

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

EXAMINATION REPORT
OF

WATER UTILITY
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 Public Works and Safety	William J. O'Connor	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
Office Manager	Deborah Van Meter	01-01-08 to 12-31-09
Chief Executive Operator of Water Utility	Edward Krusa	01-01-08 to 12-31-09
President of the Utility Service Board	Sharon Daniels	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water Utility, a department of the City of Hammond, as of and for the year ended December 31, 2008. The Utility's management is responsible for the financial statements presented herein. Our responsibility is to express an opinion 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 statement 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 Water Utility, City of Hammond, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Hammond as of December 31, 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 Water Utility, 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 Water Utility provides postemployment health insurance benefits to eligible retirees. The Water Utility has not provided an actuarial study to determine the Water Utility's annual postemployment benefit costs in accordance with GASB Statement 45.

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.

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

STATE BOARD OF ACCOUNTS

September 30, 2009

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF NET ASSETS
December 31, 2008

Assets

Current assets:	
Cash and cash equivalents	\$ 8,108,476
Accounts receivable	781,074
Inventories	416,989
Prepaid items	100,113
Due from city	500
Due from state	<u>277</u>
 Total current assets	 <u>9,407,429</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Customer deposits	<u>782,990</u>
Capital assets:	
Land, land rights, and construction in progress	3,219,437
Other capital assets (net of accumulated depreciation)	<u>28,238,425</u>
 Total capital assets	 <u>31,457,862</u>
 Total noncurrent assets	 <u>32,240,852</u>
 Total assets	 <u>41,648,281</u>

Liabilities

Current liabilities:	
Accounts payable	83,117
Accrued payroll and withholding payable	144,822
Taxes payable	20,421
PERF payable	59,989
Due to sanitary	56
Due to refuse	3,972
Current liabilities payable from restricted assets:	
Customer deposits	<u>783,726</u>
 Total current liabilities	 <u>1,096,103</u>
Noncurrent liabilities:	
Compensated absences	<u>124,883</u>
 Total liabilities	 <u>1,220,986</u>

Net Assets

Invested in capital assets	31,457,862
Restricted for customer deposits	782,990
Unrestricted	<u>8,186,443</u>
 Total net assets	 <u>\$ 40,427,295</u>

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

Operating revenues:	
Metered water revenue:	
Residential	\$ 1,705,860
Commercial	6,457,834
Other water revenue	<u>374,611</u>
Total operating revenues	<u>8,538,305</u>
Operating expenses:	
Water Treatment:	
Salaries and wages	818,216
Employee pensions and benefits	82,830
Purchased power	1,014,917
Chemicals	945,534
Materials and supplies	105,475
Contractual services	379,696
Insurance	345,482
Miscellaneous	2,100
Transmission and distribution:	
Salaries and wages	913,594
Employee pensions and benefits	92,579
Materials and supplies	662,044
Contractual services	79,850
Transportation expense	66,026
Insurance	551,547
Miscellaneous	3,407
Customer accounts:	
Salaries and wages	548,387
Employee pensions and benefits	47,577
Contractual services	214,741
Transportation expense	8,041
Insurance	237,008
Bad debt expense	19,922
Miscellaneous	3,396
Administrative and general:	
Salaries and wages	559,415
Employee pensions and benefits	43,503
Materials and supplies	216,177
Insurance	274,464
Taxes	265,901
Depreciation	1,344,187
Miscellaneous	<u>106,582</u>
Total operating expenses	<u>9,952,598</u>
Operating loss	<u>(1,414,293)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	264,825
Port Authority Intergovernmental Agreement	1,500,000
Grant from Redevelopment Commission	1,000,000
Miscellaneous revenue	300
Loss on disposition of assets	<u>(13,372)</u>
Total nonoperating revenues (expenses)	<u>2,751,753</u>
Income before contributions and transfers	1,337,460
Capital contributions	1,652,924
Transfers to City	<u>(615,000)</u>
Change in net assets	2,375,384
Total net assets - beginning	<u>38,051,911</u>
Total net assets - ending	<u>\$ 40,427,295</u>

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2008

Cash flows from operating activities:	
Receipts from customers and users	\$ 8,456,929
Payments to suppliers and contractors	(5,603,642)
Payments to employees	<u>(3,151,688)</u>
Net cash provided (used) by operating activities	<u>(298,401)</u>
Cash flows from noncapital financing activities:	
Port Authority Intergovernmental Agreement	1,500,000
Transfer to City	<u>(615,000)</u>
Net cash provided (used) by noncapital financing activities	<u>885,000</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,574,717)
Grant from Redevelopment Commission	<u>1,000,000</u>
Net cash provided (used) by capital and related financing activities	<u>(2,574,717)</u>
Cash flows from investing activities:	
Interest received	<u>264,825</u>
Net increase in cash and cash equivalents	(1,723,293)
Cash and cash equivalents, January 1	<u>10,614,759</u>
Cash and cash equivalents, December 31	<u>\$ 8,891,466</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (1,414,293)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,344,187
Bad debt expense	19,922
Miscellaneous nonoperating revenue	300
(Increase) decrease in assets:	
Accounts receivable	(80,899)
Inventories	(83,026)
Prepaid items	8,894
Due from sanitary	85
Due from refuse	24
Due from state	(277)
Due from city	(500)
Increase (decrease) in liabilities:	
Accounts payable	(165,698)
Accrued payroll and withholding payable	32,014
Taxes payable	726
PERF payable	6,448
Due to sanitary	56
Due to refuse	3,972
Customer deposits	16,091
Compensated absences	<u>13,573</u>
Total adjustments	<u>1,115,892</u>
Net cash provided (used) by operating activities	<u>\$ (298,401)</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 1,652,924
Transfer of completed construction in progress projects	767,512
Deletion of obsolete capital assets	388,556

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

WATER UTILITY
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

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

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

State statute (IC 5-13-9) authorizes the Utility to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

2. Inventories and Prepaid Items

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

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

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

3. Restricted Assets

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

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Source and supply	\$ 5,000	Straight-line	15 years
Distribution lines	5,000	Straight-line	15 years
Pumping equipment	5,000	Straight-line	5 to 10 years
Treatment equipment	5,000	Straight-line	5 to 10 years
General building	15,000	Straight-line	20 to 50 years
General equipment	2,000	Straight-line	5 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of $\frac{3}{4}$ of a day per month. Unused sick leave may be accumulated to a maximum of 75 days. Upon separation of employment, sick leave is paid to employees that have been employed at least 10 years at the rate of one day's pay for each four unused accumulated sick days or after 15 years of employment at the rate of one day's pay for each two unused accumulated sick days.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. However, unused vacation leave is paid to employees through cash payments upon separation from employment.
- c. Personal Leave – Utility employees earn personal leave at the rate of $\frac{1}{4}$ of a day per month, if employed on January 1 of that year. Personal leave does not accumulate from year to year. Unused personal leave is added to accumulated sick leave to a maximum of 75 days. Unused personal leave is not paid to employees upon separation from employment.

No liability is reported for vacation and personal leave.

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

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with 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.

B. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 134,466	\$ -	\$ -	\$ 134,466
Construction in progress	630,645	3,221,838	767,512	3,084,971
	<u>765,111</u>	<u>3,221,838</u>	<u>767,512</u>	<u>3,219,437</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Source and supply	1,790,871	-	7,168	1,783,703
Distribution lines	36,257,627	2,480,791	48,919	38,689,499
Pumping equipment	8,691,586	218,436	-	8,910,022
Treatment equipment	11,149,249	-	5,921	11,143,328
General building	654,605	-	7,050	647,555
General equipment	1,569,488	74,088	319,498	1,324,078
	<u>60,113,426</u>	<u>2,773,315</u>	<u>388,556</u>	<u>62,498,185</u>
Totals				
Less accumulated depreciation for:				
Source and supply	1,038,668	88,771	7,168	1,120,271
Distribution lines	19,150,343	523,462	52,832	19,620,973
Pumping equipment	3,620,117	22,838	-	3,642,955
Treatment equipment	7,975,579	118,250	5,921	8,087,908
General building	325,588	484,005	-	809,593
General equipment	1,180,462	106,861	309,263	978,060
	<u>33,290,757</u>	<u>1,344,187</u>	<u>375,184</u>	<u>34,259,760</u>
Totals				
Total capital assets, being depreciated, net	<u>26,822,669</u>	<u>1,429,128</u>	<u>13,372</u>	<u>28,238,425</u>
Total capital assets, net	<u>\$ 27,587,780</u>	<u>\$ 4,650,966</u>	<u>\$ 780,884</u>	<u>\$ 31,457,862</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed
Schliecher subdivision phase 1	\$ 34,124	\$ 29,218	\$ 4,906
New water storage tanks	253,015	78,303	174,712
Calumet Avenue water main move	402,520	119,133	283,387
Two new water storage tanks and pump station	2,954,040	2,482,462	471,578
New 6 mg tank	816,650	240,390	576,260
Brickwork and structural repair	151,500	135,465	16,035
Totals	<u>\$ 4,611,849</u>	<u>\$ 3,084,971</u>	<u>\$ 1,526,878</u>

D. Transfers to the City

Interfund transfers at December 31, 2008, were as follows:

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

E. Customer Deposit Cash/Payable

At December 31, 2008, the customer deposit cash did not agree with customer deposit payable by \$736 due to a timing delay in transferring operating cash to customer deposit cash.

III. Other Information

A. Risk Management

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding 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. Prior to January 1, 2008, the Utility participated in the City's self-insurance plan for job related illnesses or injuries to employees and medical benefits to employees, retirees, and dependents.

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

Unemployment Compensation

The City (including the Utility) has chosen to establish a risk financing fund for risks associated with unemployment compensation claims. The risk financing fund is accounted for in the City's Unemployment Compensation Fund (an internal service fund of the City) where assets are set aside for claim settlements and the Utility reimburses the City from the Utility's Unemployment Compensation Account. The total charge allocated to each of the funds is based on each fund's actual number of employees which have had claims. Provisions are also made for unexpected and unusual claims. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

B. Intergovernmental Agreement

The Port Authority and Hammond Water Utility entered into an Intergovernmental Agreement dated June 20, 1996, to which the Port Authority agreed to distribute embarkation fees to the Water Utility. The Port Authority agreed to distribute the lesser of (a) one-third of the amount of the embarkation fee received by the Port Authority in the most recent ended prior calendar quarter, or (b) \$375,000 quarterly to a maximum of \$12,000,000. As of December 31, 2008, the Port Authority had distributed a total of \$10,700,000 to the Water Utility which resulted in a balance of \$1,300,000 due to the Water Utility.

C. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The Utility provides postemployment medical, dental, and vision insurance benefits for retirees from the Utility.

Funding Policy

In addition to the pension benefits described below, the Utility provides postemployment medical dental and vision insurance benefits, as authorized by IC 5-10-8, to all employees who retire from the Utility on or after attaining age 50 with at least 15 years of service. Currently, 16 retirees meet these eligibility requirements. The Utility provides \$186 to \$1,467 per month per retiree and the retiree pays from \$20 to \$100 of the monthly premium for medical, dental, and vision insurance. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2008, expenditures of \$126,297 were recognized for post-employment benefits. This amount represents 92.6% of the total medical, dental, and vision insurance costs for the retirees.

D. Rate Structure

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

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

E. Agent Services

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

F. Customer Cities

The Utility sells water to ten neighboring cities and towns. Revenues attributable to these cities and towns for 2008 are as follows:

City	Metered Revenue
Burnham	\$ 122,075
Calumet City	1,019,503
Chicago Heights	1,885,569
Ford Heights	30,786
Griffith	286,743
Highland	645,875
Lansing	1,310,075
Lynwood	39,441
Munster	649,358
South Holland	24,182
Total	\$ 6,013,607

G. Subsequent Events

In 2009, the Utility is undertaking a \$3,500,000 project to upgrade the Filtration Plant. The project is being funded through a grant from the Hammond Redevelopment Commission of \$1,000,000 received on December 31, 2008, a state revolving forgivable loan from the State of Indiana of \$1,000,000, and \$1,500,000 from cash balances on hand. The Utility closed on the state revolving loan on September 23, 2009.

To assist in the financing of the acquisition and construction of the upgraded filtration plant, \$1,500,000 was loaned from the Hammond Redevelopment Commission on April 27, 2009, and matures on April 27, 2010, with no interest.

H. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utility, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City

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

authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy

PERF members are required to contribute 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%) for the City (including the Water Utility) 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 Water Utility is not available.

Annual Pension Cost

For 2008, the City's annual pension costs for PERF were \$1,325,720. The required and actual contributions for PERF were \$1,322,405 and \$1,202,468, respectively.

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 in net pension obligation	123,252
Net pension obligation, beginning of year	(327,572)
Net pension obligation, end of year	\$ (204,320)

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

	PERF
Contribution rates:	
City	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	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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 the 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 (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) 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 the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 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%)

WATER UTILITY
CITY OF HAMMOND
EXAMINATION RESULTS AND COMMENTS

RECORDS OF HOURS WORKED

Edward Krusa, Chief Executive Operator of the Water Utility, is also a member of the Lake County Property Tax Assessment Board of Appeals (PTABOA). The PTABOA holds regular board meetings usually twice each month for one to two hours beginning at 10:00 AM during regular work hours. PTABOA members are paid \$50 per meeting. Mr. Krusa maintains an Employee's Service Record, General Form 99A, for his work at the Water Utility. The Employee Service Record presented for audit did not indicate a record of hours spent attending meetings for the PTABOA. Therefore, we could not determine if Mr. Krusa was compensated by the Water Utility and the PTABOA for the same hours of any given working day.

Mr. Krusa also has a consulting business. Mr. Krusa was paid \$14,500 by the Hammond Port Authority and \$27,500 by the Hammond Redevelopment Commission for consulting services. A Uniform Conflict of Interest Disclosure Statement does not appear to have been filed. Such a disclosure statement should be filed since Mr. Krusa is both an employee of the City of Hammond (Water Department) and has a contract with the City of Hammond for consulting services. Mr. Krusa has an employment agreement at the Water Utility. The agreement has the following language: "It is also understood that the Chief Executive Operator is authorized to continue to provide advice and consulting services to the City of Hammond and others concerning financial matters unrelated to the Hammond Department of Water Works." The agreement is unclear if additional compensation is permitted while consulting with other departments of the City while still being compensated by the Water Utility.

IC 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

IC 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . ."

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"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

APPROVAL OF CLAIMS

The claims reviewed for the return of customer deposits and refunds were not signed by the Board members or listed on the claims register. There was no indication that the Board approved of these disbursements.

IC 5-11-10-2(a) states: "Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ACTUARIAL STUDY

The Water Utility did not have an actuarial study performed for their postemployment benefits. Governmental Accounting Standards Board (GASB) 45 requires that an actuarial study be performed every three years for plans with fewer than 200 people.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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EXIT CONFERENCE

The contents of this report were discussed on October 19, 2009, with Sharon Daniels, President of the Utility Service Board; Edward Krusa, Chief Executive Operator of Water Utility; and Deborah Van Meter, Office Manager.