

B37622

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, 2009 to December 31, 2009



FILED
10/06/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Statement of Net Assets.....	4
Statement of Revenues, Expenses, and Other Changes in Fund Net Assets.....	5-6
Statement of Cash Flows	7
Notes to Financial Statements	8-19
Examination Results and Comments:	
Construction in Progress Internal Controls.....	20-21
Capital Asset Records - Recycling	21
Exit Conference.....	22
Official Response	23-26

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Robert Lendi, CPA	01-01-09 to 12-31-10
Mayor	Thomas M. McDermott, Jr.	01-01-08 to 12-31-11
President of the Board of Sanitary Commissioners	Stanley J. Dostatni	01-01-09 to 12-31-10
President of the Board of Public Works and Safety	William J. O'Conner	01-01-09 to 12-31-10
President of the Common Council	Homero Hinojosa Anthony Higgs	01-01-09 to 12-31-09 01-01-10 to 12-31-10
Sanitary District Manager	Michael T. Unger, Ph.D.	01-01-09 to 12-31-10
Business Manager	William E. Biller Alan M. Arendt, CPA	01-01-09 to 09-30-09 10-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, 2009. The Sanitary District'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 Sanitary District, City of Hammond, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Sanitary District. They do not purport to, and do not, present fairly the financial position of the City of Hammond as of December 31, 2009, 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.

The Sanitary District does not maintain a complete record of capital assets, which includes construction in progress, in accordance with generally accepted accounting principles. The Sanitary District does not have a complete detail of construction in progress projects to support the amount posted in the ledger.

In our opinion, except for the effects, if any, of incomplete capital asset records referred to in the fourth paragraph, 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, 2009, 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 Sanitary District provides postemployment health insurance benefits to eligible retirees. The Sanitary District has not provided an actuarial study to determine the Sanitary District's annual post employment benefit costs in accordance with GASB Statement 45.

The Sanitary District has not presented Management's Discussion and Analysis, or the Schedule of Funding Progress, 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

June 2, 2010

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF NET ASSETS
December 31, 2009

	2009			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 312,745	\$ 187,163	\$ 278,776	\$ 5,534
Cash with fiscal agent	167,377	2,122	30,121	-
Accounts receivable (net of allowance)	1,149,756	25,410	306,250	-
Taxes receivable	1,243,556	-	-	-
Interfund receivables:				
Interfund loans	275,000	800,000	-	-
Inventories	698,557	-	-	-
Prepaid items	398,074	-	100,483	38,436
Total current assets	4,245,065	1,014,695	715,630	43,970
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Bond and interest cash and investments	1,522,648	-	-	-
Construction cash and investments	1,486,402	-	-	-
Cash with fiscal agent - construction	8,507,076	-	-	-
Taxes and accounts receivable	2,143,549	-	-	-
Total restricted assets	13,659,675	-	-	-
Deferred charges	219,594	-	-	-
Capital assets:				
Land and construction in progress	19,991,198	-	-	-
Other capital assets (net of accumulated depreciation)	114,788,893	-	805,619	319,783
Total capital assets	134,780,091	-	805,619	319,783
Total noncurrent assets	148,659,360	-	805,619	319,783
Total assets	152,904,425	1,014,695	1,521,249	363,753
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	966,209	-	149,400	23,369
Interfund payables:				
Interfund loans	800,000	-	-	275,000
Accrued payroll and withholdings payable	259,819	-	79,426	37,049
Compensated absences	101,410	-	6,058	7,332
Capital lease payable	-	-	201,081	-
Current liabilities payable from restricted assets:				
Loans payable	2,940,000	-	-	-
General obligation bonds payable	855,000	-	-	-
Accrued interest payable	887,050	-	-	-
Total current liabilities	6,809,488	-	435,965	342,750
Noncurrent liabilities:				
Loans payable	40,239,900	-	-	-
General obligation bonds payable (net of unamortized discounts and deferred amount on refunding)	4,169,093	-	-	-
Total noncurrent liabilities	44,408,993	-	-	-
Total liabilities	51,218,481	-	435,965	342,750
<u>Net Assets</u>				
Invested in capital assets, net of related debt	85,689,048	-	604,538	319,783
Restricted for debt service	3,666,197	-	-	-
Restricted for capital improvements	9,993,478	-	-	-
Unrestricted	2,337,221	1,014,695	480,746	(298,780)
Total net assets	\$ 101,685,944	\$ 1,014,695	\$ 1,085,284	\$ 21,003

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, 2009

	2009			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Operating revenues:				
Residential sales	\$ 6,208,021	\$ -	\$ -	\$ -
Commercial and industrial sales	3,373,306	-	-	-
Municipal sales	2,383,646	-	-	-
Flat rate revenues	-	308,585	3,952,257	-
Other charges for services	2,509,309	-	-	-
Local tax distributions for sewer maintenance	2,785,101	-	-	-
Sales of materials	-	-	-	109,941
Other	<u>2,367,774</u>	<u>-</u>	<u>21,058</u>	<u>882,821</u>
 Total operating revenues	 <u>19,627,157</u>	 <u>308,585</u>	 <u>3,973,315</u>	 <u>992,762</u>
Operating expenses:				
Sewer maintenance:				
Salaries and wages	828,561	-	1,431,391	-
Employee pensions and benefits	362,448	-	732,618	-
Materials and supplies	87,825	-	189,294	-
Repairs and maintenance	1,509,074	-	-	-
Contractual services	1,877,828	92,828	1,102,208	-
Fuel purchased	42,397	-	109,275	-
Utilities	47,379	-	-	-
Insurance	68,705	-	100,963	-
Miscellaneous	52,300	36,733	32,640	-
Pretreatment:				
Salaries and wages	52,693	-	-	-
Employee pensions and benefits	37,855	-	-	-
Materials and supplies	3,137	-	-	-
Contractual services	137,310	-	-	-
Fuel purchased	3,333	-	-	-
Insurance	5,912	-	-	-
Miscellaneous	1,054	-	-	-
Plant maintenance and operations:				
Salaries and wages	1,663,585	-	-	552,637
Employee pensions and benefits	857,531	-	-	287,603
Materials and supplies	364,115	-	-	62,948
Repairs and maintenance	417,643	-	-	-
Contractual services	2,564,825	-	-	59,314
Fuel purchased	42,891	-	-	36,385
Utilities	1,748,459	-	-	-
Sludge disposal	339,289	-	-	-
Insurance	289,382	-	-	49,703
Miscellaneous	226,835	-	-	17,619
Collection system:				
Salaries and wages	644,406	-	-	-
Employee pensions and benefits	331,180	-	-	-
Materials and supplies	1,329	-	-	-
Repairs and maintenance	26	-	-	-
Contractual services	3,960	-	-	-
Fuel purchased	9,003	-	-	-
Utilities	755,175	-	-	-
Insurance	86,908	-	-	-
Miscellaneous	2,559	-	-	-

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, 2009
(Continued)

	2009			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Operating expenses (continued):				
Administration and general:				
Salaries and wages	873,098	-	-	-
Employee pensions and benefits	504,401	-	-	-
Materials and supplies	39,983	-	-	-
Repairs and maintenance	156	-	-	-
Contractual services	406,729	-	-	-
Fuel purchased	6,550	-	-	-
Utilities	81,737	-	-	-
Insurance	56,464	-	-	-
Miscellaneous	402,689	-	-	-
Depreciation	4,197,496	-	142,491	61,848
Total operating expenses	<u>22,036,215</u>	<u>129,561</u>	<u>3,840,880</u>	<u>1,128,057</u>
Operating income (loss)	<u>(2,409,058)</u>	<u>179,024</u>	<u>132,435</u>	<u>(135,295)</u>
Nonoperating revenues (expenses):				
Local tax distributions	4,952,571	-	-	-
Interest earned on debt proceeds	160,722	-	-	-
Interest expense and fiscal agent fees	(2,059,894)	-	(17,048)	-
Amortization of debt issuance costs	(51,785)	-	-	-
Total nonoperating revenues (expenses)	<u>3,001,614</u>	<u>-</u>	<u>(17,048)</u>	<u>-</u>
Income (loss) before contributions and transfers	592,556	179,024	115,387	(135,295)
Capital contributions	276,557	-	-	-
Transfers out	(599,229)	-	-	-
Change in net assets	269,884	179,024	115,387	(135,295)
Total net assets - beginning	<u>101,416,060</u>	<u>835,671</u>	<u>969,897</u>	<u>156,298</u>
Total net assets - ending	<u>\$ 101,685,944</u>	<u>\$ 1,014,695</u>	<u>\$ 1,085,284</u>	<u>\$ 21,003</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, 2009

	2009			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 19,875,536	\$ 307,471	\$ 3,981,122	\$ -
Payments to suppliers	(11,673,225)	(130,006)	(1,558,631)	(207,059)
Payments to employees	(6,157,844)	-	(2,198,059)	(839,669)
Other receipts	-	-	-	992,762
Net cash provided by operating activities	<u>2,044,467</u>	<u>177,465</u>	<u>224,432</u>	<u>(53,966)</u>
Cash flows from noncapital financing activities:				
Proceeds from tax anticipation warrants	3,092,306	-	-	-
Principal paid on tax anticipation warrants	(5,860,442)	-	-	-
Interest paid on tax anticipation warrants	(50,863)	-	-	-
Interfund loans received	800,000	250,000	-	275,000
Interfund loans paid	(275,000)	(800,000)	-	(250,000)
Transfers to City	(599,229)	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(2,893,228)</u>	<u>(550,000)</u>	<u>-</u>	<u>25,000</u>
Cash flows from capital and related financing activities:				
Local tax distributions/community customers debt service	5,639,831	-	-	-
Acquisition and construction of capital assets	(9,924,034)	-	-	(7,435)
Principal paid on capital debt	(3,440,000)	-	(191,962)	-
Interest paid on capital debt	(2,073,367)	-	(17,048)	-
Net cash provided (used) by capital and related financing activities	<u>(9,797,570)</u>	<u>-</u>	<u>(209,010)</u>	<u>(7,435)</u>
Cash flows from investing activities:				
Interest received	160,722	-	-	-
Net cash provided (used) by investing activities	<u>160,722</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	(10,485,609)	(372,535)	15,422	(36,401)
Cash and cash equivalents, January 1	<u>22,481,857</u>	<u>561,820</u>	<u>293,475</u>	<u>41,935</u>
Cash and cash equivalents, December 31	<u>\$ 11,996,248</u>	<u>\$ 189,285</u>	<u>\$ 308,897</u>	<u>\$ 5,534</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (2,409,058)	\$ 179,024	\$ 132,435	\$ (135,295)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	4,197,496	-	142,491	61,848
(Increase) decrease in assets:				
Accounts receivable	(191,480)	(1,114)	7,807	-
Taxes receivable	222,857	-	-	-
Intergovernmental receivable	10,194	-	-	-
Deferred debits	206,808	-	-	-
Inventories	(28,282)	-	-	-
Prepaid items	(19,605)	-	(28,693)	873
Increase (decrease) in liabilities:				
Accounts payable	57,623	(445)	4,442	18,037
Accrued payroll and withholdings payable	(5,979)	-	(33,320)	(3,156)
Compensated absences payable	3,893	-	(730)	3,727
Total adjustments	<u>4,453,525</u>	<u>(1,559)</u>	<u>91,997</u>	<u>81,329</u>
Net cash provided by operating activities	<u>\$ 2,044,467</u>	<u>\$ 177,465</u>	<u>\$ 224,432</u>	<u>\$ (53,966)</u>
Noncash investing, capital and financing activities:				
Acquisition of capital assets through contracts payable (net)	\$ (167,748)	\$ -	\$ -	\$ -
Acquisition of capital assets through accounts payable (net)	77,588	-	-	-
Contributions of assets from City	276,557	-	-	-

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, of 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.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise 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 and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, the Sanitary District's policy is to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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.

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 in 2009. Significant delays in the reassessment process have resulted in delays in billing in 2009. The Sanitary District received advance draws of their 2009 taxes from the provisional billing in 2009. The Sanitary District received their final settlement of the 2008 taxes payable in 2009 on January 20, 2010.

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 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 Sanitary 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 unamortized balance of debt issuance costs.

4. Restricted Assets

Certain resources set aside for the repayment of debt and various Sanitary District improvements are classified as restricted assets on the statement of net assets in accordance with the debt instruments and the 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	25-60 years
Buildings	5,000	Straight-line	60 years
Buildings 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. Nonunion employees eligible for retirement, or upon separation of employment with at least 10 years of full-time service, will be reimbursed 1 day's pay for each 4 days of unused sick leave up to the accumulation of 75 days. Nonunion employees with at least 15 years of full-time service will be reimbursed 1 day's pay for each 2 days of unused sick leave, up to the accumulation of 75 days.
- b. Vacation Leave – 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 employees earn personal leave at the rate of 3 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 premiums and 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 premium or 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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Sanitary District does not have a deposit policy for custodial credit risk. At December 31, 2009, the District had deposit balances in the amount of \$12,499,964.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sanitary District:				
Capital assets, not being depreciated:				
Land	\$ 497,919	\$ -	\$ -	\$ 497,919
Construction in progress	10,296,589	9,196,690	-	19,493,279
Total capital assets, not being depreciated	10,794,508	9,196,690	-	19,991,198
Capital assets, being depreciated:				
Land improvements	108,181,062	276,556	-	108,457,618
Buildings	41,208,658	-	-	41,208,658
Buildings improvements	7,071,337	17,532	-	7,088,869
Major Equipment	45,502,963	534,283	-	46,037,246
Minor Equipment	3,828,285	85,370	-	3,913,655
Totals	205,792,305	913,741	-	206,706,046
Less accumulated depreciation for:				
Land improvements	39,094,092	1,988,621	-	41,082,713
Buildings	19,020,584	665,972	-	19,686,556
Buildings improvements	4,516,833	141,797	-	4,658,630
Major Equipment	23,175,829	1,135,168	-	24,310,997
Minor Equipment	1,912,319	265,938	-	2,178,257
Totals	87,719,657	4,197,496	-	91,917,153
Total capital assets, being depreciated, net	118,072,648	(3,283,755)	-	114,788,893
Total capital assets, net	\$ 128,867,156	\$ 5,912,935	\$ -	\$ 134,780,091

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Sanitation Utility:				
Capital assets, being depreciated:				
Major Equipment	\$ 1,094,663	\$ -	\$ -	\$ 1,094,663
Less accumulated depreciation for:				
Major Equipment	146,553	142,491	-	289,044
Total capital assets, being depreciated, net	<u>\$ 948,110</u>	<u>\$ 142,491</u>	<u>\$ -</u>	<u>\$ 805,619</u>
Recycling Utility:				
Capital assets, being depreciated:				
Major Equipment	\$ 25,705	\$ 7,433	\$ -	\$ 33,138
Minor Equipment	417,164	-	-	417,164
Totals	<u>442,869</u>	<u>7,433</u>	<u>-</u>	<u>450,302</u>
Less accumulated depreciation for:				
Major Equipment	3,734	-	-	3,734
Minor Equipment	64,937	61,848	-	126,785
Totals	<u>68,671</u>	<u>61,848</u>	<u>-</u>	<u>130,519</u>
Total capital assets, being depreciated, net	<u>\$ 374,198</u>	<u>\$ 69,281</u>	<u>\$ -</u>	<u>\$ 319,783</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2009</u>		
	<u>Expended to December 31,</u>	<u>Authorized</u>	<u>Committed</u>
CSO (Combined Sewer Overflow) Storage Basin	\$ 1,993,507	\$ 2,840,952	\$ 847,445
RAS (Return Activated Sludge) Piping Upgrade	7,733,507	5,352,544	(2,380,963)
Generator Kennedy Avenue North Station	847,459	847,459	-
Columbia Avenue Force Main	5,541,977	6,792,110	1,250,133
Columbia Avenue Storm Sewer	2,023,412	2,023,412	-
SCADA	413,460	1,200,000	786,540
Pump Station Generator	302,028	828,800	526,772
New Gas Engine	43,193	58,630	15,437
Plant Electrical Upgrade 15KV	231,892	300,000	68,108
Calumet Munster Project	335,152	550,000	214,848
Schoon Ditch	27,692	79,120	51,428
Totals	<u>\$ 19,493,279</u>	<u>\$ 20,873,027</u>	<u>\$ 1,379,748</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, 2009, is as follows:

Due From	Due To	2009
Recycling Utility	Sanitary District	\$ 275,000
Sanitary District	Storm Water Utility	<u>800,000</u>
Total		<u><u>\$ 1,075,000</u></u>

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

E. Capital Leases

The Sanitation Utility assumed the obligation for a capital lease for a truck when they took over the operations of the Sanitation Department from the City. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2009, are as follows:

2010 Total minimum lease payments	\$ 209,010
Less amount representing interest	<u>7,929</u>
Present value of net minimum lease payments	<u><u>\$ 201,081</u></u>

F. 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%	\$ 3,900,000
2003 Special Taxing District refunding bonds	6%	<u>1,140,000</u>
Total		<u><u>\$ 5,040,000</u></u>

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

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

	Principal	Interest
2010	\$ 855,000	\$ 228,019
2011	890,000	186,147
2012	930,000	141,961
2013	970,000	94,649
2014	685,000	55,125
2015-2019	710,000	24,075
Totals	\$ 5,040,000	\$ 729,976

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, 2001B, 2006A, Loan program funds; however, the 2007B Loan Program Funds for \$17,225,000 are still being drawn down. The State placed the loan proceeds into a trust account in the Sanitary District's name, cash draws are made from this account. The remaining cash available to draw for the 2007B Loan is reported as Cash with Fiscal Agent. The balance available to draw is \$8,507,076. Annual debt service requirements to maturity for the loans including interest of \$14,442,635 are as follows:

2010	\$ 4,573,513
2011	4,425,650
2012	4,392,323
2013	4,331,256
2014	2,974,729
2015-2019	17,545,467
2020-2024	13,244,269
2025-2029	6,135,328
Total	\$ 57,622,535

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
General Obligation					
Bonds payable	\$ 5,850,000	\$ -	\$ 810,000	\$ 5,040,000	\$ 855,000
Less bond discount	(18,799)	-	(2,892)	(15,907)	-
Total general obligation bonds payable	5,831,201	-	807,108	5,024,093	855,000
Loans payable	45,809,900	-	2,630,000	43,179,900	2,940,000
Compensated absences	97,517	101,410	97,517	101,410	-
Total Long-term liabilities	<u>\$ 51,738,618</u>	<u>\$ 101,410</u>	<u>\$ 3,534,625</u>	<u>\$ 48,305,403</u>	<u>\$ 3,795,000</u>
Sanitation Utility:					
Capital lease payable	\$ 393,043	\$ -	\$ 191,962	\$ 201,081	\$ 201,081
Compensated absences	6,788	6,058	6,788	6,058	-
Total Long-term liabilities	<u>\$ 399,831</u>	<u>\$ 6,058</u>	<u>\$ 198,750</u>	<u>\$ 207,139</u>	<u>\$ 201,081</u>
Recycling Utility:					
Compensated absences	\$ 3,605	\$ 7,332	\$ 3,605	\$ 7,332	\$ -

G. Restricted Assets

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

Bond and interest cash and investments	\$ 1,522,648
Construction cash and investments	1,486,402
Cash with fiscal agent - construction	8,507,076
Taxes and accounts receivable	<u>2,143,549</u>
Total restricted assets	<u>\$ 13,659,675</u>

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.

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

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 pay outs, and other economic and social factors.

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

	2008	2009
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	2,292	26,704
Claim payments	(2,292)	(21,000)
Unpaid claims, end of fiscal year	\$ -	\$ 5,704

B. Subsequent Events

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. 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.

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. 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.

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

Special Taxing District Bonds, Series 2010A

In March 2010, the Sanitary District issued Special Taxing District Bonds for the acquisition, construction, installation and equipping of various improvement projects in the amount of \$9,605,000.

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 \$599,229 to the City as payment in lieu of taxes.

F. Consent Decree – Noncompliance

A Consent Decree resolving the case of the United States of America, on behalf of the U.S. Environmental Protection Agency vs. The Sanitary District of Hammond, et al. Civil No. 2:93CV 225 JM was approved and entered by the District Judge on June 17, 1999. The Consent Decree contains both specific and general tasks and obligations and goals which are to be accomplished within prescribed deadlines. The Consent Decree provides for the payment of stipulated penalties in the event of the District's failure to comply with specified wastewater treatment plant performance standards or to achieve facility improvement programs within the time limits imposed.

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

The District is currently in negotiations with representatives of U.S. EPA Region 5, the United States Department of Justice and the Indiana Department of Environmental Management. The subject of the negotiations is generally to modify the terms of the above Consent Decree so as to contain additional obligations of the District with regard to the District's Long-Term Combined Sewer Overflow Control Plan. It is believed that the amended Consent Decree will incorporate a long term CSO control plan, with deadlines for the implementation of the plan's components. The scope of the long term CSO control plan will be determined in part by a financial capability assessment designed to determine the economic and social impact of such a substantial public works project along with a use attainability analysis established pursuant to state and federal regulations. The total cost of this project could be as high as \$80,000,000 over 20 years.

The Department of Justice, the U.S. EPA Region 5 and the Indiana Department of Environmental Management are seeking civil penalties as provided in the existing Consent Decree for certain NPDES Permit pollutant parameter violations alleged to have occurred over the last five years in the sum of \$473,000. The District denies the existence and/or the extent of most of these violations. The District's liability is estimated to be less than \$300,000 for such civil penalties.

G. Postemployment Benefits

Plan Description

The Sanitary District provides postemployment medical, dental, vision, and life insurance benefits for retirees and their spouses who are not eligible for Medicare, from their commercial insurance from independent third parties. Resolution 53-2007, passed on December 11, 2007, assigns the authority to establish and amend benefit provisions to the Sanitary District.

Senior healthcare plans are single-employer defined benefit healthcare plan administered by the 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 and Medicare Supplemental plans 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, 2009, the Sanitary District contributed \$120,556 to the plan, including member contributions. Plan members required contributions are \$25, \$50, \$75 or \$100 per month 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.

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

Storm Water Utility

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

Sanitation Utility

The current rate used for the collection of trash and solid waste was approved by the Sanitary District Board of Commissioners through Resolution 44-2007. 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 Sanitary District 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:

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 Sanitary District is required to contribute at an actuarially determined rate; the current rate is six and a half percent (6.5%) of annual covered payroll. The contribution requirements of plan members and the Sanitary District are established and may be amended by the PERF Board of Trustees.

For 2009, the Sanitary District's annual pension cost was \$557,239.

SANITARY DISTRICT
CITY OF HAMMOND
EXAMINATION RESULTS AND COMMENTS

CONSTRUCTION IN PROGRESS INTERNAL CONTROLS

The Sanitary District does not maintain adequate financial records for construction in progress. Two reports called "Bond Issue Actual/Budget" (the detail) were presented for examination. These reports listed each project that was to be financed by the corresponding debt, the \$17,225,000 SRF (State Revolving Fund) Loan and the \$4,635,000 Special Taxing District Bonds, 2007A. These reports listed the budget for each project, the expenditures for each project as of December 31, 2009, and the remaining budget balance for each project. The expenditures year to date on these reports, compared to the construction in progress accounts in the Trial Balance, (the control), noted material differences. The detail exceeded the control by \$1,094,980 and \$2,037,084, respectively for the two debt instruments. Controls were not in place to reconcile the ledger to these reports or to any other detailed listings of expenditures for the projects. Failure to accurately track expenditures during the construction period of a project could materially affect the reliability that all costs associated with each project, will be captured when transferring the project costs to the fixed asset record, upon completion of the project. Because of inadequate controls, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, State of Indiana, Chapter 10)

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger.

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

Where construction work has not been completed in the current reporting calendar year, the cost of the project should be carried as "construction work in progress." When the project is completed, it will be placed on the inventory applicable to the assigned asset accounts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, State of Indiana, Chapter 16)

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, State of Indiana, Chapter 16)

CAPITAL ASSET RECORDS - RECYCLING

The detail listing of capital assets for several companies or departments did not agree to the General Ledger. It appears the capital asset software does not consistently interface with the capital assets in the general ledger. For example, during the 2008 audit it was noted that five recycling trucks were undervalued by a total of \$114,285. In 2009, an adjustment of \$114,285 was made to the Capital Assets account in the Recycling Utility general ledger; however, no entry was made to the detail listing of equipment. In addition, security equipment purchased in 2009 for \$7,433 was listed on the detail equipment listing but no additions to capital assets were posted to the general ledger for the recycling equipment.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets 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, State of Indiana, Chapter 16)

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

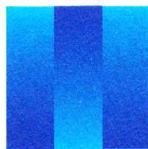
The contents of this report were discussed on June 2, 2010, with Stanley J. Dostatni, President of the Board of Sanitary Commissioners; Joseph P. Allegretti, Sanitary District Attorney; Michael T. Unger, Ph.D., Sanitary District Manager; William E. Biller, Business Manager; and Robert Lendi, CPA, Controller. The official response has been made a part of this report and may be found on pages 23 through 26.

SANITARY DISTRICT of HAMMOND

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

Board of Sanitary Commissioners

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



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

June 11, 2010

State Board of Accounts

ATTN: Mr. Larry Tippin

302 West Washington Street

Indianapolis, In 46204-2765

RE: Official Response – Hammond Sanitary District, Audit for 2009

Dear Mr. Tippin

On Wednesday June 2, 2010 representatives of the Hammond Sanitary District met with your auditor. The purpose of the meeting was to review the audit results and comments for the 2009 audit. Enclosed is the District's official response to the State Board of Accounts; Audit Results and Comments for the calendar year 2009. Please include this response with the State Board of Accounts' Audit Report.

Sincerely,

William E. Biller

Enclosure

Pc: Board of Commissioners

Michael T. Unger, District Manager

Joseph P. Allegretti

HAMMOND SANITART DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2009

Page 1

1. CONSTRUCTION IN PROGRESS INTERNAL CONTROLS:

The Sanitary District does not maintain adequate financial records for construction in progress. Two reports called "Bond Issue Actual/Budget" (the detail) were presented for examination. These reports listed each project that was to be financed by the corresponding debt, the \$17,225,000 SRF (State Revolving Fund) Loan and the \$4,635,000 Special Taxing District Bonds, 2007A. These reports listed the budget for each project, the expenditures for each project as of December 31, 2009, and the remaining balance for each project. The expenditures year to date, on these reports, compared to the construction in progress accounts in the ledger, Trial Balance (the control), noted material differences. The detail exceeded the control by \$1,094,980 and \$2,037,084, respectively for the two debt instruments. Controls were not in place to reconcile the ledger to these reports or to any other detail listing of expenditures for the projects. Failure to accurately track expenditures during the construction period of a project could materially affect the reliability that all cost associated with each project, will be captured when transferring the project to the fixed asset record, upon completion of the project.

Governmental units should have internal control in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding control over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, State of Indiana, Chapter 10).

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger.

Where construction work has not been completed in the current reporting calendar year, the cost of the project should be carried as "construction work in progress". When the project is completed, it will be placed on the inventory applicable to the assigned asset accounts. (Accounting and Uniform Compliance Guideline Manual for Special Districts, State of Indiana, Chapter 16).

HAMMOND SANITART DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2009

Page 2

RESPONSE:

District, agrees that the detail and the control for any project and or account should be in balance at any point in time. District, also believes that (the detail) "Bond Issue Actual/Budget" and (the control) Trial Balances were in balance at the end of said reporting period. The auditor states the detail listed among other items , the expenditures for each project, and as such is the total expenditures for the life of the project and not the expenditure for the current period only. The detail reports in question are reconciled monthly to the Bonds cash balances to insure proper financial reporting.

The District will also agree, that its Trial Balance (the control) should be improved to insure that reconciliation of the detail and control in future audits will not be a problem. The District will modify its control so that the individual project accounts are not expense accounts and closed to equity, but rather a Construction in Progress account as stated in the comment.

2. CAPITAL ASSET RECORD – RECYCLING

When reviewing the District records it was noted that the detail listing of capital assets for several companies or departments did not agree to the General Ledger. It appears the capital asset software does not consistently interface with the detail listing of capital assets. For example, during the 2008 audit it was noted that five recycling trucks were undervalued by a total of \$114,285. An adjustment was made to the Capital Assets account on the general ledger in 2009 for \$114,285. However, no entry was made to the detail listing of equipment for the Recycling Utility. This leaves a discrepancy of \$114,285. In addition, security equipment purchased in 2009 for \$7,433 was listed on the detail equipment listing but no additions were entered in the general ledger for recycling equipment.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and

HAMMOND SANITART DISTRICT
AUDIT RESULTS AND COMMENTS
FOR PERIOD ENDING DECEMBER 31, 2009

Page 3

for verifying the account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines for Special Districts, State of Indiana, Chapter 16).

RESPONSE:

The District failed to balance the general ledger and the capital assets detail listing at year end 2009 for the Recycling Department. This was as over sight by the District's accounting staff and steps will be taken to insure that the capital assets detail listing and the general ledger are reconciled. The District's staff will record the adjustments/ and or additional capital assets for the Recycling and Sanitation Departments in 2010.