

**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, 2013 to December 31, 2013



**FILED**  
05/01/2015



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Robert Lendi, CPA Heather Garay	01-01-13 to 05-14-14 05-15-14 to 12-31-15
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 Edward Krusa	01-01-13 to 06-30-13 07-01-13 to 05-14-14 05-15-14 to 12-31-15
President of the Common Council	Michael Opinker	01-01-13 to 12-31-15
Office Manager	Deborah Van Meter	01-01-13 to 12-31-15
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-13 to 12-31-15
President of the Utility Service Board	Sharon Daniels	01-01-13 to 12-31-15



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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, 2013. The financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion based on the financial statements based upon 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, 2013, 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, 2013, 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 Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not examine the information and express no opinion on it.

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

March 19, 2015

WATER UTILITY  
CITY OF HAMMOND  
STATEMENT OF NET POSITION  
December 31, 2013

Assets

Current assets:	
Cash and cash equivalents	\$ 1,643,062
Accounts receivable	1,092,594
Other receivables	679,043
Inventories	358,638
Prepaid items	<u>144,318</u>
 Total current assets	 <u>3,917,655</u>
Noncurrent assets:	
Restricted cash, cash equivalents, and investments:	
Customer deposits	800,804
Capital Improvement fund	<u>827,417</u>
 Total restricted cash, cash equivalents, and investments	 <u>1,628,221</u>
Capital assets:	
Land, land rights, and construction in progress	342,317
Other capital assets (net of accumulated depreciation)	<u>39,910,430</u>
 Total capital assets	 <u>40,252,747</u>
 Total noncurrent assets	 <u>41,880,968</u>
 Total assets	 <u>45,798,623</u>

Liabilities

Current liabilities:	
Accounts payable	12,843
Accrued payroll and withholding payable	86,882
Taxes payable	18,484
PERF payable	12,155
Compensated absences	1,571
 Current liabilities payable from restricted assets:	
Customer deposits	<u>802,226</u>
 Total current liabilities	 <u>934,161</u>
Noncurrent liabilities:	
Other post employment benefits	3,387,180
Compensated absences	<u>155,567</u>
 Total noncurrent liabilities	 <u>3,542,747</u>
 Total liabilities	 <u>4,476,908</u>

Net Position

Invested in capital assets	40,252,747
Restricted for customer deposits	800,804
Restricted for capital improvements	827,417
Unrestricted	<u>(559,253)</u>
 Total net position	 <u>\$ 41,321,715</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, 2013

Operating revenues:		
Metered water revenue:		
Residential	\$	1,580,838
Commercial		9,236,789
Other water revenue		<u>1,252,706</u>
 Total operating revenues		 <u>12,070,333</u>
Operating expenses:		
Water treatment:		
Salaries and wages		921,198
Employee pensions and benefits		132,146
Purchased power		1,118,426
Chemicals		1,026,579
Materials and supplies		208,592
Contractual services		447,374
Insurance		404,858
Miscellaneous		36,144
Transmission and distribution:		
Salaries and wages		1,079,989
Employee pensions and benefits		151,038
Materials and supplies		664,470
Contractual services		106,789
Transportation expense		48,108
Insurance		651,716
Miscellaneous		638,668
Customer accounts:		
Salaries and wages		630,451
Employee pensions and benefits		88,417
Contractual services		313,977
Transportation expense		9,984
Insurance		252,453
Bad debt expense		16,798
Miscellaneous		1,440
Administrative and general:		
Salaries and wages		706,252
Employee pensions and benefits		64,327
Contractual services		79,771
Materials and supplies		171,140
Insurance		368,770
Taxes		295,479
Depreciation		2,015,768
Miscellaneous		41,617
Other post employment benefits		<u>1,087,180</u>
 Total operating expenses		 <u>13,779,919</u>
 Operating loss		 <u>(1,709,586)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue		<u>4,977</u>
 Total nonoperating revenues (expenses)		 <u>4,977</u>
 Income before contributions and transfers		 (1,704,609)
Contributions and transfers:		
Capital contributions		2,126,000
Transfers to City		<u>(615,000)</u>
 Total contribution and transfers		 <u>1,511,000</u>
 Change in net position		 (193,609)
Restated total net position - beginning		<u>41,515,324</u>
Total net position - ending	\$	<u><u>41,321,715</u></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, 2013

Cash flows from operating activities:	
Receipts from customers and users	\$ 10,999,288
Payments to suppliers and contractors	(6,863,098)
Payments to employees	(3,335,663)
Payments for employee pension and benefits	(407,934)
Receipts from other sources	<u>574,432</u>
Net cash provided (used) by operating activities	<u>967,025</u>
Cash flows from noncapital financing activities:	
Transfers to City	<u>(615,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(615,000)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(283,359)</u>
Net cash provided (used) by capital and related financing activities	<u>(283,359)</u>
Cash flows from investing activities:	
Interest received	<u>4,977</u>
Net increase in cash and cash equivalents	73,643
Cash and cash equivalents, January 1	<u>3,197,640</u>
Cash and cash equivalents, December 31	<u>\$ 3,271,283</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (1,709,586)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	2,015,768
Bad debt expense	16,798
(Increase) decrease in assets:	
Accounts receivable	181,661
Other receivables	(678,274)
Inventories	66,620
Prepaid items	(20,437)
Increase (decrease) in liabilities:	
Accounts payable	(25,091)
Accrued payroll and withholding payable	12,588
PERF payable	2,640
Taxes payable	2,225
Customer deposits payable	2,166
Other post employment benefits	1,087,180
Compensated absences	<u>12,767</u>
Total adjustments	<u>2,676,611</u>
Net cash provided (used) by operating activities	<u>\$ 967,025</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 2,126,000
Deletion of obsolete capital assets	214,653

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 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 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.

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

2. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Assets totaling \$827,417 of the 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, Plant 1 MTU/RTU Upgrade, Plant 1HMI.

The financial statements report \$800,804 of restricted 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 1 day's pay for every 4 unused accumulated sick days or after 15 years of employment at the rate of 1 day's pay for every 2 unused accumulated sick days.

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

- b. Vacation Leave - Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. However, unused vacation leave is paid to employees through cash payments upon separation of employment.
- c. Personal Leave - Full-time Utility employees employed on January 1 are entitled to 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 \$1,628,221 of restricted net position, of which \$800,804 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, 2013, the Utility had deposit balances in the amount of \$3,271,283.

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, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 134,466	\$ -	\$ -	\$ 134,466
Construction in progress	<u>116,911</u>	<u>90,940</u>	<u>-</u>	<u>207,851</u>
Total capital assets, not being depreciated	<u>251,377</u>	<u>90,940</u>	<u>-</u>	<u>342,317</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Source and supply	7,072,549	33,677	-	7,106,226
Distribution lines	45,061,808	2,153,147	214,653	47,000,302
Pumping equipment	14,432,390	79,462	-	14,511,852
Treatment equipment	11,156,524	-	-	11,156,524
General building	660,783	4,370	-	665,153
General equipment	1,433,846	47,763	-	1,481,609
<b>Totals</b>	<u>79,817,900</u>	<u>2,318,419</u>	<u>214,653</u>	<u>81,921,666</u>
Less accumulated depreciation for:				
Source and supply	2,401,219	393,001	-	2,794,220
Distribution lines	21,437,990	730,516	214,653	21,953,853
Pumping equipment	6,113,871	706,229	-	6,820,100
Treatment equipment	8,560,757	112,766	-	8,673,523
General building	416,333	20,738	-	437,071
General equipment	1,279,951	52,518	-	1,332,469
<b>Totals</b>	<u>40,210,121</u>	<u>2,015,768</u>	<u>214,653</u>	<u>42,011,236</u>
Total capital assets, being depreciated, net	<u>39,607,779</u>	<u>302,651</u>	<u>-</u>	<u>39,910,430</u>
Total capital assets, net	<u>\$ 39,859,156</u>	<u>\$ 393,591</u>	<u>\$ -</u>	<u>\$ 40,252,747</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2013		
	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	18,675	6,325
Automatic Meter Replacement Program	727,398	68,711	658,687
Plant 1 MTU/RTU Upgrade	28,103	28,103	-
Plant 1 HMI	60,000	5,534	54,466
<b>Totals</b>	<u>\$ 1,208,235</u>	<u>\$ 207,851</u>	<u>\$ 1,000,384</u>

D. 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)

	2013
Customer Deposits	\$ 800,804
Capital Improvement Fund	827,417
Total restricted assets	\$ 1,628,221

E. Other Receivable

Due to damages the Utility determined was caused by two private contractors, the Utility billed the private contractors for the amount of the repairs. The amount of Other Receivable that is attributable to these repair reimbursements is \$679,043. Both claims are pending litigation.

F. Transfers to the City

Transfers to the City at December 31, 2013, were as follows:

Transfer From	Transfer To	2013
Water Utility	City General Fund	\$ 615,000

G. 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 of these benefits was not reported for the period ended December 31, 2012.

Net position January 1, 2013	\$	43,815,324
Prior Period Adjustment:		
Net OPEB liability		(2,300,000)
Restated net position January 1, 2013	\$	41,515,324

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.

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Unemployment Compensation

The City (including the Utility) has chosen to establish a risk financing fund for risks associated with unemployment compensation claims. The risk financing fund is accounted for in the City's Unemployment Compensation Fund (an internal service fund of the City) where assets are set aside for claim settlements and the Utility reimburses the City from the Utility's Unemployment Compensation Account. The total charge allocated to each of the funds is based on each fund's actual number of employees which have had claims. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

B. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The 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 post-employment 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 by the Utility's Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the year ended December 31, 2013, the Utility contributed \$128,248 to the plan. Plan members receiving benefits contributed \$12,508, or approximately 10 percent of the total premiums, through their required contribution of \$20 to \$135 per month.

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

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	\$ 1,217,246
Interest on net OPEB obligation	87,527
Adjustment to annual required contribution	<u>(89,345)</u>
 Annual OPEB cost	 1,215,428
Contributions made	<u>128,248</u>
 Increase (decrease) in net OPEB obligation	 1,087,180
Net OPEB obligation, beginning of year	<u>2,300,000</u>
 Net OPEB obligation, end of year	 <u>\$ 3,387,180</u>

The Utility's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the preceding years were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12-31-11	\$ 1,108,747	10%	\$1,942,711
12-31-12	1,161,227	12%	2,300,000
12-31-13	1,215,428	11%	3,387,180

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$13,542,671, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,542,671. The covered payroll (annual payroll of active employees covered by the plan) was \$3,231,307, and the ratio of the UAAL to covered payroll was 419 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.

WATER UTILITY  
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, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent unfunded discount rate, and a 3 percent payroll growth. An annual healthcare cost trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent after 5 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, 2014, was 30 years.

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 eleven neighboring cities and towns. Revenues attributable to these cities and towns for 2013 are as follows:

<u>City or Town</u>	<u>Metered Revenue</u>
Burnham	\$ 372,775
Calumet City	3,039,758
Chicago Heights	1,536,829
Ford Heights	67,026
Griffith	287,683
Highland	676,635
Lansing	2,009,764
Lynwood	32,621
Munster	648,658
South Holland	23,721
Whiting	<u>152,622</u>
Total	<u>\$ 8,848,092</u>



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

F. 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 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 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  
One 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 Utility 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 Utility are established and may be amended by the INPRS Board.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. For 2013, the Utility's annual pension cost was \$438,135.

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)
12-31-11	\$ -	\$ 12,808,314	\$ (12,808,314)	0%	\$ 3,197,367	(401%)
12-31-12	-	13,639,047	(13,639,047)	0%	3,241,491	(421%)
12-31-13	-	13,542,671	(13,542,671)	0%	3,231,307	(419%)

WATER UTILITY  
CITY OF HAMMOND  
EXAMINATION RESULT AND COMMENT

***INTERNAL CONTROLS OVER FINANCIAL STATEMENTS***

The Utility did not have adequate internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statements. The Utility should have proper controls in place over the preparation of the financial statements, Notes to Financial Statements, and Required Supplementary Information to ensure accurate and reliable reporting of the Utility's financial activity. In addition, adequate internal control requires sufficient supervision and oversight by management and the governing bodies to ensure complete and accurate financial reporting. Due to the lack of internal controls the following material misstatements in the financial statements were undetected:

1. The current cash and cash equivalents balance reported as of December 31, 2013, was overstated by \$1,237,450 for the amount collected by the Water Utility for the City.
2. The accounts receivable balance reported as of December 31, 2013, was overstated by \$403,390 for the amount billed by the Water Utility not yet collected for the City.
3. The commercial metered water revenues reported for 2013 was overstated by \$1,640,840 for the amount billed by the Water Utility for the City and not yet remitted to the City.
4. The Utility paid for an actuarial study for the determination of the Other Postemployment Benefits as set forth in Statement No. 45 of the Governmental Accounting Standards Board (GASB). However, the results of that study were not reported on the financial statements nor were the proper note disclosures or required supplementary schedule included. This resulted in a \$2,300,000 prior period adjustment, a \$3,387,180 understatement of noncurrent liabilities, and a \$1,087,180 understatement of operating expenses.
5. The Utility determined that two contractors were the cause of damage to utility property. The Utility billed the contractors for the amount the Utility paid for the repairs. The amount billed was classified as accounts receivable on the financial statement which represents that this billing and collection would follow the normal accounts billing and collection procedures. However, \$679,043 of the accounts receivable was reclassified as other receivable and a note disclosure to describe the uniqueness of the situation was warranted.
6. The Customer Cities note discloses the amount of the commercial revenues attributable to the 11 customer cities and towns. The Utility overstated the amount in the note by \$4,132,329. The amount had included the amount collected; not billed, and also the City's share.

Audit adjustments were proposed, accepted by the Utility, and made to the financial statements, notes to the financial statements, and required supplementary information. These adjustments resulted in a presentation of the financial statements that is materially correct.

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 management's 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 Manual for Cities and Towns, Chapter 7)

WATER UTILITY  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2015, with Edward Krusa, Chief Executive Operator of the Water Utility; Heather Garay, Controller; Sharon Daniels, President of the Utility Service Board; and Debbie Van Meter, Office Manager.