility

The current rate structure for the storm water customer charge was approved by the Common Council on January 23, 2006.

Sanitation and Recycling Departments

On December 11, 2007, the Sanitary 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 Sanitary 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.

I. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Sanitary 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

PERF members are required to contribution three percent (3%) of their annual covered salary. The City is required to contribute at an actuarially determined rate: the current rate is six and one-quarter percent (6.25%) of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the PERF Board of Trustees.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Sanitary 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 or liability of the Sanitary District.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,322,405
Interest on net pension obligation	(23,749)
Adjustment to annual required contribution	27,064
Annual pension cost	1,325,720
Contributions made	1,202,468
Increase (decrease) in net pension obligation	123,252
Net pension obligation, beginning of year	(327,572)
Net pension obligation, end of year	\$ (204,320)
Contribution rates:	
Sanitary District	6.25%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age Normal Cost
Amortization method	Level Dollar, Closed Amortization Period
Amortization period	30 years
Amortization period (from date)	07-01-07
Asset valuation method	Level Dollar, Closed Amortization Period

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

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	4%
Cost-of-living adjustments	1.5%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 1,171,035	83%	\$ (593,163)
	06-30-07	1,322,721	80%	(327,572)
	06-30-08	1,325,720	91%	(204,320)

Funded status and Funding Progress for the Above Plan

The funded status of each plan as of July 1, 2008, the most recent actuarial valuation date is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
PERF	\$ 25,443,976	\$ 27,167,985	\$ (1,724,009)	94%	\$ 19,577,776	(9%)

The Schedule of Funding Progress, presented as RSI for the above plan following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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)
07-01-06	\$ 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%)
07-01-08	25,443,976	27,167,985	(1,724,009)	94%	19,577,776	(9%)

SANITARY DISTRICT
CITY OF HAMMOND
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS

The Sanitary District's policy regarding vacation leave states: "Vacation time may not be carried into the next calendar year, unless the employee's scheduled vacation time has been canceled by the Sanitary District and there is insufficient time to reschedule the vacation during the calendar year." The Sanitary District's compensatory time policy states: "Comp Time must be taken within a reasonable amount of time. Only Comp Time earned in the month of December may be carried over into the first quarter of the new year."

In June 2008, the Payroll Clerk requested permission from the Sanitary District Manager to convert her compensatory time used from February 1, 2008 through June 30, 2008, to vacation time used. Written documentation of the number of hours to be converted was not provided to the Sanitary District Manager. Additionally, the Business Manager, who is responsible for approving the time sheets of the Payroll Clerk, was not informed of this request. All compensatory time used during this period was converted to vacation leave which was 44 hours. In December 2008, the Sanitary District Manager approved the payment of the Payroll Clerk's balance of 191 compensatory hours for which one-half was paid in December 2008 with the remainder being paid after the Board approved the payment of the compensatory time in January 2009. The conversion of the compensatory time to vacation resulted in her receiving an additional \$797.72 (44 hours at \$18.13 per hour).

Furthermore, the Business Manager, who became a contractor in 2008, stopped signing the time sheets for the employees in the Finance Department. This employee had access to a signature stamp which was used occasionally by the Business Manager for other purposes. Since the Sanitary District Manager or Business Manager had not designated anyone to sign the time sheets, this employee used this signature stamp to indicate that her time sheets had been reviewed and approved.

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 for Special Districts, Chapter 10)

CAPITAL ASSETS AND DEPRECIATION

The Sanitary District's capital asset records include items which are no longer in use and items which have been disposed of by the Sanitary District. Furthermore, a physical inventory of assets has not been conducted in several years. The detail listing of capital assets includes line items such as adjustments provided by auditors as a capital asset item.

The Sanitary District maintains their capital asset records electronically. The computer software is also used to calculate and maintain depreciation expense and the related accumulated depreciation balances of the individual assets. The system allows the user to enter an "asset acquisition date" and an asset "placed in service date," which can differ.

In testing calculations of depreciation expense and the related accumulated depreciation balance on some individual assets variations were noted. The calculation errors resulted in assets being over depreciated in 2008 by amounts ranging from \$62 to \$1,575, and one asset being under depreciated by \$9,373. The cumulative effect of these calculation errors are reported as accumulated depreciation,

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

whereby accumulated depreciation is overstated by amounts ranging from \$1,575 to \$9,373 and understated by amounts ranging from \$650 to \$10,312. We could not determine the total amount by which the accumulated depreciation is overstated or understated.

Officials researched records and data to determine an explanation for the variations which was purported to be a glitch in the computer software. When the date the asset is placed in service is different than the date the asset was acquired, the system attempts to "catch up" the depreciation.

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

Written verification procedures and actual verification results must be provided to the State Board of Accounts' Field Examiners which document accurate calculating, summarizing, categorizing, and updating of accounting information on a periodic basis and after the modification of accounting system computer programs. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 11)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ACCOUNTS PAYABLE VOUCHERS

General

Accounts payable vouchers for the attorney and a lab cleaning service did not have properly itemized invoices attached. The attorney was paid based upon the attached purchase order, and the cleaning service invoices did not indicate a rate of pay for the service provided.

Travel

When mileage is claimed for reimbursement, the Mileage Claim Form Number 101 is not always used.

Employees are reimbursed for registration fees for conferences and meals based upon submission of cancelled checks, money orders, or personal credit card statements. Invoices are not always provided to support amounts claimed.

An employee attended a conference in Georgia. The conference ran from January 28 thru January 31; however, hotel and meals paid for on February 2, 2008, were reimbursed totaling \$212.86. No justification was provided for the additional costs to the Sanitary District.

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

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SPECIAL DISTRICT ANNUAL REPORT (SDAR) NOT ADVERTISED

The Sanitary District prepared the 2008 Special District Annual Report (SDAR); however, the report was not advertised as required.

IC 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. December 31 of such municipality must also be shown on this published report. (Cities and Towns Bulletins and Accounting and Uniform Compliance Guidelines Manual, December, 2004)

RATE NOT APPROVED BY COUNCIL

The Sanitary District Board approved a resolution increasing the garbage collection fee for the Sanitation Utility. This increased fee has not been approved by the Hammond City Council in the form of an Ordinance.

IC 36-9-25-11 (c) states:

"Fees may not be established until a public hearing has been held at which all the users of the sewage works and owners of property served or to be served by the works, including interested parties, have had an opportunity to be heard concerning the proposed fees. After introduction of the resolution fixing fees, and before they are finally adopted, notice of the hearing setting forth the proposed schedule of fees shall be given by publication in accordance with IC 5-3-1. After the hearing the resolution establishing fees, either as originally introduced or as amended, shall be passed and put into effect. However, fees related to property that is subject to full taxation do not take effect until they have been approved by ordinance of the municipal legislative body or, in the case of a district described in section 3(b)(2) of this chapter, under section 11.3 of this chapter."

ACTUARIAL STUDY REQUIRED

The Sanitary District offers postemployment health insurance benefits to all employees who leave employment after meeting eligibility requirements for retirement benefits from the Public Employees Retirement Fund (PERF). An actuarial study of the postemployment benefits is required by Statement 45 issued by the Governmental Accounting Standards Board; however, the actuarial study was not performed.

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

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. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

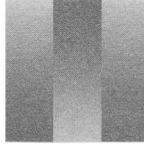
The contents of this report were discussed on November 3, 2009, with William E. Biller, Business Manager; Alan Arendt, Acting Business Manager; Michael T. Unger, Ph.D., Sanitary District Manager; Stanley J. Dostatni, President of the Board of Sanitary District Commissioners; and Joseph Allegretti, Sanitary District Attorney. The official response has been made a part of this report and may be found on pages 29 through 36.

SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE
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Board of Sanitary Commissioners

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



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

November 10, 2009

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 2008

Dear Mr. Tippin:

On Tuesday November 3, 2009 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 2008 audit. Enclosed is the District's official response to the State Board of Accounts' Audit Results and Comments for the calendar year 2008. Please include this response with the State Board of Accounts' Audit Report.

Sincerely,

William E. Biller
Business Manager

Enclosure

Pc: Board of Commissioners
Joseph P. Allegretti
Michael T. Unger, District Manager

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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1. INTERNAL CONTROLS:

The Sanitary District's policy regarding vacation leave states, "Vacation time may not be carried into the next calendar year, unless the employee's schedule vacation time has been canceled by the Sanitary District and there is insufficient time to reschedule the vacation during the calendar year." The Sanitary District's compensatory time policy states, "Comp Time must be taken within a reasonable amount of time. Only Comp Time earned in the month of December may be carried over into the first quarter of the new year."

In June 2008, the payroll clerk requested permission from the Sanitary District Manager to convert her compensatory time used from February 1, 2008 through June 30, 2008 to vacation time used. Written documentation of the number of hours to be converted was not provided to the Sanitary District Manager. Additionally, the Business Manager, who is responsible for approving the time sheets of the payroll clerk, was not informed of this request. All compensatory time used during this period was converted to vacation leave which was 44 hours. In December 2008, the Sanitary District Manager approved the payment of the payroll clerk's balance of 191 compensatory hours for which one-half was paid in December 2008 with the remainder being paid after the board approved the payment of the payment of the compensatory time in January, 2009. The conversion of the compensatory time to vacation resulted in her receiving an additional \$797.72 (44 hours at \$18.14 per hour).

Furthermore, the Business Manager, who became a contractor in 2008, stopped signing the time sheets for the employees in the finance department. This employee had access to a signature stamp which was used occasionally by the Business Manager for other purposes. Since the Sanitary District Manager or Business Manager had not designated anyone to sign the time sheets, this employee used this signature stamp to indicate that her time sheets had been reviewed and approved.

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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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 controls. (Accounting and Uniform Compliance Guidelines for Special Districts, Chapter 10)

RESPONSE:

The District will take steps to insure that compensatory time paid; will have the proper supporting documentation prior to approval and payment.

The District's hiring of a Business Manager in calendar year 2009, who is responsible for approval of finance department employee's time sheets; and limited access to said signature stamp will improve controls within the finance department.

2. CAPITAL ASSETS AND DEPRECIATION

The Sanitary District's capital asset records include items which are no longer in use, and items which have been disposed of by the Sanitary District. Furthermore, a physical inventory of assets has not been conducted in several years. The detail listing of capital assets includes items such as adjustments provided by auditor as a capital item.

The Sanitary District maintains their capital asset records electronically. The computer software is also used to calculate and maintain depreciation expense and the related accumulated depreciation balances of the individual assets. The system allows the user to enter an "assets acquisition date" and an asset "placed in service date", which can differ.

In testing calculations of depreciation expense and the related accumulated depreciation balance on some individual assets variations were noted. The calculation errors resulted in assets being over depreciated in 2008 by amounts

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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ranging from \$62 to \$1,575, and one assets being under depreciated by \$9,373. The cumulative effect of these calculation errors are reported as accumulated depreciation, whereby accumulated depreciation is overstated by amounts ranging from \$1,575 to \$9,373 and understated by amounts ranging from \$650 to \$10,312. We could not determine the total amount by which the accumulated depreciation is overstated or understated.

Officials researched records and data to determine an explanation for the variation which was purported to be a glitch in the computer software. When the date the asset is placed in service is different than the date the asset was acquired, the system attempts to "catch up" the depreciation.

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts' Chapter 10).

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10).

RESPONSE:

District agrees that its capital assets records include items that are no longer in use, original value less than current capitalization policy and or are fully depreciated. In a perfect world these item should be removed from the capital asset records, but in the present economic environment of budgetary and personnel reductions, items which have no impact on the net assets of the governmental units have a low management priority.

The financial impact of "computer software glitch" was explained to the field examiners and is less than one half of one percent of current year depreciation expense of \$4,100,000.

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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As to items such as "auditor adjustment capital assets" these items date to the 1960 and 1970 time frame.

District agrees that a complete physical inventory of capital assets has not been undertaken recently. District will take steps to insure that physical inventories of assets are taken on a set schedule.

3. ACCOUNTS PAYABLE VOUCHERS

General

Accounts payable vouchers for the attorney and a lab cleaning service did not have properly itemized invoices attached. The attorney was paid based upon the attached purchase order, and the cleaning service invoices did not indicate a rate of pay for the service provided.

Travel

When mileage is claimed for reimbursement the Mileage Claim Form Number 101 is not always used.

Employees are reimbursed for registration fees for conferences and meals based upon submission of cancelled checks, money orders, or personal credit card statements. Invoices are not always provided to support amounts claimed.

An employee attended a conference in Georgia. The conference ran from January 28 thru January 31; however, the hotel and meals paid for on February 2, 2008 were reimbursed totaling \$212.86. No justification was provided for the additional cost to the Sanitary District.

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 individual must have specific detail information of the names of all individual for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payment 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

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10).

RESPONSE:

The attorney has a contract with the District via Resolution 41-2007 which states an annual compensation. The District believes that a monthly invoice is not required to provide monthly payment to the attorney.

District's agreement that the cleaning service invoices does not include an hourly rate. The vendor will be notified to include the hourly rate on their invoice.

District employees should provide said mileage claim form for reimbursement. Management will inform employees that to be reimbursed for mileage the proper form must be provided.

District will undertake to clarify its travel policy (Resolution 51-2002) to incorporate the audit comments.

4. SPECIAL DISTRICT ANNUAL REPORT (SDAR) NOT ADVERTISED

The Sanitary District prepared the 2008 Special District Annual Report (SDAR); however, the report was not advertised as required.

IC 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. (Cities and Towns Bulletins and Accounting and Uniform Compliance Guidelines Manual, December, 2004).

RESPONSE:

District is a "Special taxing district" as define by IC 36-1-2-18 (Special taxing district means a geographic area within which a special tax may be levied and collected on an ad valorem basis on property for the purpose of financing local

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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public improvements that are: (1) not political or governmental in nature; and (2) if special benefit to residents and property if the area.)

IC 36-1-2-13 **POLITICAL SUBDIVISION** means municipal corporation or special taxing district.

IC 36-1-2-3 **CITY** refers to a consolidated city or other incorporated city of any class, unless the reference is to a school city.

IC 36-1-2-21 **TOWN** refers to an incorporated town, unless the reference is to a school town.

IC 36-1-2-11 **MUNICIPALITY** means city or town.

IC 5-3-1-2 "cities, towns and school corporations; publication of annual report of receipts and expenditures"

By definition the District is a special district and as such is a political subdivision. However, we definitely are not a city, Town, municipality, and therefore IC 5-3-1-3 does not apply to the District.

5. RATES NOT APPROVED BY COUNCIL

The Sanitary District Board approved a resolution increasing the garbage collection fee for the Sanitation Utility. This increased fee has not been approved by the Hammond City Council in the form of an Ordinance.

Indiana Code 36-9-25-11 (c) states, "Fees may not be established until a public hearing has been held at which all the users of the sewage works and owners of property served or to be served by the works, including interested parties; have had an opportunity to be heard concerning the proposed fees. After introduction of the resolution fixing fees, and before they are finally adopted, notice of the hearing setting forth the proposed schedule of fees shall be given by publication in accordance IC 5-3-1. After the hearing the resolution establishing fees, either as originally introduced or as amended, shall be passed and put into effect. However, fees related to property that is subject to full taxation do not take effect until they have been approved by ordinance of the municipal legislative body, or in the case of a district described in section 3(b)(2) of this chapter, under section 11.3 of this chapter."

HAMMOND SANITARY DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2008

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RESPONSE:

IC 36-9-25-11 (a) “allows the Board to fix fees for the “disposal of” sewage and other waste discharged into the sewerage system.” The fees so established shall be paid by “any user....and owner of every lot.” Given the definition of “sewer” that applies to this chapter (including facilities for the collection of solid waste); the District is of the view that “sewerage system” would include facilities (i.e., trucks, etc.) for the collection of trash.

IC36-9-25-11 (c) only requires Council approval of “fees related to property subject to full taxation.” The Sanitary District’s position is that it adopted a rate and limited it to “users of the system” –i.e., residents as opposed to property owners—thus eliminating the need for Council approval.

6. ACTUARIAL STUDY REQUIRED

The Sanitary District offers post employment health insurance benefits to all employees who leave employment after meeting eligibility requirements for retirement benefits from Public Employees Retirement Fund (PERF). An actuarial study of the post employment benefits is required by Statement 45 issued by the Governmental Accounting Standard Board; however, the actuarial study was not performed.

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RESPONSE

The District will perform an actuarial study as it relates to post employment health insurance benefits.