

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

FINANCIAL STATEMENTS EXAMINATION REPORT
OF

WATER UTILITY
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
01/02/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Robert Lendi, CPA	01-01-12 to 12-31-13
Mayor	Thomas M. McDermott, Jr.	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	William J. O'Connor Robert Lendi, CPA	01-01-12 to 06-30-13 07-01-13 to 12-31-13
President of the Common Council	Michael Opinker	01-01-12 to 12-31-12
Office Manager	Deborah Van Meter	01-01-12 to 12-31-13
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-12 to 12-31-13
President of the Utility Service Board	Sharon Daniels	01-01-12 to 12-31-13



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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 Water Utility (Utility), a department of the City of Hammond, for the year ended December 31, 2012. The financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on the financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements 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 major enterprise fund 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, 2012, 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 financial position of the major enterprise fund for the Water Utility, as of December 31, 2012, 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 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

September 24, 2013

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF NET POSITION
December 31, 2012

Assets

Current assets:	
Cash and cash equivalents	\$ 1,971,705
Accounts receivable	1,291,053
Other receivables	769
Inventories	425,258
Prepaid items	<u>123,881</u>
 Total current assets	 <u>3,812,666</u>
Noncurrent assets:	
Restricted cash, cash equivalents, and investments:	
Customer deposits	800,601
Capital Improvement Fund	<u>425,334</u>
 Total restricted cash, cash equivalents, and investments	 <u>1,225,935</u>
Capital assets:	
Land, land rights, and construction in progress	251,377
Other capital assets (net of accumulated depreciation)	<u>39,607,779</u>
 Total capital assets	 <u>39,859,156</u>
 Total noncurrent assets	 <u>41,085,091</u>
 Total assets	 <u>44,897,757</u>

Liabilities

Current liabilities:	
Accounts payable	37,934
Accrued payroll and withholding payable	74,294
Taxes payable	16,259
PERF payable	9,515
Current liabilities payable from restricted assets:	
Customer deposits	<u>800,060</u>
 Total current liabilities	 <u>938,062</u>
Noncurrent liabilities:	
Compensated absences	<u>144,371</u>
 Total liabilities	 <u>1,082,433</u>

Net Position

Net investment in capital assets	41,085,091
Restricted for customer deposits	800,601
Restricted for capital improvements	425,334
Unrestricted	<u>1,504,298</u>
 Total net position	 <u>\$ 43,815,324</u>

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As Of And For The Year Ended December 31, 2012

Operating revenues:	
Metered water revenue:	
Residential	\$ 1,656,063
Commercial	8,177,798
Other water revenue	<u>328,685</u>
 Total operating revenues	 <u>10,162,546</u>
 Operating expenses:	
Water treatment:	
Salaries and wages	901,686
Employee pensions and benefits	125,069
Purchased power	1,083,649
Fuel for power production	3,756
Chemicals	869,305
Materials and supplies	179,804
Contractual services	523,840
Insurance	335,710
Miscellaneous	6,372
Transmission and distribution:	
Salaries and wages	1,008,441
Employee pensions and benefits	143,860
Materials and supplies	391,591
Contractual services	115,807
Transportation expense	75,091
Insurance	539,175
Miscellaneous	5,602
Customer accounts:	
Salaries and wages	643,045
Employee pensions and benefits	85,077
Contractual services	354,917
Transportation expense	10,586
Insurance	218,076
Bad debt expense	13,956
Miscellaneous	491
Administrative and general:	
Salaries and wages	625,831
Employee pensions and benefits	50,195
Materials and supplies	181,932
Contractual services	108,620
Insurance	345,968
Taxes	284,099
Depreciation	1,996,621
Miscellaneous	<u>73,506</u>
 Total operating expenses	 <u>11,301,678</u>
 Operating loss	 <u>(1,139,132)</u>
 Nonoperating revenues:	
Interest and investment revenue	<u>3,704</u>
 Income (loss) before contributions and transfers	 (1,135,428)
 Contributions and transfers:	
Capital asset contributions from City	600,000
Redevelopment loan forgiven	852,315
Transfers from the City	<u>500,000</u>
 Total contributions and transfers	 <u>1,952,315</u>
 Change in net position	 816,887
Total net position - beginning	<u>42,998,437</u>
Total net position - ending	<u>\$ 43,815,324</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, 2012

Cash flows from operating activities:	
Receipts from customers and users	\$ 9,250,753
Payments to suppliers and contractors	(5,680,585)
Payments to employees	(3,179,202)
Payments for employee pension and benefits	(442,941)
Receipts from other sources	<u>328,685</u>
Net cash provided (used) by operating activities	<u>276,710</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(250,971)
Transfers from the City	<u>500,000</u>
Net cash provided (used) by capital and related financing activities	<u>249,029</u>
Cash flows from investing activities:	
Interest received	<u>3,704</u>
Net increase in cash and cash equivalents	529,443
Cash and cash equivalents, January 1	<u>2,668,197</u>
Cash and cash equivalents, December 31	<u>\$ 3,197,640</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (1,139,132)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,996,621
Bad debt expense	13,956
(Increase) decrease in assets:	
Accounts receivable	(582,458)
Other receivables	(769)
Inventories	6,229
Prepaid items	(10,106)
Due from State	118
Increase (decrease) in liabilities:	
Accounts payable	24,457
Accrued payroll and withholding payable	22,247
PERF payable	(77,751)
Taxes payable	(198)
Customer deposits payable	6,732
Compensated absences	<u>16,764</u>
Total adjustments	<u>1,415,842</u>
Net cash provided (used) by operating activities	<u>\$ 276,710</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from City	\$ 600,000
Deletion of obsolete capital assets	254,157
Contributions from City redevelopment - loan forgiven	852,315

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

Major enterprise fund financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Major enterprise funds 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 major enterprise funds 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 Position 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.

2. Inventories and Prepaid Items

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

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

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

3. Restricted Assets

Assets totaling \$425,334 of the Water Utility are classified as restricted assets on the Statement of Net Position because these assets are restricted for capital improvements for the Calumet Ave. Section 5, High Lift, Capacity Study, Five Year Plan Module, and Automatic Meter Replacement Program Projects.

The financial statements report \$800,601 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:

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

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

5. Compensated Absences

- a. Sick Leave – 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.

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

- c. Personal Leave – Full-time utility employees employed on January 1 are entitled to three (3) personal days during the calendar year. New employees hired after January 1 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.

6. Net Position Restricted by Enabling Legislation

The Utility's Statement of Net Position reports \$1,225,935 of restricted net position, of which \$800,601 is restricted by enabling legislation.

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, 2012, the Utility had deposit balances in the amount of \$3,197,640.

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, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 134,466	\$ -	\$ -	\$ 134,466
Construction in progress	53,699	63,212	-	116,911
Total capital assets, not being depreciated	<u>188,165</u>	<u>63,212</u>	<u>-</u>	<u>251,377</u>
Capital assets, being depreciated:				
Source and supply	7,072,549	-	-	7,072,549
Distribution lines	44,681,374	634,591	254,157	45,061,808
Pumping equipment	14,345,281	87,109	-	14,432,390
Treatment equipment	11,156,524	-	-	11,156,524
General building	656,835	3,948	-	660,783
General equipment	<u>1,371,735</u>	<u>62,111</u>	<u>-</u>	<u>1,433,846</u>
Totals	<u>79,284,298</u>	<u>787,759</u>	<u>254,157</u>	<u>79,817,900</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Source and supply	1,629,340	771,879	-	2,401,219
Distribution lines	20,967,083	725,064	254,157	21,437,990
Pumping equipment	5,833,249	280,622	-	6,113,871
Treatment equipment	8,447,990	112,767	-	8,560,757
General building	377,711	38,622	-	416,333
General equipment	1,212,284	67,667	-	1,279,951
Totals	38,467,657	1,996,621	254,157	40,210,121
Total capital assets, being depreciated, net	40,816,641	(1,208,862)	-	39,607,779
Total capital assets, net	<u>\$41,004,806</u>	<u>\$(1,145,650)</u>	<u>\$ -</u>	<u>\$39,859,156</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2012		
	Total Project Authorized	Expended to December 31,	Committed
Calumet Ave	\$ 283,734	\$ 39,938	\$ 243,796
High Lift	14,000	14,000	-
Capacity Study	70,000	32,890	37,110
Five Year Plan Module	25,000	18,674	6,326
Automatic Meter Replacement Program	33,500	11,409	22,091
Totals	\$ 426,234	\$ 116,911	\$ 309,323

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, 2012, was as follows:

<u>2012</u>	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Redevelopment loan payable	\$ 852,314	\$ -	<i>FORGIVEN</i>	\$ -

See Note III. F.

E. Restricted Assets

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

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

	2012
Customer Deposits	\$ 800,601
Capital Improvement Fund	425,334
Total restricted assets	\$ 1,225,935

F. Restatement of Net Position

As discussed in Note III. B., the Utility has implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). The liability for these benefits was not reported for the period ended December 31, 2011.

Net position January 1, 2012	\$42,998,437
Prior period adjustment:	
Net OPEB liability	(1,942,711)
Restated net position January 1, 2012	\$41,055,726

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.

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

B. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The Hammond Water Works Group Retiree Medical Program is a single-employer defined benefit healthcare plan administered by Blue Cross and Blue Shield (BCBS). 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 Utility. The Hammond Water Works Seniors Choice 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 Water Works
6505 Columbia Avenue
Hammond, IN 46327

Funding Policy

The contribution requirements of plan members for the Seniors Choice Healthcare Plan are established and can be amended by the Utility's Board. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2012, the Hammond Water Works contributed \$140,169 to the plan for these postemployment benefits. Plan members receiving benefits contributed \$13,059, or approximately 9 percent of the total premiums, through their required contributions of \$20 to \$100 per month.

Annual OPEB Cost and Net OPEB Obligation

The Utility'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	\$ 1,162,420
Interest on net OPEB obligation	57,424
Adjustment to annual required contribution	<u>(58,617)</u>
 Annual OPEB cost	 1,161,227
Contributions made	<u>140,169</u>
 Increase (decrease) in net OPEB obligation	 1,021,058
Net OPEB obligation, beginning of year	<u>1,942,711</u>
 Net OPEB obligation, end of year	 <u><u>\$ 2,963,769</u></u>

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

The Utility's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding year were as follows:

<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	\$ 1,057,968	10.0%	\$ 952,529
12-31-11	1,108,747	10.4%	1,942,711
12-31-12	1,161,227	12.1%	2,963,769

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$11,222,076, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,222,076. The covered payroll (annual payroll of active employees covered by the plan) was \$3,157,233, and the ratio of the UAAL to covered payroll was 355 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.

The Schedule of Funding Progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

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

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 11 neighboring cities and towns. Revenues attributable to these cities and towns for 2012 are as follows:

City or Town	Metered Revenue
Burnham	\$ 199,978
Calumet City	2,098,533
Chicago Heights	1,825,831
Ford Heights	92,790
Griffith	317,953
Highland	718,800
Lansing	1,588,432
Lynwood	35,958
Munster	696,732
South Holland	22,248
Whiting	153,096
Total	\$7,750,352

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.

On December 18, 2012, the Redevelopment Commission passed Resolution #2012-9, to forgive the remaining balance of \$852,314.

G. Intergovernmental Agreement

Due to the need for cash flow assistance, the Hammond Water Works Department entered into an intergovernmental agreement with the City to borrow \$500,000.

The Board of Public Works passed a resolution to waive, and permanently forgive the intergovernmental agreement, and all remaining financial obligations of the Hammond Water Works Department due and payable to the City of Hammond in the remainder of calendar year 2012.

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

H. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utility, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the 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 3 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 3 percent of their annual covered salary. The Utility is required to contribute at an actuarially determined rate; the current rate is 9.25 percent 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 2012, the Utility's annual pension cost was \$377,826.

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

Other Postemployment Benefits - Single-Employer Defined Benefit Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
12-31-10	\$ -	\$ 11,222,076	\$ (11,222,076)	0%	\$ 3,276,213	(343%)
12-31-11	-	11,222,076	(11,222,076)	0%	3,157,209	(355%)
12-31-12	-	11,222,076	(11,222,076)	0%	3,157,233	(355%)

HAMMOND WATER UTILITY
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2013, with Edward Krusa, Chief Executive Operator of the Water Utility, and Deborah Van Meter, Office Manager. Our examination disclosed no material items that warrant comment at this time.