

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, 2010 to December 31, 2010



FILED
09/07/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Robert Lendi, CPA	01-01-10 to 12-31-11
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	01-01-10 to 12-31-11
President of the Common Council	Anthony Higgs	01-01-10 to 12-31-11
Office Manager	Deborah Van Meter	01-01-10 to 12-31-11
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-10 to 12-31-11
President of the Utility Service Board	Sharon Daniels	01-01-10 to 12-31-11



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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, 2010. 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, 2010, 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, 2010, 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 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

April 30, 2011

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF NET ASSETS
December 31, 2010

Assets

Current assets:	
Cash and cash equivalents	\$ 2,882,334
Accounts receivable	769,336
Inventories	377,854
Prepaid items	126,105
Due from state	<u>277</u>
Total current assets	<u>4,155,906</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Customer deposits	787,101
Capital Improvement Fund	<u>1,016,813</u>
Total restricted cash, cash equivalents and investments	<u>1,803,914</u>
Capital assets:	
Land and construction in progress	4,313,711
Other capital assets (net of accumulated depreciation)	<u>36,227,317</u>
Total capital assets	<u>40,541,028</u>
Total noncurrent assets	<u>42,344,942</u>
Total assets	<u>46,500,848</u>

Liabilities

Current liabilities:	
Accounts payable	13,976
Accrued payroll and withholding payable	60,682
Taxes payable	16,472
PERF payable	81,990
Redevelopment loan payable	1,415,153
Current liabilities payable from restricted assets:	
Customer deposits	<u>786,298</u>
Total current liabilities	<u>2,374,571</u>
Noncurrent liabilities:	
Compensated absences	<u>125,905</u>
Total liabilities	<u>2,500,476</u>

Net Assets

Invested in capital assets	39,125,875
Restricted for customer deposits	787,101
Restricted for capital improvements	1,016,813
Unrestricted	<u>3,070,583</u>
Total net assets	<u>\$ 44,000,372</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, 2010

Operating revenues:	
Metered water revenue:	
Residential	\$ 1,636,447
Commercial	7,009,468
Other water revenue	<u>361,466</u>
 Total operating revenues	 <u>9,007,381</u>
 Operating expenses:	
Water Treatment:	
Salaries and wages	917,599
Employee pensions and benefits	86,530
Purchased power	883,673
Chemicals	1,014,749
Materials and supplies	162,962
Contractual services	333,771
Insurance	307,523
Miscellaneous	3,568
Transmission and Distribution:	
Salaries and wages	976,069
Employee pensions and benefits	115,551
Materials and supplies	575,729
Contractual services	146,245
Transportation expense	53,969
Insurance	576,960
Miscellaneous	11,711
Customer Accounts:	
Salaries and wages	596,187
Employee pensions and benefits	56,370
Contractual services	184,020
Transportation expense	8,678
Insurance	225,540
Bad debt expense	75,488
Miscellaneous	597
Administrative and General:	
Salaries and wages	676,097
Employee pensions and benefits	46,432
Materials and supplies	159,609
Insurance	326,823
Taxes	284,395
Depreciation	1,711,016
Miscellaneous	<u>108,448</u>
 Total operating expenses	 <u>10,626,309</u>
 Operating loss	 <u>(1,618,928)</u>
 Nonoperating revenues (expenses):	
Interest and investment revenue	<u>45,092</u>
 Total nonoperating revenues (expenses)	 <u>45,092</u>
 Income before contributions and transfers	 (1,573,836)
Capital contributions	2,692,782
Transfers to City	<u>(615,000)</u>
 Change in net assets	 503,946
Total net assets - beginning	<u>43,496,426</u>
Total net assets - ending	<u>\$ 44,000,372</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, 2010

Cash flows from operating activities:	
Receipts from customers and users	\$ 8,536,107
Payments to suppliers and contractors	(5,451,548)
Payments to employees	(3,281,248)
Payments for employee pension and benefits	(288,953)
Receipts from other sources	<u>361,466</u>
Net cash provided (used) by operating activities	<u>(124,176)</u>
Cash flows from noncapital financing activities:	
Transfers to City	<u>(615,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(615,000)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(2,827,664)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,827,664)</u>
Cash flows from investing activities:	
Interest received	<u>45,092</u>
Net increase in cash and cash equivalents	(3,521,748)
Cash and cash equivalents, January 1	<u>8,207,996</u>
Cash and cash equivalents, December 31	<u>\$ 4,686,248</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (1,618,928)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,711,016
Bad debt expense	75,488
(Increase) decrease in assets:	
Accounts receivable	(109,808)
Inventories	32,373
Prepaid items	(19,822)
Increase (decrease) in liabilities:	
Accounts payable	(76,907)
Accrued payroll and withholding payable	(111,482)
PERF payable	15,930
Taxes payable	(6,864)
Customer deposits payable	(11,358)
Compensated absences	<u>(3,814)</u>
Total adjustments	<u>1,494,752</u>
Net cash provided (used) by operating activities	<u>\$ (124,176)</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 2,692,782
Transfer of completed construction in progress projects	5,272,593
Deletion of obsolete capital assets	210,867

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.

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 Utility'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 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.

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.

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

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 both government-wide and fund financial statements.

3. Restricted Assets

Assets totaling \$1,016,813, of the Water Utility are classified as restricted assets on the Statement of Net Assets balance sheet because these assets are restricted for capital improvements for the Filtration Plant Envelope Repair Project.

The financial statements report \$787,101 of restricted net assets for customer deposits. Customer deposits are assets on hand that are refundable upon termination of customer 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.

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

5. Compensated Absences

- a. Sick Leave – Eligible Utility employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 75 days. Upon separation of employment, accumulated sick leave is paid to employees that have been employed at least 10 years at the rate of one day's pay for every four unused accumulated sick days or after 15 years of employment at the rate of one day's pay for every 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 of employment.
- c. Personal Leave – Full time utility employees employed on January 1st are entitled to three (3) personal days during the calendar year. New employees hired after January 1st will not be entitled to personal days until January of the following year. There shall be no carryover of personal business day from year to year and there shall be no payment for personal days at the end of any calendar year or in the event of termination of the employment relationship for any reason.

No liability is reported for vacation and personal leave.

II. Detailed Notes on All Funds

A. Deposits and Investments

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 Utility does not have a deposit policy for custodial credit risk. At December 31, 2010, the Utility had deposit balances in the amount of \$4,686,248.

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.

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

B. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 134,466	\$ -	\$ -	\$ 134,466
Construction in progress	5,591,098	3,860,740	5,272,593	4,179,245
Total capital assets, not being depreciated	5,725,564	3,860,740	5,272,593	4,313,711
Capital assets, being depreciated:				
Source and supply	1,790,871	5,281,678	-	7,072,549
Distribution lines	41,817,044	1,620,100	142,565	43,294,579
Pumping equipment	9,657,402	-	-	9,657,402
Treatment equipment	11,156,524	-	-	11,156,524
General Building	647,555	9,280	-	656,835
General equipment	1,395,819	45,223	68,302	1,372,740
Totals	66,465,215	6,956,281	210,867	73,210,629
Less accumulated depreciation for:				
Source and supply	1,224,623	392,065	-	1,616,688
Distribution lines	20,062,258	666,435	142,622	20,586,071
Pumping equipment	4,491,031	434,715	-	4,925,746
Treatment equipment	8,216,842	115,738	-	8,332,580
General Building	358,710	19,000	-	377,710
General equipment	1,105,717	83,063	44,263	1,144,517
Totals	35,459,181	1,711,016	186,885	36,983,312
Total capital assets, being depreciated, net	31,006,034	5,245,265	23,982	36,227,317
Total capital assets, net	\$ 36,731,598	\$ 9,106,005	\$ 5,296,575	\$ 40,541,028

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

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2010</u>		
	<u>Total Project Authorized</u>	<u>Expended to December 31,</u>	<u>Committed</u>
Schliecher subdivision phase 1	\$ 74,360	\$ 69,454	\$ 4,906
Whiting hook up	287,817	269,941	17,876
Filter to waste line	429,611	456,054	(26,443)
Scada system	230,769	198,121	32,648
Water filtration plant exterior envelope restoration	3,575,607	3,015,105	560,502
New intake	135,600	135,323	277
GAC project	8,500	8,500	-
BP	22,247	22,247	-
High lift	9,500	4,500	5,000
Totals	<u>\$ 4,774,011</u>	<u>\$ 4,179,245</u>	<u>\$ 594,766</u>

D. Short-Term Liabilities

The Utility may use short-term notes and loans to finance a variety of public projects, including a loan from the Hammond Redevelopment Commission for the Filtration Plant Envelope Repair Project.

Short-term debt activity for the year ended December 31, 2010, was as follows:

<u>2010</u>	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Redevelopment loan payable	<u>\$ 1,415,153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,415,153</u>

E. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	<u>2010</u>
Customer deposits	\$ 787,101
Capital Improvement Fund	<u>1,016,813</u>
Total restricted assets	<u>\$ 1,803,914</u>

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

F. Transfers to the City

Interfund transfers at December 31, 2009 were as follows:

Transfer From	Transfer To	2010
Water Utility	City General fund	\$ 615,000

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.

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. 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. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The Utility provides postemployment benefits (medical, dental, vision and life insurance) to eligible retirees and their spouses.

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

Funding Policy

The contribution requirements of plan members for the Seniors Choice Healthcare Plan are established by the Utility's Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the year ended December 31, 2010, the Utility contributed \$105,439, to the plan. Plan members receiving benefits contributed \$11,688, or approximately 16% of the total premiums, through their required contribution of \$20 to \$104 per month.

Annual OPEB Cost and Net OPEB Obligation

The Utility's annual other postemployment benefit (OPEB) cost (expense) has not been calculated.

C. Rate Structure

The current rate structure was approved by the Indiana Regulatory Commission on June 18, 1985. The Utility has approximately 26,000 customers.

D. Agent Services

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

E. Customer Cities

The Utility sells water to ten neighboring cities and towns. Revenues attributable to these cities and towns for 2010 are as follows:

<u>City</u>	<u>Metered Revenue</u>
Burnham	\$ 115,259
Calumet City	1,317,419
Chicago Heights	1,639,486
Ford Heights	53,464
Griffith	303,472
Highland	696,875
Lansing	1,250,195
Lynwood	32,289
Munster	646,503
South Holland	25,778
Whiting	<u>123,794</u>
 Total	 <u>\$ 6,204,534</u>

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

F. Filtration Plant Exterior Envelope Repair Project Financing

In 2008, the Utility started the Filtration Plant Envelope Repair Project, with an estimated total cost of \$3,558,607. To assist in the financing of the filtration plant upgrade, On April 27, 2009, the Hammond Redevelopment Commission gave the Utility a \$1,500,000 interest free loan that has been extended to mature on April 27, 2011. In 2010, the Utility made no additional payments to the Redevelopment Commission.

The Utility was also awarded a State Revolving Fund Forgivable Loan, financed with American Recovery and Reinvestment Act (ARRA) funds for \$1,072,682. A stipulation of the forgivable loan (grant) is that local funds will be used for project costs before the State Drinking Water Revolving Funds can be used. At December 31, 2010, the project costs paid from local Utility funds totaled \$1,782,229. The SRF loan was used toward the project and subsequently forgiven.

G. 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 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:

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 Utility 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 Utility 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 Utilities is not available. For 2010, the Utility's annual pension cost was \$292,767.

WATER UTILITY
CITY OF HAMMOND
EXAMINATION RESULTS AND COMMENTS

QUESTIONABLE AND UNALLOWABLE EXPENSES

Expenses paid from utility funds should be directly related to the operation of the utility. The Water Utility Board approved expenses unrelated to the operation of the Water Utility. Questionable expenditures were for a page in the Community Center Development Corporation's Black and White Ball Souvenir Booklet in 2010 and 2011 for \$1,500 and a \$200 donation to the YMCA totaling \$1,700.

Unallowable personal expenditures were also approved as follows:

Vendor	Expenditure Description	Amount
Avanti Limousines	Limo bus service to Cellular Field and return	\$ 437.50
Hammond Rotary Club	Fees for foursome to golf outing	400.00
Total		<u>\$ 837.50</u>

Since the Water Utility Board is responsible for the approval of the unallowable expenditures, we requested reimbursement from each Board member in the amount of \$167.50. The Water Utility was subsequently reimbursed \$837.50 from the vendors on May 25, 2011 and June 21, 2011.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditure for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 61)

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. IC 36-10-2-4 and 5 allow cities and towns to establish, aid, maintain, and operate libraries, museums, cultural historical and scientific facilities and programs, community service facilities and programs, neighborhood centers, community centers, civic centers, convention centers, auditorium, arenas, and stadiums. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 51)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER UTILITY
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on June 22, 2011, with Edward Krusa, Chief Executive Officer of the Water Utility; Robert Lendi, CPA, Controller; Sharon Daniels, President of the Utility Board; and Deborah Van Meter, Office Manager. The official response has been made a part of this report and may be found on page 17.

ADDENDUM TO ATTORNEY STATEMENT - 2010 AUDIT

Please consider this addendum the formal response of the Hammond Water Works Department (HWWD) to the field examiner's report entitled "Examination Results and Comments," previously tendered to the HWWD in June, 2011.

The first section of the report is titled "Questionable and Unallowable Expenses," and suggests that three (3) donations by the HWWD were questionable in nature. The first two (2) donations listed were to the Community Center Development Corporation for placement of an advertisement in souvenir booklets. The third donation involved a contribution to the Hammond YMCA to help fund a trip for the organization to take children to a local minor league baseball game. As previously stated, the position of the HWWD with respect to these donations is that they are permitted by statute since the organizations involved are community service centers and/or neighborhood centers.

As to the "Unallowable" expenses referred to in the report, even though we respectfully disagree with the findings of the ISBOA, we do understand the position of your office and have seen to it that those items have been reimbursed to the HWWD by various department vendors.

HAMMOND WATER UTILITY
LAKE COUNTY
SUMMARY

	Charges	Credits	Balance Due
Questionable and Unallowable Expenses, page 15:			
Sharon Daniels, President of the Utility Service Board	\$ 167.50	\$	\$
Chester Smithers, Vice President of the Utility Service Board	167.50		
Bernard Grisolia, Treasurer	167.50		
Paul Walker, Secretary	167.50		
Heather Garay, Assistant Secretary/Treasurer	167.50		
Reimbursements from vendors received on			
May 25, 2011 and June 21, 2011	_____	837.50	-
Totals	\$ 837.50	\$ 837.50	\$ -