

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

EXAMINATION REPORT
OF

SANITARY DISTRICT
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
01/02/2014

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Business Manager	Rachel Montes	01-01-12 to 12-31-13
Sanitary District Manager	Michael T. Unger, Ph.D.	01-01-12 to 12-31-13
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 Sanitary District Board of Commissioners	Stanley J. Dostatni	01-01-12 to 12-31-13
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 12-31-13



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the major enterprise fund of the Hammond Sanitary District (District), a department of the City of Hammond, as of and for the year ended December 31, 2012. 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 major enterprise fund of the District as of December 31, 2012, 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.

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

September 24, 2013

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF NET POSITION
December 31, 2012

	2012			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Assets				
Current assets:				
Cash and cash equivalents	\$ -	\$ 1,485,594	\$ -	\$ -
Cash with fiscal agent	194,658	4,896	81,558	-
Accounts receivable (net of allowance)	1,195,722	23,280	312,636	-
Taxes receivable (net of allowance)	223,342	-	-	-
Intergovernmental receivables	57,285	-	-	-
Inventories	417,034	-	-	-
Prepaid items	460,884	-	102,095	26,806
Total current assets	2,548,925	1,513,771	496,289	26,806
Noncurrent assets:				
Restricted cash, cash equivalents, and investments:				
Bond and interest cash and investments	2,807,270	-	-	-
Due from other utilities	1,045,250	-	-	-
Due from Sanitary District unrestricted funds	1,313,692	-	-	-
Cash with fiscal agent - construction	12,543,853	-	-	-
Taxes and accounts receivable (net of allowance)	369,650	-	-	-
Total restricted assets	18,079,715	-	-	-
Deferred charges	794,074	-	-	-
Capital assets:				
Land and construction in progress	9,003,319	-	-	-
Other capital assets (net of accumulated depreciation)	126,575,785	-	259,439	360,536
Total capital assets	135,579,104	-	259,439	360,536
Total noncurrent assets	154,452,893	-	259,439	360,536
Total assets	157,001,818	1,513,771	755,728	387,342
Liabilities				
Current liabilities:				
Accounts payable	2,235,085	-	117,633	10,050
Due to Sanitary District bond and interest cash and investments	1,313,692	-	378,065	667,185
Interfund payables:				
Interfund loans	960	-	-	-
Accrued payroll and withholdings payable	194,735	-	91,821	33,249
Current liabilities payable from restricted assets:				
Tax anticipation warrants payable	297,484	-	-	-
Accounts payable	768,575	-	-	-
Bond anticipation note payable	7,000,000	-	-	-
Loans payable	3,040,000	-	-	-
General obligation bonds payable	1,360,000	-	-	-
Capital lease payable	68,149	-	-	-
Accrued interest payable	832,787	-	-	-
Total current liabilities	17,111,467	-	587,519	710,484
Noncurrent liabilities:				
Loans payable	31,310,000	-	-	-
General obligation bonds payable (net of unamortized discounts and deferred amount on refunding)	9,908,671	-	-	-
Capital lease payable	134,236	-	-	-
Other postemployment benefits	845,373	-	-	-
Deferred revenues	-	-	320,532	-
Compensated absences	311,576	-	51,176	24,177
Total noncurrent liabilities	42,509,856	-	371,708	24,177
Total liabilities	59,621,323	-	959,227	734,661
Net Position				
Net investment in capital assets	81,989,473	-	259,439	360,536
Restricted for debt service	3,176,920	-	-	-
Restricted for capital improvements	12,543,853	-	-	-
Unrestricted	(329,751)	1,513,771	(462,938)	(707,855)
Total net position	\$ 97,380,495	\$ 1,513,771	\$ (203,499)	\$ (347,319)

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

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

	2012			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Operating revenues:				
Residential sales	\$ 5,919,559	\$ 305,863	\$ 4,173,690	\$ -
Commercial and industrial sales	4,245,199	-	-	-
Municipal sales	2,345,012	-	-	-
Flat rate revenues	1,130,069	-	-	-
Other charges for services	346,756	-	-	-
Local tax distributions for sewer maintenance	2,669,417	-	-	-
Sales of materials	-	-	-	193,739
Other	168,247	-	8,718	906,628
	<u>16,824,259</u>	<u>305,863</u>	<u>4,182,407</u>	<u>1,100,367</u>
Total operating revenues				
Operating expenses:				
Plant maintenance & operations:				
Salaries and wages	2,775,981	-	1,391,315	464,561
Employee pensions and benefits	1,883,591	-	924,243	318,311
Materials and supplies	417,659	-	87,451	57,205
Repairs and maintenance	1,088,309	-	152,703	31,291
Contractual services	2,356,845	-	1,414,617	39,303
Fuel purchased	107,708	-	211,217	46,356
Utilities	1,485,847	-	-	-
Sludge disposal	655,779	-	-	-
Insurance	374,715	-	93,349	48,110
Miscellaneous	169,396	-	38,797	6,418
Depreciation	1,765,129	-	-	-
Collection system:				
Salaries and wages	976,210	-	-	-
Employee pensions and benefits	1,139,199	-	-	-
Materials and supplies	135,620	-	-	-
Repairs and maintenance	1,950	-	-	-
Contractual services	930,752	-	-	-
Fuel purchased	10,735	-	-	-
Utilities	93,338	-	-	-
Insurance	58,443	-	-	-
Miscellaneous	147,983	-	-	-
Bad debt expense	-	-	-	-
Depreciation	125,100	-	-	-
Administration and general:				
Salaries and wages	567,311	-	91,397	115,422
Employee pensions and benefits	439,997	-	-	-
Materials and supplies	199	-	5,009	-
Repairs and maintenance	2,489	-	457	98
Contractual services	144,601	-	75,348	37,070
Fuel purchased	18,966	-	-	-
Utilities	588,769	-	118	1,011
Insurance	79,499	-	-	-
Miscellaneous	25,401	89,307	8,640	8,922
Bad debt expense	957,758	-	-	-
Depreciation	2,748,029	-	184,306	66,551
	<u>22,273,308</u>	<u>89,307</u>	<u>4,678,968</u>	<u>1,240,629</u>
Total operating expenses				
Operating income (loss)	<u>(5,449,049)</u>	<u>216,556</u>	<u>(496,561)</u>	<u>(140,263)</u>
Nonoperating revenues (expenses):				
Local tax distributions	5,337,619	-	-	-
Interest earned on debt proceeds	9,349	-	-	-
Amortization of bond issuance cost	(66,972)	-	-	-
Interest expense and fiscal agent fees	(2,234,834)	-	-	-
	<u>3,045,162</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)				
Income (loss) before transfers	(2,403,887)	216,556	(496,561)	(140,263)
Transfers out	(700,000)	-	-	-
Change in net position	(3,103,887)	216,556	(496,561)	(140,263)
Total net position - beginning	<u>100,484,382</u>	<u>1,297,215</u>	<u>293,062</u>	<u>(207,056)</u>
Total net position - ending	<u>\$ 97,380,495</u>	<u>\$ 1,513,771</u>	<u>\$ (203,499)</u>	<u>\$ (347,319)</u>

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

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2012

	2012			
	Sanitary District	Storm Water Utility	Sanitation Utility	Recycling Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 16,472,900	\$ 307,080	\$ 3,892,013	\$ 193,739
Payments to suppliers	(6,935,957)	(89,307)	(2,089,740)	(265,560)
Payments to employees	(7,489,153)	-	(2,378,873)	(888,386)
Other receipts	-	-	-	906,628
Net cash provided (used) by operating activities	<u>2,047,790</u>	<u>217,773</u>	<u>(576,600)</u>	<u>(53,579)</u>
Cash flows from noncapital financing activities:				
Proceeds from tax anticipation warrants	1,729,493	-	-	-
Principal paid on tax anticipation warrants	(1,432,009)	-	-	-
Interest paid on tax anticipation warrants	(14,884)	-	-	-
Interfund loans received	-	440,000	378,065	667,185
Interfund loans paid	(1,135,250)	-	-	(350,000)
Transfers out	(700,000)	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(1,552,650)</u>	<u>440,000</u>	<u>378,065</u>	<u>317,185</u>
Cash flows from capital and related financing activities:				
Local tax distributions/community customers debt service	4,390,056	-	-	-
Proceeds from bond anticipation note	7,000,000	-	-	-
Acquisition and construction of capital assets	(6,677,635)	-	-	(279,468)
Principal paid on capital debt	(4,295,000)	-	-	-
Principal paid on capital lease	(74,325)	-	-	-
Interest paid on capital debt	(2,312,063)	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,968,967)</u>	<u>-</u>	<u>-</u>	<u>(279,468)</u>
Cash flows from investing activities:				
Interest received	9,349	-	-	-
Net cash provided (used) by investing activities	<u>9,349</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	(1,464,478)	657,773	(198,535)	(15,862)
Cash and cash equivalents, January 1	<u>17,010,259</u>	<u>832,717</u>	<u>280,093</u>	<u>15,862</u>
Cash and cash equivalents, December 31	<u>\$ 15,545,781</u>	<u>\$ 1,490,490</u>	<u>\$ 81,558</u>	<u>\$ -</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (5,449,049)	\$ 216,556	\$ (496,561)	\$ (140,263)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	4,638,258	-	184,306	66,551
Bad debt expense	957,758	-	-	-
(Increase) decrease in assets:				
Accounts receivable	(114,085)	1,217	(10,926)	-
Taxes receivable	17,552	-	-	-
Intergovernmental receivable	16,148	-	-	-
Deferred debits	(270,974)	-	-	-
Inventories	376,486	-	-	-
Prepaid items	63,771	-	35,059	18,554
Increase (decrease) in liabilities:				
Accounts payable	1,518,789	-	(37,092)	(8,329)
Accrued payroll and withholdings payable	(126,519)	-	(11,751)	(8,077)
Deferred revenue	-	-	(279,468)	-
Other postemployment benefits	233,025	-	-	-
Compensated absences payable	186,630	-	39,833	17,985
Total adjustments	<u>7,496,839</u>	<u>1,217</u>	<u>(80,039)</u>	<u>86,684</u>
Net cash provided (used) by operating activities	<u>\$ 2,047,790</u>	<u>\$ 217,773</u>	<u>\$ (576,600)</u>	<u>\$ (53,579)</u>

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, a department of the City of Hammond, 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

Major enterprise fund financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; 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 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 Position or Equity

1. Deposits and Investments

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

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

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.

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

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.

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 Sanitary 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 Position because their use is limited based upon the bond indenture, grant agreements, and tax rate budgetary restrictions.

The financial statements report \$18,079,715 of restricted net position for the Sanitary District, of which \$369,650 is restricted by enabling legislation.

5. Capital Assets

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

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

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. All employees eligible for retirement, or upon separation of employment with at least 10 years of full-time service for Local 399 Union members and 15 years of full-time service for Local 142 Union members and non-Union, will be reimbursed one day's pay for each 2 (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 for Union employees and 4 days per year for non-Union employees. Personal leave does not accumulate from year to year.

Sick leave is accrued when incurred.

No liability is reported for 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 Position. 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, 2012, the Sanitary District had deposit balances in the amount of \$16,591,031 for Sanitary District; \$1,490,490 for Storm Water Utility; \$(296,507) for Sanitation Utility; and \$(667,185) for Recycling Utility.

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>Prior Year Adjustment</u>	<u>Restated Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Sanitary District:						
Capital assets, not being depreciated:						
Land	\$ 497,919	\$ -	\$ 497,919	\$ -	\$ -	\$ 497,919
Construction in progress	<u>6,569,027</u>	<u>-</u>	<u>6,569,027</u>	<u>6,709,871</u>	<u>4,773,498</u>	<u>8,505,400</u>
Total capital assets, not being depreciated	<u>7,066,946</u>	<u>-</u>	<u>7,066,946</u>	<u>6,709,871</u>	<u>4,773,498</u>	<u>9,003,319</u>
Capital assets, being depreciated:						
Land improvements	119,080,289	-	119,080,289	3,338,883	-	122,419,172
Buildings	49,084,181	-	49,084,181	394,341	-	49,478,522
Buildings improvements	7,883,315	-	7,883,315	481,775	-	8,365,090
Major equipment	46,334,814	-	46,334,814	520,265	-	46,855,079
Minor equipment	<u>3,992,483</u>	<u>(20,190)</u>	<u>3,972,293</u>	<u>38,234</u>	<u>-</u>	<u>4,010,527</u>
Totals	<u>226,375,082</u>	<u>(20,190)</u>	<u>226,354,892</u>	<u>4,773,498</u>	<u>-</u>	<u>231,128,390</u>

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

	Beginning Balance	Prior Year Adjustment	Restated Balance	Increases	Decreases	Ending Balance
Sanitary District (continued):						
Less accumulated depreciation for:						
Land improvements	45,616,962	-	45,616,962	2,300,521	-	47,917,483
Buildings	20,919,892	-	20,919,892	812,239	-	21,732,131
Buildings improvements	4,817,917	-	4,817,917	152,802	-	4,970,719
Major equipment	26,045,081	-	26,045,081	1,125,524	-	27,170,605
Minor equipment	<u>2,514,495</u>	<u>-</u>	<u>2,514,495</u>	<u>247,171</u>	<u>-</u>	<u>2,761,666</u>
Totals	<u>99,914,347</u>	<u>-</u>	<u>99,914,347</u>	<u>4,638,257</u>	<u>-</u>	<u>104,552,604</u>
Total capital assets, being depreciated, net	126,460,735	(20,190)	126,440,545	135,241	-	126,575,785
Total capital assets, net	<u>\$ 133,527,681</u>	<u>\$ (20,190)</u>	<u>\$ 133,507,491</u>	<u>\$ 6,845,112</u>	<u>\$ 4,773,498</u>	<u>\$ 135,579,104</u>
Sanitation Utility:						
Capital assets, being depreciated:						
Major equipment	\$ 1,094,662	\$ -	\$ 1,094,662	\$ -	\$ -	\$ 1,094,662
Less accumulated depreciation for:						
Major equipment	<u>650,917</u>	<u>-</u>	<u>650,917</u>	<u>184,306</u>	<u>-</u>	<u>835,223</u>
Total capital assets, being depreciated, net	<u>\$ 443,745</u>	<u>\$ -</u>	<u>\$ 443,745</u>	<u>\$ (184,306)</u>	<u>\$ -</u>	<u>\$ 259,439</u>
Recycling Utility						
Capital assets, being depreciated:						
Major equipment	\$ 33,137	\$ -	\$ 33,137	\$ -	\$ -	\$ 33,137
Minor equipment	<u>417,164</u>	<u>-</u>	<u>417,164</u>	<u>279,468</u>	<u>-</u>	<u>696,632</u>
Totals	<u>450,301</u>	<u>-</u>	<u>450,301</u>	<u>279,468</u>	<u>-</u>	<u>729,769</u>
Less accumulated depreciation for:						
Major equipment	76,187	-	76,187	3,882	-	80,069
Minor equipment	<u>226,495</u>	<u>-</u>	<u>226,495</u>	<u>62,669</u>	<u>-</u>	<u>289,164</u>
Totals	<u>302,682</u>	<u>-</u>	<u>302,682</u>	<u>66,551</u>	<u>-</u>	<u>369,233</u>
Total capital assets, being depreciated, net	<u>\$ 147,619</u>	<u>\$ -</u>	<u>\$ 147,619</u>	<u>\$ 212,917</u>	<u>\$ -</u>	<u>\$ 360,536</u>

The Sanitary District reported a prior year adjustment of \$20,190 to minor equipment for unidentified prior errors.

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

	<u>2012</u>
Sanitary District	\$ 4,638,258
Sanitation Utility	184,306
Recycling Utility	<u>66,551</u>
Total depreciation expense	<u>\$ 4,889,115</u>

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

C. Construction Commitments

Construction work in progress is composed of the following:

Sanitary District Projects	2012		
	Expended to December 31,	Authorized	Committed
Sanitary District:			
CSO (Combined Sewer Overflow) Storage Basin	\$ 108,886	\$ 3,828,694	\$ 3,719,808
Generator Kennedy Avenue North Station	-	858,273	858,273
SCADA	1,378,088	1,200,000	(178,088)
Long Term Control Plan	435,100	505,740	70,640
Wicker Park Estate Design	2,015,252	2,634,865	619,613
Biosolids Project	-	1,854,924	1,854,924
Machinery	600,120	600,120	-
Robertsdale Force Main	597,366	681,587	84,221
Joint Force Main	2,154,101	2,154,101	-
Schoon Ditch	711,836	1,895,315	1,183,479
Tertiary Filter Media	433,371	1,370,000	936,629
Southside Header	71,280	2,542,597	2,471,317
Totals	<u>\$ 8,505,400</u>	<u>\$ 20,126,216</u>	<u>\$ 11,620,816</u>

D. 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, 2012, are as follows:

	Business-Type Activities
Sanitary District:	
Total minimum lease payments	\$ 222,973
Less amount representing interest	<u>20,588</u>
Present value of net minimum lease payments	<u>\$ 202,385</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, 2012, was \$59,680.

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

E. 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 or bond proceeds. In July 2012, the District issued \$7,000,000 in bond anticipation notes for flood control and sewer separation. The notes are due on or before March 31, 2013.

Short-term debt activity for the year ended December 31, 2012, was as follows:

2012	Beginning Balance	Issued/ Draws	Redeemed/ Repayments	Ending Balance
Sanitary District:				
Bond anticipation note	\$ -	\$ 7,000,000	\$ -	\$ 7,000,000

F. 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
Sanitary District:		
1993EE Special Taxing District refunding bonds	6%	\$ 310,000
2007 Special Taxing District bonds	4.25% to 4.5%	2,055,000
2010 Special Taxing District bonds	6%	<u>9,035,000</u>
Total		<u>\$ 11,400,000</u>

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

	Principal	Interest
Sanitary District:		
2013	\$ 1,360,000	\$ 443,541
2014	1,080,000	394,268
2015	1,115,000	353,280
2016	415,000	318,505
2017	425,000	305,875
2018-2030	<u>7,005,000</u>	<u>2,188,228</u>
Totals	<u>\$ 11,400,000</u>	<u>\$ 4,003,696</u>

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

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 \$2,407,093. Annual debt service requirements to maturity for the loans are as follows:

	Principal	Interest
Sanitary District:		
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	2,750,000	951,995
2018-2022	13,665,000	3,167,428
2023-2027	7,835,000	1,066,254
2028-2032	820,000	16,974
Totals	\$34,350,000	\$9,881,049

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
General obligation					
Bonds payable	\$12,710,000	\$ -	\$1,310,000	\$11,400,000	\$1,360,000
Less bond discount	(141,485)	10,156	-	(131,329)	-
Total general obligation bonds payable	12,568,515	10,156	1,310,000	11,268,671	1,360,000
Loans payable	37,335,000	-	2,985,000	34,350,000	3,040,000
Capital lease payable	276,710	-	74,325	202,385	68,149
Other postemployment benefits	612,348	233,025	-	845,373	-
Compensated absences	124,946	186,630	-	311,576	-
Total long-term liabilities	\$50,917,518	\$429,811	\$4,369,325	\$46,978,005	\$4,468,149
Sanitation Utility:					
Compensated absences	\$ 11,343	\$ 39,833	\$ -	\$ 51,176	\$ -
Recycling Utility:					
Compensated absences	\$ 6,192	\$ 17,985	\$ -	\$ 24,177	\$ -

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

G. Restricted Assets

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

Sanitary District:	
Bond and interest cash and investments	\$ 5,166,212
Cash with fiscal agent-construction	12,543,853
Taxes and accounts receivable (net of allowance)	<u>369,650</u>
Total restricted assets	<u>\$ 18,079,715</u>

H. Cash Balance Deficits

As of December 31, 2012, several cash funds of the Sanitary District were initially presented as operating at cash deficits. The deficits are the result of expenses exceeding revenues and available cash balances. For financial reporting purposes, the cash deficits of these funds were eliminated by reducing the cash balance of other funds and offset by reporting "Due From." The following are the funds and the amounts that were adjusted.

Fund	Amount Overdrawn
Sanitary District Operating	\$ 1,313,692
Sanitation Utility Operating	378,065
Recycling Utility Operating	667,185

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 post employment 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.

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

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:

	2011	2012
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	20,238	32,030
Claim payments	<u>(20,238)</u>	<u>(32,030)</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

B. Subsequent Events

Debt:

The Sanitary 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 a \$7,000,000 Bond Anticipation Note for flood control and sewer separation, due on or before March 31, 2013. In April 2013, the District issued \$52,850,000 through the State Revolving Fund as part of the \$77,000,000 bond approval. The District renewed the Bond Anticipation Note in the amount of \$5,000,000 for projects not covered in the 2013 SRF loan.

Rates:

Wastewater Service Rate Increase

The Hammond Sanitary District had a rate study conducted in 2011 and the Board of Sanitary District Commissioners approved an across the board rate increase of approximately 30 percent. The plan was for the District to proceed with a rate case filing with the Indiana Utility Regulatory Commission but due to some extenuating circumstances, the District has not submitted a rate case filing with the IURC.

C. Contingent Liabilities

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

D. 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

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

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.

E. Transfers to and From the City

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

F. 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, 2012, the Sanitary District contributed \$277,192 to the plan.

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

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	24,494
Adjustment to annual required contribution	<u>(35,412)</u>
Annual OPEB cost	510,217
Contributions made	<u>277,192</u>
Increase (decrease) in net OPEB obligation	233,025
Net OPEB obligation, beginning of year	<u>612,348</u>
Net OPEB obligation, end of year	<u><u>\$ 845,373</u></u>

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:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-10	\$ 620,303	40.6%	\$ 368,310
12-31-11	521,230	53.2%	612,348
12-31-12	510,217	54.3%	845,373

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 \$6,382,197, and the ratio of the UAAL to covered payroll was 116 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.

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

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.

G. Rate Structure

Wastewater Utility (Sanitary District)

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

Storm Water Utility

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

Sanitation and Recycling Utilities

The current rate structure was approved by the Sanitary District on October 9, 2012.

H. 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

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

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.

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 3 percent of their annual covered salary. The Sanitary District is required to contribute at an actuarially determined rate; the current rate is 10 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 2012, the Sanitary District's annual pension cost of \$748,225 for PERF was equal to the Sanitary District's required and actual contributions.

I. Delinquent Obligations

The District was delinquent in the payment of NIPSCO (gas and electric services) invoices of \$1,390,221 and \$2,330,846, as of December 31, 2012, and July 31, 2013, respectively.

SANITARY DISTRICT
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	\$ -	\$ 9,163,348	\$ (9,163,348)	0%	\$ 6,347,933	(144%)
12-31-11	-	7,387,762	(7,387,762)	0%	6,341,223	(117%)
12-31-12	-	7,387,762	(7,387,762)	0%	6,382,197	(116%)

SANITARY DISTRICT
CITY OF HAMMOND
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

The Hammond Sanitary District (District) payroll bank reconciliation at December 31, 2012, included many adjustments that were not adequately documented. The reconciling items totaled \$10,859.02. Some of the reconciling items dated back to 2011; others were not properly dated and did not note the fund for which the adjustment was required. The District has not made adjustments to the records in a timely manner. The majority of the adjustments included with the December 31, 2012 reconciliation are also included with the reconciliation at July 31, 2013.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

PUBLIC WORKS PROJECTS

The Hammond Sanitary District (District) Board approved change orders which increased the scope of two construction projects by more than 20 percent. The first construction project contract was awarded for \$183,700; one change order was approved for \$41,563. This change order increased the original contract by 23 percent. The second construction project contract was awarded for \$296,502; two change orders were approved totaling \$154,386. These change orders increased the original contract by 53 percent.

Indiana Code 36-1-12-18(d) states in part: "The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20 percent) of the amount of the original contract."

OVERDRAWN CASH BALANCES

Overdrawn cash balances at December 31, 2012, were as follows:

<u>Fund</u>	<u>Amount Overdrawn</u>
Sanitary District Operating	\$ 1,313,692
Sanitation Utility Operating	378,065
Recycling Utility Operating	667,185

For financial statement reporting, the Sanitary District's Bond and Interest Fund, a restricted fund, was reduced by the amount of the overdrafts. The overdrafts are reported as "Due From Sanitary District Unrestricted Funds" on the Statement of Net Position.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on September 24, 2013, with Robert Lendi, CPA, Controller; Rachel Montes, Business Manager; and Marty J. Wielgos, Chief of Staff.