

TATE 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, 2011 to December 31, 2011



FILED
01/14/2013

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Business Manager	Alan M. Arendt, CPA (Vacant) Rachel Peterson	01-01-11 to 07-22-11 07-23-11 to 09-18-11 09-19-11 to 12-31-12
Sanitary District Manager	Michael T. Unger, Ph. D	01-01-11 to 12-31-12
Controller	Robert Lendi, CPA	01-01-11 to 12-31-12
Mayor	Thomas M. McDermott, Jr.	01-01-08 to 12-31-15
President of the Board of Sanitary District Commissioners	Stanley J. Dostatni	01-01-11 to 12-31-12
President of the Board of Public Works and Safety	William J. O'Connor	01-01-11 to 12-31-12
President of the Common Council	Anthony Higgs Michael Opinker	01-01-11 to 12-31-11 01-01-12 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Sanitary District (District), a department of the City of Hammond, as of and for the year ended December 31, 2011. The 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis that 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

August 28, 2012

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF NET ASSETS
December 31, 2011

	2011			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Assets				
Current assets:				
Cash and cash equivalents	\$ 233,690	\$ 827,495	\$ 204,788	\$ 15,861
Cash with fiscal agent	208,641	5,222	75,305	-
Accounts receivable (net of allowance)	1,081,637	24,497	301,710	-
Taxes receivable (net of allowance)	240,894	-	-	-
Intergovernmental receivables	73,433	-	-	-
Interfund receivables:				
Interfund loans	-	440,000	-	-
Inventories	793,520	-	-	-
Prepaid items	524,655	-	137,154	45,360
Total current assets	3,156,470	1,297,214	718,957	61,221
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Bond and interest cash and investments	3,441,616	-	-	-
Cash with fiscal agent - construction	13,126,312	-	-	-
Taxes and accounts receivable (net of allowance)	433,826	-	-	-
Total restricted assets	17,001,754	-	-	-
Deferred charges	523,100	-	-	-
Capital assets:				
Land, improvements to land and construction in progress	7,066,946	-	-	-
Other capital assets (net of accumulated depreciation)	126,460,732	-	443,745	147,620
Total capital assets	133,527,678	-	443,745	147,620
Total noncurrent assets	151,052,532	-	443,745	147,620
Total assets	154,209,002	1,297,214	1,162,702	208,841
Liabilities				
Current liabilities:				
Accounts payable	1,378,501	-	154,725	18,379
Interfund payables:				
Interfund loans	90,960	-	-	350,000
Accrued payroll and withholdings payable	321,254	-	103,572	41,325
Current liabilities payable from restricted assets:				
Accounts payable	106,370	-	-	-
Loans payable	2,985,000	-	-	-
General Obligation bonds payable	1,310,000	-	-	-
Accrued interest payable	910,016	-	-	-
Capital lease payable	66,206	-	-	-
Total current liabilities	7,168,307	-	258,297	409,704
Noncurrent liabilities:				
Loans payable	34,350,000	-	-	-
General obligation bonds payable (net of unamortized discounts and deferred amount on refunding)	11,400,000	-	-	-
Bond discount	(141,485)	-	-	-
Capital lease payable	210,504	-	-	-
Other postemployment benefits	612,348	-	-	-
Deferred revenues	-	-	600,000	-
Compensated absences	124,946	-	11,343	6,192
Total noncurrent liabilities	46,556,313	-	611,343	6,192
Total liabilities	53,724,620	-	869,640	415,896
Net Assets				
Invested in capital assets, net of related debt	98,019,807	-	443,745	147,620
Restricted for debt service	3,875,442	-	-	-
Restricted for capital improvements	13,126,312	-	-	-
Unrestricted	(14,537,179)	1,297,214	(150,683)	(354,675)
Total net assets	\$ 100,484,382	\$ 1,297,214	\$ 293,062	\$ (207,055)

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, 2011

	2011			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Operating revenues:				
Residential sales	\$ 6,242,157	\$ -	\$ -	\$ -
Commercial and industrial sales	5,073,405	-	-	-
Municipal sales	3,209,920	-	-	-
Flat rate revenues	1,408,764	307,216	4,083,379	-
Other charges for services	-	-	-	-
Local tax distributions for sewer maintenance	2,552,367	-	-	-
Sales of materials	-	-	-	243,105
Other	67,848	-	9,490	836,945
Total operating revenues	18,554,461	307,216	4,092,869	1,080,050
Operating expenses:				
Sewer maintenance and utility operations:				
Salaries and wages	928,084	-	1,443,774	588,702
Employee pensions and benefits	486,613	-	839,843	293,345
Materials and supplies	76,555	-	59,763	19,739
Repairs and maintenance	103,886	-	146,729	59,340
Contractual services	1,722,295	86,755	1,513,730	59,473
Fuel purchased	63,784	-	184,312	41,255
Utilities	30,697	-	-	576
Insurance	69,688	-	99,503	49,029
Miscellaneous	10,905	24,601	5,132	11,073
Pretreatment:				
Salaries and wages	66,234	-	-	-
Employee pensions and benefits	48,189	-	-	-
Materials and supplies	201,510	-	-	-
Contractual services	90,469	-	-	-
Fuel purchased	4,234	-	-	-
Insurance	5,328	-	-	-
Miscellaneous	1,436	-	-	-
Plant maintenance and operations:				
Salaries and wages	1,734,986	-	-	-
Employee pensions and benefits	1,085,026	-	-	-
Materials and supplies	291,166	-	-	-
Repairs and maintenance	929,075	-	-	-
Contractual services	2,881,196	-	-	-
Fuel purchased	66,964	-	-	-
Utilities	1,733,151	-	-	-
Sludge disposal	656,305	-	-	-
Insurance	288,687	-	-	-
Miscellaneous	114,034	-	-	-
Collection system:				
Salaries and wages	583,051	-	-	-
Employee pensions and benefits	363,521	-	-	-
Materials and supplies	40	-	-	-
Repairs and maintenance	608	-	-	-
Contractual services	899	-	-	-
Fuel purchased	11,951	-	-	-
Utilities	704,588	-	-	-
Insurance	76,787	-	-	-
Miscellaneous	2,830	-	-	-
Administration and general:				
Salaries and wages	1,062,676	-	-	-
Employee pensions and benefits	936,523	-	-	-
Repairs and maintenance	352,047	-	-	-
Contractual services	823,349	-	-	-
Fuel purchased	7,296	-	-	-
Utilities	99,125	-	-	-
Insurance	43,954	-	-	-
Miscellaneous	138,408	-	-	-
Bad Debt Expense	1,090,665	-	-	-
Depreciation	4,827,267	-	127,017	63,224
Total operating expenses	24,816,082	111,356	4,419,803	1,185,756
Operating income (loss)	(6,261,621)	195,860	(326,934)	(105,706)
Nonoperating revenues (expenses):				
Local tax distributions	7,170,973	-	-	-
Interest earned on debt proceeds	52,881	-	-	-
Transfers out	(700,000)	-	-	-
Amortization of bond issuance cost	(66,972)	-	-	-
Proceeds from grant	2,307,500	-	-	-
Gain/Loss on sale of assets	(5,000)	-	-	-
Interest expense and fiscal agent fees	(1,970,297)	-	-	-
Total nonoperating revenues (expenses)	6,789,085	-	-	-
Income (loss) before contributions and transfers	527,464	195,860	(326,934)	(105,706)
Change in net assets	527,464	195,860	(326,934)	(105,706)
Total net assets - beginning	99,956,918	1,101,355	619,996	(101,350)
Total net assets - ending	\$ 100,484,382	\$ 1,297,215	\$ 293,062	\$ (207,056)

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, 2011

	2011			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 19,249,862	\$ 307,751	\$ 4,112,284	\$ 17,213
Payments to suppliers	(11,765,541)	(117,229)	(2,060,939)	(263,016)
Payments to employees	(7,018,744)	-	(2,288,687)	(879,546)
Other receipts	-	-	-	1,080,050
Net cash provided by operating activities	465,577	190,522	(237,342)	(45,299)
Cash flows from noncapital financing activities:				
Proceeds from tax anticipation warrants	3,615,017	-	-	-
Principal paid on tax anticipation warrants	(6,664,372)	-	-	-
Interest paid on tax anticipation warrants	(38,932)	-	-	-
Interfund loans received	(425,000)	900,000	(175,000)	(300,000)
Interfund loans paid	90,000	(440,000)	-	350,000
Transfers (to)/from the City	(700,000)	-	600,000	-
Net cash provided (used) by noncapital financing activities	(4,123,287)	460,000	425,000	50,000
Cash flows from capital and related financing activities:				
Local tax distributions/community customers debt service	9,640,020	-	-	-
Proceeds from State Grant (IDEM)	2,307,500	-	-	-
Acquisition and construction of capital assets	(4,431,530)	-	-	-
Principal paid on capital debt	(3,985,000)	-	-	-
Proceeds from capital lease	341,029	-	-	-
Principal paid of capital lease	(64,319)	-	-	-
Interest paid on capital debt	(2,087,152)	-	-	-
Net cash provided (used) by capital and related financing activities	1,720,548	-	-	-
Cash flows from investing activities:				
Interest received	52,881	-	-	-
Net cash provided (used) by investing activities	52,881	-	-	-
Net increase in cash and cash equivalents	(1,884,281)	650,522	187,658	4,702
Cash and cash equivalents, January 1	18,894,540	182,195	92,435	11,159
Cash and cash equivalents, December 31	\$ 17,010,259	\$ 832,717	\$ 280,093	\$ 15,861
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (6,261,621)	\$ 195,860	\$ (326,934)	\$ (105,706)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	4,827,267	-	127,017	63,224
Bad debt expense	1,090,665	-	-	-
(Increase) decrease in assets:				
Accounts receivable	57,643	535	19,415	17,213
Taxes receivable	1,032,168	-	-	-
Intergovernmental receivable	29,315	-	-	-
Deferred debits	(423,727)	-	-	-
Inventories	(33,424)	-	-	-
Prepaid items	(95,336)	-	(16,276)	4,874
Increase (decrease) in liabilities:				
Accounts payable	(33,533)	(5,873)	(57,616)	(20,807)
Accrued payroll and withholdings payable	28,696	-	15,634	(3,937)
Other postemployment benefits	244,038	-	-	-
Compensated absences payable	3,426	-	1,418	(160)
Total adjustments	6,727,198	(5,338)	89,592	60,407
Net cash provided by operating activities	\$ 465,577	\$ 190,522	\$ (237,342)	\$ (45,299)

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

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Sanitary District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

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 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.

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

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

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.

Open-end mutual funds are reported at fair value.

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 percent 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 2010 taxes from the provisional billing in 2010. The Sanitary District received their final settlement of the 2009 taxes payable in 2010, on January 20, 2011.

3. Inventories, Prepaid Items, and Deferred Charges

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.

Based upon an agreement between user cities/towns and the District, a set rate is paid for services. 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 bond issuance costs.

4. Restricted Assets

Certain proceeds of the enterprise fund general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited based upon the bond indenture, grant agreements, and tax rate budgetary restrictions.

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

The financial statements report \$17,001,754 of restricted net assets.

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.

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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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. Sick leave may be accumulated up to a maximum of 75 days. For each 5 days earned in excess of the maximum accumulation, employees have the option of exchanging those 5 excess days for 1 day of vacation leave. For union employees who have an accumulated sick leave balance of 75 days, they are entitled to 5 days of payment for those days upon termination of employment. Non-union employees eligible for retirement, or upon separation of employment with at least 10 years of full-time service, will be reimbursed one day's pay for each 2 or 4 days (depending upon length of service) 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 vacation and personal leave.

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

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.

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, 2011, the Sanitary District had deposit balances in the amount of \$18,147,879.

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, 2011, was as follows:

	Beginning Balance	Prior Year Adjustment	Restated Balance	Increases	Decreases	Ending Balance
Sanitary District:						
Capital assets, not being depreciated:						
Land	\$ 497,919	\$ -	\$ 497,919	\$ -	\$ -	\$ 497,919
Construction in progress	23,283,736	-	23,283,736	4,136,472	20,851,181	6,569,027
Total capital assets, not being depreciated	23,781,655	-	23,781,655	4,136,472	20,851,181	7,066,946
Capital assets, being depreciated:						
Land improvements	108,268,791	-	108,268,791	10,816,498	5,000	119,080,289
Buildings	40,694,439	-	40,694,439	8,389,741	-	49,084,180
Buildings improvements	7,110,432	-	7,110,432	772,882	-	7,883,314
Major equipment	45,447,860	-	45,447,860	886,953	-	46,334,813
Minor equipment	3,697,988	-	3,697,988	294,495	-	3,992,483
Totals	205,219,510	-	205,219,510	21,160,569	5,000	226,375,079
Less accumulated depreciation for:						
Land improvements	43,325,158	-	43,325,158	2,291,803	-	45,616,962
Buildings	19,977,690	-	19,977,690	942,202	-	20,919,892
Buildings improvements	4,652,922	-	4,652,922	164,995	-	4,817,917
Major equipment	24,885,794	-	24,885,794	1,159,287	-	26,045,081
Minor equipment	2,245,516	-	2,245,516	268,979	-	2,514,495
Totals	95,087,080	-	95,087,080	4,827,267	-	99,914,347
Total capital assets, being depreciated, net	110,132,430	-	110,132,430	16,333,302	5,000	126,460,732
Total capital assets, net	\$ 133,914,085	\$ -	\$ 133,914,085	\$ 20,469,774	\$ 20,856,181	\$ 133,527,678

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

	Beginning Balance	Prior Year Adjustment	Restated Balance	Increases	Decreases	Ending Balance
Sanitation Utility:						
Capital assets, being depreciated:						
Major equipment	\$ 1,094,663	\$ -	\$ 1,094,663	\$ -	\$ -	\$ 1,094,663
Less accumulated depreciation for:						
Major equipment	523,900	-	523,900	127,018	-	650,918
Total capital assets, being depreciated, net	<u>\$ 570,763</u>	<u>\$ -</u>	<u>\$ 570,763</u>	<u>\$ (127,018)</u>	<u>\$ -</u>	<u>\$ 443,745</u>
Recycling Utility:						
Capital assets, being depreciated:						
Major equipment	\$ 33,138	\$ -	\$ 33,138	\$ -	\$ -	\$ 33,138
Minor equipment	417,164	-	417,164	-	-	417,164
Totals	<u>450,302</u>	<u>-</u>	<u>450,302</u>	<u>-</u>	<u>-</u>	<u>450,302</u>
Less accumulated depreciation for:						
Major equipment	10,878	61,426	72,305	3,882	-	76,187
Minor equipment	228,579	(61,426)	167,153	59,342	-	226,495
Totals	<u>239,457</u>	<u>-</u>	<u>239,458</u>	<u>63,224</u>	<u>-</u>	<u>302,682</u>
Total capital assets, being depreciated, net	<u>\$ 210,844</u>	<u>\$ -</u>	<u>\$ 210,844</u>	<u>\$ (63,224)</u>	<u>\$ -</u>	<u>\$ 147,620</u>

Depreciation expense was charged to functions/programs of the District as follows:

	<u>2011</u>
Sanitary District	\$ 4,827,267
Sanitation Utility	127,017
Recycling Utility	<u>63,224</u>
Total depreciation expense	<u>\$ 5,017,508</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Sanitary District Project	<u>2011</u>		
	Expended to December 31,	Authorized	Committed
CSO (Combined Sewer Overflow) Storage Basin	\$ 1,750,866	\$ 1,830,209	\$ 79,343
Generator Kennedy Avenue North Station	405,638	123,695	(281,943)
SCADA	1,045,376	1,200,000	154,624
Long Term Control Plan	195,757	400,540	204,783
Wicker Park Estate Design	250,800	395,000	144,200
Biosolids Project	91,295	1,529,405	1,438,110
Machinery	579,930	579,739	(191)
Robertsdale Force Main	5,850	50,320	44,470
Joint Force Main	2,154,101	2,154,101	-
Schoon Ditch	89,414	94,120	4,706
Totals	<u>\$ 6,569,027</u>	<u>\$ 8,357,129</u>	<u>\$ 1,788,102</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, 2011, is as follows:

Due From	Due To	2011
Recycling Utility Sanitary District	Storm Water Utility Storm Water Utility	\$ 350,000 <u>90,000</u>
Total		<u>\$ 440,000</u>

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

E. Leases

Capital Leases

The Sanitary District has entered into a capital lease for a vactor truck. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2011, are as follows:

	Business-Type Activities
2012	\$ 74,324
2013	74,325
2014	74,324
2015	<u>74,325</u>
Total minimum lease payments	297,298
Less amount representing interest	<u>20,588</u>
Present value of net minimum lease payments	<u>\$ 276,710</u>

The vactor truck is included as major equipment at a cost of \$341,029 in the Sanitary District. Accumulated Depreciation on the vactor truck as of December 31, 2011, was \$25,577.

F. Short-Term Liabilities

The Sanitary District may use short-term notes and loans to finance operations due to a delay in the receipt of property tax revenues. All short-term notes and loans were repaid as of December 31, 2011.

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

G. Long-Term Liabilities

1. General Obligation Bonds

The Sanitary District issues 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%	\$ 2,690,000
2003 Special Taxing District refunding bonds	6%	605,000
2010 Special Taxing District bonds	6%	<u>9,415,000</u>
Total		<u>\$ 12,710,000</u>

General obligation bonds debt service requirements to maturity are as follows:

	Principal	Interest
2012	\$ 1,310,000	\$ 500,417
2013	1,360,000	443,542
2014	1,080,000	394,268
2015	1,115,000	353,280
2016	415,000	318,505
2017-2030	<u>7,430,000</u>	<u>2,494,102</u>
Totals	<u>\$ 12,710,000</u>	<u>\$ 4,504,114</u>

2. Notes and 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 incurred to the maximum allowed. The Sanitary District has drawn down all of the funds, except for the 2007B Loan Program Funds of \$17,225,000. The State placed the proceeds into a trust account in the Sanitary District's name. Cash drawdowns are made from this account after approval is given by the State. The cash balance not yet drawn down, reported as part of the Cash with Fiscal Agent - Construction is \$5,363,300. Annual debt service requirements to maturity for the loans, including interest of \$11,288,372, are as follows:

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

	Principal	Interest
2012	\$ 2,985,000	\$ 1,407,323
2013	3,040,000	1,291,256
2014	1,775,000	1,199,729
2015	1,835,000	1,132,347
2016	2,630,000	1,055,066
2017-2021	13,625,000	3,696,246
2022-2026	9,040,000	1,406,113
2027-2031	2,405,000	100,292
Totals	\$ 37,335,000	\$ 11,288,372

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
General obligation:					
Bonds payable:	\$ 13,790,000	\$ -	\$ 1,080,000	\$ 12,710,000	\$ 1,310,000
Less bond discount	(151,642)	10,157	-	(141,485)	-
Total general obligation bonds payable	13,638,358	10,157	1,080,000	12,568,515	1,310,000
Loans payable	40,240,000	-	2,905,000	37,335,000	2,985,000
Capital lease payable	-	341,029	64,319	276,710	66,206
Other postemployment benefits	368,310	244,038	-	612,348	-
Compensated absences	121,519	3,427	-	124,946	-
Total long-term liabilities	\$ 54,368,187	\$ 598,651	\$ 4,049,319	\$ 50,917,519	\$ 4,361,206
Sanitation Utility:					
Compensated absences	\$ 9,925	\$ 1,418	\$ -	\$ 11,343	\$ -
Recycling Utility:					
Compensated absences	\$ 6,352	\$ -	\$ 160	\$ 6,192	\$ -

H. Restricted Assets

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

Bond and interest cash and cash equivalents	\$ 3,441,616
Cash with fiscal agent - construction	13,126,312
Taxes and accounts receivable (net of allowance)	433,826
Total restricted assets	\$ 17,001,754

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

III. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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 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 Sanitary District Fund, whereby a separate account has been established (Unemployment Compensation Account). The Sanitary District sets aside assets in this account for claim settlements. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the account are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of payouts, and other economic and social factors.

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

	2010	2011
Unpaid claims, beginning of fiscal year	\$ 5,704	\$ -
Incurred claims and changes in estimates	16,411	20,238
Claim payments	(22,115)	(20,238)
Unpaid claims, end of fiscal year	\$ -	\$ -

B. Subsequent Events

Debt:

The District's board during 2011 and early 2012 approved the issuance of \$77,000,000 of bonds for construction projects in relation to the current consent decree. In July of 2012, the District issued \$7,000,000 of Bond Anticipation Bonds, for flood control and sewer separation, due on or before March 31, 2013.

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

Rates:

Wastewater Service Rate Increase

The District in June 2012 approved an across the board wastewater service increase of approximately 30 percent. In accordance with Indiana Code 36-9-25-11.3(d)(2)(B) the Sanitary District has petitioned the Indiana Utility Regulatory Commission (IURC) for approval of said rate increase.

D. Contingent Liabilities

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

E. Noncompliance – Legal/Contractual Provisions

In April of 1999, Hammond Sanitary District (HSD) and the United States, through the Environmental Protection Agency (USEPA) and the State of Indiana, through the Indiana Department of Environmental Management (IDEM) reached a settlement regarding alleged violations of the Clean Water Act, 33 U.S.C. Sec. 1251 *et seq.*, which was documented in a consent decree entered by the United States District Court in cause number 2:93-CV-225-JM. Among other things, the Consent Decree prohibited HSD from violating the effluent limitations in its National Pollutant Discharge Elimination System ("NPDES") permit, discharging dry weather flows through any Combined Sewer Overflows ("CSO"), and required that HSD design and construct facilities as needed to eliminate the use of the Columbia Ave., Sohl Ave., and Johnson Ave. CSOs according to a schedule contained in Article V.c of the Consent Decree. After a timely submission of a schedule for the design and construction of "CSO improvements", construction was delayed due in large part to lack of consensus on the size of the CSO retention basin and the terms to be contained in an Amended Consent Decree that would provide for extended deadlines. In June 2011 EPA and IDEM submitted an amended draft Consent Decree that provided for full operation of the basin project by the end of 2013 but the parties failed to agree on the design criteria. Negotiations broke down and on August 15, 2011, the Agencies notified HSD that they were seeking \$2,437,000 in stipulated penalties for failing to complete design and construction of the CSO Control Project, violating the prohibition against dry weather overflows, and violating its NPDES permit effluent limitations.

Thereafter HSD invoked the formal dispute resolution process provided in the 1999 Consent Decree and on November 18, 2011, the Agencies lowered their demand for stipulated penalties to \$1,850,000 and after further proceedings the Water Division Director for Region 5 EPA issued a Final Administrative Decision further reducing the penalty to \$1,416,500.

On July 16, 2012, HSD filed its "Notice of Judicial Appeal" in the United States District Court seeking judicial review of the Final Administrative Decision of the Water Division Director. The matter is now pending. Negotiations are ongoing.

F. Transfers to and from the City

The Sanitary District transferred \$700,000 to the City as payment in lieu of taxes.

The City transferred \$600,000 to the Sanitation Utility for the purchase of equipment, which will be used by the Sanitation Utility and the Recycling Utility. Because the equipment will not be purchased until 2012, the Sanitary District reported the transfer as Deferred Revenue. As the funds are used for the purchase of equipment, the Sanitary District will recognize the contributed capital as revenue.

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

G. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

Sanitary District Retiree Healthcare Plan is a single-employer defined benefit healthcare plan administered by the Guardian and Anthem Insurance Companies. The plan provides postemployment medical, dental, vision, and life insurance benefits to eligible retirees and their spouses. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the Sanitary District. The Sanitary District Retiree Healthcare Plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for the participants. That report may be obtained by contacting the plan administrator:

Hammond Sanitary District
5143 Columbia Avenue
Hammond, IN 46327

Funding Policy

The contribution requirements of plan members for the Sanitary District's Healthcare Plan are established by the Sanitary District's Board. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2011, the Sanitary District contributed \$277,192 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The Sanitary District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation to the plan:

Annual required contribution	\$	521,135
Interest on net OPEB obligation		14,732
Adjustment to annual required contribution		<u>(14,637)</u>
Annual OPEB cost		521,230
Contributions made		<u>277,192</u>
Increase (decrease) in net OPEB obligation		244,038
Net OPEB obligation, beginning of year		<u>368,310</u>
Net OPEB obligation, end of year	\$	<u><u>612,348</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the preceding year were as follows:

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

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12-31-10	\$ 521,230	40.6%	\$ 368,310
12-31-11	620,303	53.2%	612,348

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$7,387,762, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,387,762. The covered payroll (annual payroll of active employees covered by the plan) was \$3,253,286, and the ratio of the UAAL to covered payroll was 227.1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent unfunded discount rate, and a 3 percent payroll growth. An annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2011, was 30 years.

H. Rate Structure

Wastewater Utility (Sanitary District)

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 4, 2008. The District has 34,575 customers.

Storm Water Utility

The current rate structure was approved by the City Common Council on January 23, 2006.

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

Sanitation and Recycling Utilities

The current rate structure was approved by the Sanitary District on January 1, 2008

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 Indiana Public Retirement System (INPRS) 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.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

PERF members are required to contribute three percent of their annual covered salary. The Sanitary District is required to contribute at an actuarially determined rate; the current rate is 7.50 percent 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 INPRS.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Sanitary District is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

Annual Pension Cost

For 2011, the Sanitary District's annual pension cost of \$642,364 for PERF was equal to the Sanitary District's required and actual contributions.

SANITARY DISTRICT
CITY OF HAMMOND
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS OVER PAYROLL

Duties related to payroll activities were not sufficiently segregated. At the Sanitary District, one individual was responsible for calculating salaries and wage rates based upon contracts and authorized wage increases. These calculated amounts were then presented to the District Board for approval in the form of a salary resolution. This same individual was then responsible for entering the salaries and wage rates into the computerized payroll accounting system. She was responsible for entering work hours, and paid and unpaid leave time for calculating payroll expenses and pay checks. She received the mail, entered all withholdings, and entered garnishments as well as preparing and remitting reports for payroll withholdings.

The pay rates included in the salary resolution presented for audit were altered and replaced with handwritten pay amounts to bring it into agreement with labor contracts. In accordance with Indiana Code 36-9-25-10(15), the District Board is responsible for fixing all compensation. Based upon the salary resolution presented for examination, it could not be determined whether the District Board approved the unedited or edited salary resolution, as the minutes to the meetings simply addressed approving the resolution.

The wages reported on the Wage and Tax Forms (Form W-2) were incorrect for some employees. Employees can opt to have certain payroll deductions withheld before federal taxes are applied. These deductions are commonly referred to as Section 125. Wages reported for these individuals on the Form W-2 are then net of the Section 125 deductions; however, at the Sanitary District, the wages reported for individuals paid from the Recycling and Sanitation Utilities were reported with the Section 125 deductions included. Officials of the Sanitary District only became aware of this issue, when the current Business Manager began reviewing and reporting withholdings. Officials are in the process of correcting the errors.

In 2011, District officials discovered that the District was in violation of court orders for garnishments. The court orders provided for examination were for garnishments related to the former payroll clerk. Since the former payroll clerk had exclusive access to the payroll records without proper oversight and review, she neglected to establish the court ordered garnishments against her own salary. Upon discovery by District officials, the payroll clerk was terminated.

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.

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 for Special Districts, Chapter 10)

Indiana Code 36-9-25-10 states in part:

"In performing its duties the board may do the following: . . .(15) Employ and pay for all engineering, architectural, legal, and other professional services needed in carrying out this chapter, including determining the number, prescribing the duties, and fixing the compensation for all its engineers, chemists, attorneys, bacteriologists, surveyors, inspectors, clerks, stenographers, laborers, supervisors, and other employees as provided by law for other executive departments of the municipality."

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

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines for Special Districts, Chapter 10)

ACCOUNTS PAYABLE VOUCHERS AND WARRANTS

The City Controller is the fiscal officer of the Sanitary District. As the fiscal officer, the City Controller is responsible for certifying all claims or accounts payable vouchers, prior to disbursing the funds. The certification of claims by the City Controller can be accomplished by either signing each claim or signing a claim docket which lists each and every claim considered for payment during a specific period of time.

In 2011, none of the claims or claim dockets were signed by the City Controller.

Indiana Code 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."

CAPITAL ASSETS, CONSTRUCTION IN PROGRESS, AND ACCUMULATED DEPRECIATION

Capital Assets

The District uses computerized accounting software to account for financial transactions and for maintaining detailed capital asset records as well as the related accumulated depreciation and depreciation expense. This computerized accounting software utilizes a numbering system for its chart of accounts. The computer software also allows for separate funds to be accounted for as separate "companies" using the same chart of accounts numbering systems, but each number can be assigned a different title by the user.

Under the District's Chart of Accounts, the 1300 numerical series are used to account for capital assets, and the 1600 numerical series is used to account for construction in progress. However, we noted that the District's records were not consistent in the numerical sequence and the related title of Construction in Progress in all "companies." Also, some of the items accounted for in the 1600 accounts would not be considered Construction in Progress (i.e. some items are pieces of equipment).

In all of the companies, account 1600 is titled as either "Equipment" or "Machinery and Equipment." In two of the companies, in which account 1600 was titled "Equipment" the balances in the accounts were reported as Construction in Progress. In a company in which account 1600 was titled "Machinery and Equipment", the balance was reported as Materials and Supplies, but for another company the balance of the 1600 "Machinery and Equipment" was reported as Capital Assets. Officials contend that some items are meant to be held as Construction in Progress, as the equipment has not yet been placed in service because

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

the equipment is associated with projects which are included as Construction in Progress. This needs to be clarified in the financial records of the District through notation as to which project the equipment is associated. If equipment is being held as Construction in Progress which has been placed in service, the associated depreciation expense is not being recorded; thus overstating the overall cost of the asset.

The computerized detailed records to support amounts reported as accumulated depreciation did not include the depreciation expense from the 2010 year in the accumulated depreciation total. After the close of each year, a report is generated from the computer system providing a detailed accounting by asset of the cost of each asset, the balance of the accumulated depreciation as of the beginning of the year, and the depreciation expense for the year. Thus, to determine the accumulated depreciation balance as of the end of the year, the user must add the depreciation expense to the accumulated depreciation balance; however, for 2011, depreciation expense for 2010 and 2011 had to be added to the accumulated depreciation balance. Officials could not explain the discrepancy.

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 at least every two years for good internal control and for verifying account balances carried in the accounting records. . . .

Equipment

Tangible property of a permanent nature (other than land, buildings and improvements) should be inventoried. Examples include machinery, trucks, cars, furniture, typewriters, adding machines, calculators, bookkeeping machines, data processing equipment, desks, safes, cabinets, books, etc. The value of such items should be carried in the inventory at the purchase cost. The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which equipment items will be recorded.

Construction Work In Progress

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, Chapter 16)

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. Procedures must also exist to assure that only authorized individuals have access to computer generated output. . . . If the report content can be modified via user selection of various criteria such as account codes, department codes, transaction codes, status codes, etc., the report heading should contain sufficient information regarding the selection criteria to allow another user to understand what information is being reported and recreate the report. All output reports must clearly indicate the effective dates of the information in addition to the report generation date. Output reports must have appropriate subtotals to allow reconciliation to other reports and to external documentation. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 16)

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

TEMPORARY LOANS BETWEEN FUNDS

On February 14, 2012, the District Board adopted Resolution 64-2011 which authorized temporary loans between funds as follows:

Transferred To	Transferred From	Amount
Operations and Maintenance (Sanitary District)	Replacement (Sanitary District)	\$ 1,200,000
Sewer Maintenance (Sanitary District)	Storm Water Utility	90,000
Recycling Utility	Storm Water Utility	350,000

The loans were posted to the records in December 2011, prior to the authorization date. The loans were recorded in December 2011 in order to avoid reporting a deficit cash balance as of December 31, 2011.

The loans were also authorized for repayment prior to December 31, 2012, by the Board per another resolution also adopted on February 14, 2012. The repayments were recorded on April 9, 2012.

Indiana Code 36-1-8-4 states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs . . ."

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2012, with Rachel Peterson, Business Manager; William Biller, Financial Consultant to the Sanitary District; Ramona Campbell, Deputy City Controller; Robert Lendi, CPA, Controller; and Stanley J. Dostanti, President of the Board of Sanitary District Commissioners.