

**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, 2013 to December 31, 2013



**FILED**  
08/20/2015



## TABLE OF CONTENTS

| <u>Description</u>  | <u>Page</u> |
|---|-------------|
| Schedule of Officials .....                                       | 2           |
| Independent Accountant's Report.....                              | 3-4         |
| Financial Information:  |             |
| Statement of Net Position .....                                   | 5           |
| Statement of Revenues, Expenses and Changes in Net Position ..... | 6           |
| Statement of Cash Flows .....                                     | 7           |
| Notes to Financial Statements .....                               | 8-23        |
| Required Supplementary Information:                               |             |
| Schedule of Funding Progress .....                                | 24          |
| Examination Results and Comments:                                 |             |
| Internal Controls Over Financial Statements.....                  | 25-27       |
| Overdrawn Cash Balances .....                                     | 27-28       |
| Current Payment of Claims .....                                   | 28          |
| Capital Asset Records .....                                       | 28          |
| Delinquent Wastewater Fees .....                                  | 29          |
| Exit Conference .....   | 30          |
| Official Response .....   | 31          |

## SCHEDULE OF OFFICIALS

| <u>Office</u>  | <u>Official</u>  | <u>Term</u>  |
|--|--|--|
| Business Manager   | Rachel Montes  | 01-01-13 to 12-31-15   |
| Sanitary District Manager                                    | Michael T. Unger, Ph.D.<br>Marty Wielgos                 | 01-01-13 to 11-25-13<br>11-26-13 to 12-31-15                         |
| City Controller  | Robert Lendi, CPA<br>(Vacant)<br>Heather Garay           | 01-01-13 to 04-30-14<br>05-01-14 to 05-11-14<br>05-12-14 to 12-31-15 |
| Mayor  | Thomas M. McDermott, Jr.                                 | 01-01-13 to 12-31-15   |
| President of the Sanitary District<br>Board of Commissioners | Stanley J. Dostatni                                      | 01-01-13 to 12-31-15   |
| President of the Board of<br>Public Works and Safety         | William J. O'Connor<br>Robert Lendi, CPA<br>Edward Krusa | 01-30-13 to 06-30-13<br>07-01-13 to 04-30-14<br>05-01-14 to 12-31-15 |
| President of the<br>Common Council                           | Michael Opinker  | 01-01-13 to 12-31-15   |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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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 Sanitary District (District), a department of the City of Hammond, as of and for the year ended December 31, 2013. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion based on our examination.

Except as discussed in the fourth paragraph, 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 District are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the District. 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.

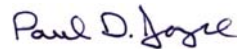
We were unable to examine taxes and intergovernmental receivables, the related allowance for doubtful accounts, and capital contributions. Management had not performed an analysis of taxes and intergovernmental receivables and the related allowance for doubtful accounts at December 31, 2013, nor had an analysis been done on capital contributions for the District; therefore, these items were not reported on the financial statements presented for examination. No documentation was presented for examination that would have allowed us to analyze these areas during the examination. We were unable to apply alternative procedures to satisfy ourselves as to whether these areas should have been included on the financial statements.

In our opinion, except for the possible effects on the financial statements, of not being able to obtain sufficient evidence as discussed in the paragraph above, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Sanitary District of the City of Hammond as of December 31, 2013, 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.

INDEPENDENT ACCOUNTANT'S REPORT  
(Continued)

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.

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.

  
Paul D. Joyce, CPA  
State Examiner

May 13, 2015

SANITARY DISTRICT  
CITY OF HAMMOND  
STATEMENT OF NET POSITION  
December 31, 2013

|  | 2013                 |                        |                       |                      |
|--|----------------------|------------------------|-----------------------|----------------------|
|  | Sanitary<br>District | Storm Water<br>Utility | Sanitation<br>Utility | Recycling<br>Utility |
| <u>Assets</u>  |                      |                        |                       |                      |
| Current assets:  |                      |                        |                       |                      |
| Cash and cash equivalents  | \$ -                 | \$ 1,750,315           | \$ -                  | \$ -                 |
| Cash with fiscal agent   | -                    | 6,166                  | -                     | -                    |
| Accounts receivable (net of allowance)   | 1,181,809            | 21,981                 | 317,734               | -                    |
| Inventories  | 900,109              | -                      | -                     | -                    |
| Prepaid items  | 386,890              | -                      | 31,564                | 12,167               |
| Total current assets   | 2,468,808            | 1,778,462              | 349,298               | 12,167               |
| Noncurrent assets:   |                      |                        |                       |                      |
| Restricted cash, cash equivalents and investments:   |                      |                        |                       |                      |
| Bond and interest cash and investments   | 7,971,132            | -                      | -                     | -                    |
| Cash with fiscal agent - construction  | 31,086,685           | -                      | -                     | -                    |
| Due From Other Utilities   | 1,413,724            | -                      | -                     | -                    |
| Due from Sanitary District unrestricted  | 1,005,468            | -                      | -                     | -                    |
| Total restricted assets  | 41,477,009           | -                      | -                     | -                    |
| Deferred outflow of resources  | 531,520              | -                      | -                     | -                    |
| Capital assets:  |                      |                        |                       |                      |
| Land and construction in progress  | 21,245,196           | -                      | -                     | -                    |
| Other capital assets (net of accumulated depreciation)   | 138,318,843          | -                      | 440,956               | 286,267              |
| Total capital assets   | 159,564,039          | -                      | 440,956               | 286,267              |
| Total noncurrent assets  | 201,572,568          | -                      | 440,956               | 286,267              |
| Total assets   | 204,041,376          | 1,778,462              | 790,254               | 298,434              |
| <u>Liabilities</u>   |                      |                        |                       |                      |
| Current liabilities:   |                      |                        |                       |                      |
| Accounts payable   | 3,112,910            | -                      | 117,559               | 15,898               |
| Due to Sanitary District bond and interest cash and investments                                  | 1,005,468            | -                      | 418,302               | 995,422              |
| Accrued payroll and withholdings payable   | 223,096              | -                      | 114,935               | 37,842               |
| Current liabilities payable from restricted assets:  |                      |                        |                       |                      |
| Accounts payable   | 48,479               | -                      | -                     | -                    |
| Loans payable  | 2,855,000            | -                      | -                     | -                    |
| General obligation bonds payable   | 1,080,000            | -                      | -                     | -                    |
| Accrued interest payable   | 1,392,222            | -                      | -                     | -                    |
| Total current liabilities  | 9,717,175            | -                      | 650,796               | 1,049,162            |
| Noncurrent liabilities:  |                      |                        |                       |                      |
| Loans payable  | 81,305,000           | -                      | -                     | -                    |
| General obligation bonds payable (net of unamortized discounts and deferred amount on refunding) | 8,838,828            | -                      | -                     | -                    |
| Bond anticipation note payable   | 5,000,000            | -                      | -                     | -                    |
| Capital lease payable  | 128,061              | -                      | -                     | -                    |
| Other postemployment benefits  | 1,023,169            | -                      | -                     | -                    |
| Compensated absences   | 293,504              | -                      | 26,858                | 13,437               |
| Total noncurrent liabilities   | 96,588,562           | -                      | 26,858                | 13,437               |
| Total liabilities  | 106,305,737          | -                      | 677,654               | 1,062,599            |
| <u>Net Position</u>  |                      |                        |                       |                      |
| Net investment in capital assets   | 58,916,449           | -                      | 440,956               | 286,267              |
| Restricted for debt service  | 10,390,324           | -                      | -                     | -                    |
| Restricted for capital improvements  | 31,086,685           | -                      | -                     | -                    |
| Unrestricted   | (2,657,819)          | 1,778,462              | (328,356)             | (1,050,432)          |
| Total net position   | \$ 97,735,639        | \$ 1,778,462           | \$ 112,600            | \$ (764,165)         |

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, 2013

|   | 2013                 |                        |                       |                      |
|---|----------------------|------------------------|-----------------------|----------------------|
|   | Sanitary<br>District | Storm Water<br>Utility | Sanitation<br>Utility | Recycling<br>Utility |
| Operating Revenues:                           |                      |                        |                       |                      |
| Residential sales                             | \$ 5,928,450         | \$ 307,620             | \$ 4,861,521          | \$ -                 |
| Commercial and industrial sales               | 4,906,702            | -                      | -                     | -                    |
| Municipal sales                               | 3,005,791            | -                      | -                     | -                    |
| Flat rate revenues                            | 1,042,768            | -                      | -                     | -                    |
| Other charges for services                    | 388,605              | -                      | 8,498                 | -                    |
| Local tax distributions for sewer maintenance | 2,311,122            | -                      | -                     | -                    |
| Sales of materials                            | -                    | -                      | -                     | 185,186              |
| Other   | 86,301               | -                      | -                     | 661,386              |
| Total operating revenues                      | <u>17,669,739</u>    | <u>307,620</u>         | <u>4,870,019</u>      | <u>846,572</u>       |
| Operating expenses:                           |                      |                        |                       |                      |
| Plant maintenance & operations:               |                      |                        |                       |                      |
| Salaries and wages                            | 2,808,575            | -                      | 1,474,840             | 470,384              |
| Employee pensions and benefits                | 1,855,086            | -                      | 866,648               | 312,094              |
| Materials and supplies                        | 339,974              | -                      | 84,149                | 30,700               |
| Repairs and maintenance                       | 1,015,861            | -                      | 141,975               | -                    |
| Contractual services                          | 2,733,842            | 25,977                 | 1,322,021             | 19,731               |
| Fuel purchased                                | 137,046              | -                      | 130,180               | 49,999               |
| Utilities                                     | 1,991,870            | -                      | -                     | -                    |
| Sludge disposal                               | 739,484              | -                      | -                     | -                    |
| Insurance                                     | 306,331              | -                      | -                     | -                    |
| Miscellaneous                                 | 108,816              | -                      | 1,906                 | -                    |
| Depreciation                                  | 1,776,069            | -                      | -                     | -                    |
| Collection system:                            |                      |                        |                       |                      |
| Salaries and wages                            | 629,994              | -                      | -                     | -                    |
| Employee pensions and benefits                | 468,308              | -                      | -                     | -                    |
| Materials and supplies                        | 3,588                | -                      | -                     | -                    |
| Repairs and maintenance                       | 2,149                | -                      | -                     | -                    |
| Contractual services                          | 390,580              | -                      | -                     | -                    |
| Fuel purchased                                | 25,023               | -                      | -                     | -                    |
| Utilities                                     | 736,407              | -                      | -                     | -                    |
| Insurance                                     | 83,744               | -                      | -                     | -                    |
| Miscellaneous                                 | 2,595                | -                      | -                     | -                    |
| Depreciation                                  | 2,601,756            | -                      | -                     | -                    |
| Administration and general:                   |                      |                        |                       |                      |
| Salaries and wages                            | 1,063,532            | -                      | 96,484                | 130,353              |
| Employee pensions and benefits                | 885,561              | -                      | -                     | -                    |
| Materials and supplies                        | 176,553              | -                      | 8,697                 | 12,449               |
| Repairs and maintenance                       | -                    | -                      | 293                   | 39,463               |
| Contractual services                          | 1,143,017            | -                      | 76,971                | 43,117               |
| Fuel purchased                                | 4,692                | -                      | 66,339                | -                    |
| Utilities                                     | 108,356              | -                      | 363                   | 3,028                |
| Insurance                                     | 78,394               | -                      | 82,905                | 47,737               |
| Miscellaneous                                 | 187,560              | 16,952                 | 11,935                | 14,565               |
| Depreciation                                  | 126,691              | -                      | 166,214               | 79,798               |
| Total operating expenses                      | <u>22,531,454</u>    | <u>42,929</u>          | <u>4,531,920</u>      | <u>1,253,418</u>     |
| Operating income (loss)                       | <u>(4,861,715)</u>   | <u>264,691</u>         | <u>338,099</u>        | <u>(406,846)</u>     |
| Nonoperating revenues (expenses):             |                      |                        |                       |                      |
| Local tax distributions                       | 5,687,499            | -                      | -                     | -                    |
| Interest earned on debt proceeds              | 125,459              | -                      | -                     | -                    |
| Payment in lieu of taxes to Town of Munster   | (41,272)             | -                      | -                     | -                    |
| Amortization of bond issuance cost            | (75,376)             | -                      | -                     | -                    |
| Proceeds from grants                          | 2,006,923            | -                      | -                     | -                    |
| Interest expense and fiscal agent fees        | (2,460,137)          | -                      | -                     | -                    |
| Total nonoperating revenues (expenses)        | <u>5,243,096</u>     | <u>-</u>               | <u>-</u>              | <u>-</u>             |
| Income (loss) before transfers                | 381,381              | 264,691                | 338,099               | (406,846)            |
| Transfers In/Out                              | <u>32,000</u>        | <u>-</u>               | <u>(22,000)</u>       | <u>(10,000)</u>      |
| Change in net position                        | 413,381              | 264,691                | 316,099               | (416,846)            |
| Restated total net position - beginning       | <u>97,322,258</u>    | <u>1,513,771</u>       | <u>(203,499)</u>      | <u>(347,319)</u>     |
| Total net position - ending                   | <u>\$ 97,735,639</u> | <u>\$ 1,778,462</u>    | <u>\$ 112,600</u>     | <u>\$ (764,165)</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, 2013

|  | 2013                 |                        |                       |                      |
|--|----------------------|------------------------|-----------------------|----------------------|
|  | Sanitary<br>District | Storm Water<br>Utility | Sanitation<br>Utility | Recycling<br>Utility |
| Cash flows from operating activities:  |                      |                        |                       |                      |
| Receipts from customers and users  | \$ 17,877,255        | \$ 308,920             | \$ 4,544,388          | \$ 185,186           |
| Payments to suppliers  | (9,457,750)          | (42,929)               | (1,857,277)           | (240,302)            |
| Payments to employees and benefits   | (7,522,971)          | -                      | (2,439,176)           | (918,978)            |
| Other receipts   | 86,301               | -                      | -                     | 661,386              |
| Net cash provided by operating activities  | 982,835              | 265,991                | 247,935               | (312,708)            |
| Cash flows from noncapital financing activities:   |                      |                        |                       |                      |
| Proceeds from tax anticipation warrants  | 3,494,200            | -                      | -                     | -                    |
| Principal paid on tax anticipation warrants  | (3,494,200)          | -                      | -                     | -                    |
| Interest paid on tax anticipation warrants   | (34,749)             | -                      | -                     | -                    |
| Payment in lieu of taxes   | (41,272)             | -                      | -                     | -                    |
| Interfund loans made for deficit cash balance  | (1,413,724)          | -                      | 418,302               | 995,422              |
| Interfund loan repaid  | (960)                | -                      | -                     | -                    |
| Interfund loans repaid for deficit cash balance  | 1,045,250            | -                      | (378,065)             | (667,185)            |
| Transfers In/Out   | 32,000               | -                      | (22,000)              | (10,000)             |
| Net cash provided (used) by noncapital financing activities                                    | (413,455)            | -                      | 18,237                | 318,237              |
| Cash flows from capital and related financing activities:                                      |                      |                        |                       |                      |
| State/Local tax distributions/community customers debt service                                 | 5,317,849            | -                      | -                     | -                    |
| Proceeds from Grants   | 2,006,923            | -                      | -                     | -                    |
| Repayment of Bond Anticipation Note  | (2,000,000)          | -                      | -                     | -                    |
| Interest Paid on Bond Anticipation Note  | (80,319)             | -                      | -                     | -                    |
| Proceeds from Loans  | 52,850,000           | -                      | -                     | -                    |
| Acquisition and construction of capital assets   | (28,825,967)         | -                      | (347,730)             | (5,530)              |
| Bond issuance costs paid on capital debt   | (201,487)            | -                      | -                     | -                    |
| Principal paid on capital debt   | (4,400,000)          | -                      | -                     | -                    |
| Principal paid on Capital Lease  | (74,324)             | -                      | -                     | -                    |
| Interest paid on capital debt  | (1,775,478)          | -                      | -                     | -                    |
| Net cash provided (used) by capital and related financing activities                           | 22,817,197           | -                      | (347,730)             | (5,530)              |
| Cash flows from investing activities:  |                      |                        |                       |                      |
| Interest received  | 125,459              | -                      | -                     | -                    |
| Net cash provided (used) by investing activities   | 125,459              | -                      | -                     | -                    |
| Net increase in cash and cash equivalents  | 23,512,036           | 265,991                | (81,558)              | -                    |
| Cash and cash equivalents, January 1   | 15,545,781           | \$ 1,490,490           | 81,558                | -                    |
| Cash and cash equivalents, December 31   | \$ 39,057,817        | \$ 1,756,481           | \$ -                  | \$ -                 |
| Reconciliation of operating income to net cash provided (used) by operating activities:        |                      |                        |                       |                      |
| Operating income (loss)  | \$ (4,861,715)       | \$ 264,691             | \$ 338,099            | \$ (406,846)         |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: |                      |                        |                       |                      |
| Depreciation expense   | 4,504,516            | -                      | 166,214               | 79,798               |
| (Increase) decrease in assets:   |                      |                        |                       |                      |
| Accounts receivable  | 13,913               | 1,300                  | (5,099)               | -                    |
| Taxes and intergovernmental receivable   | (108,761)            | -                      | -                     | -                    |
| Deferred outflow of resources  | 388,665              | -                      | -                     | -                    |
| Inventories  | (93,687)             | -                      | -                     | -                    |
| Prepaid items  | 73,994               | -                      | 70,531                | 14,639               |
| Increase (decrease) in liabilities:  |                      |                        |                       |                      |
| Accounts payable   | 877,825              | -                      | (74)                  | 5,848                |
| Accrued payroll and withholdings payable   | 28,361               | -                      | 23,114                | 4,593                |
| Deferred revenue   | -                    | -                      | (320,532)             | -                    |
| Other post employment benefits   | 177,796              | -                      | -                     | -                    |
| Compensated absences payable   | (18,072)             | -                      | (24,318)              | (10,740)             |
| Total adjustments  | 5,844,550            | 1,300                  | (90,164)              | 94,138               |
| Net cash provided by operating activities  | \$ 982,835           | \$ 265,991             | \$ 247,935            | \$ (312,708)         |

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% 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 Outflow of Resources

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

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

Based upon an agreement between user cities/towns and the District, a set rate is paid for services. Annually, a study is performed to determine if the user cities/towns have underpaid or overpaid. The underpayments or overpayments are reported as deferred outflow of resources 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 \$41,477,009 of restricted net position.

5. Capital Assets

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

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

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

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<br/>Threshold</u> | <u>Depreciation<br/>Method</u> | <u>Estimated<br/>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, the Sanitary District converts 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 Local 142 Union members and 15 years of full-time service for 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.

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 outflow of resources and amortized over the term of the related debt.

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

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, 2013, the Sanitary District had deposit balances in the amount of \$40,740,145.

- General Operating Account \$2,877,594
- Payroll Account \$212,337
- General Operating Money Market Account \$760
- Bond2010/BAN2013 Account \$530,439
- Bond 2010 Money Market \$6,032,315
- SRF 6 Construction Account \$1,209,883
- SRF 7 Construction Account \$29,876,817

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<br>Balance | Prior Year<br>Adjustment | Restated<br>Balance | Increases     | Decreases     | Ending<br>Balance |
|--|----------------------|--------------------------|---------------------|---------------|---------------|-------------------|
| Sanitary District:                           |                      |                          |                     |               |               |                   |
| Capital assets, not being depreciated:       |                      |                          |                     |               |               |                   |
| Land   | \$ 497,919           | \$ -                     | \$ 497,919          | \$ 9,500      | \$ -          | \$ 507,419        |
| Construction in progress                     | 8,505,400            | -                        | 8,505,400           | 28,404,560    | 16,172,183    | 20,737,777        |
| Total capital assets, not being depreciated  | 9,003,319            | -                        | 9,003,319           | 28,414,060    | 16,172,183    | 21,245,196        |
| Capital assets, being depreciated:           |                      |                          |                     |               |               |                   |
| Land improvements                            | 122,419,172          | -                        | 122,419,172         | 11,459,646    | -             | 133,878,818       |
| Buildings                                    | 49,478,522           | -                        | 49,478,522          | 195,753       | -             | 49,674,275        |
| Buildings improvements                       | 8,365,090            | -                        | 8,365,090           | 110,000       | -             | 8,475,090         |
| Major Equipment                              | 46,855,079           | -                        | 46,855,079          | 3,918,123     | -             | 50,773,202        |
| Minor Equipment                              | 4,010,526            | -                        | 4,010,526           | 488,660       | -             | 4,499,186         |
| Totals                                       | 231,128,389          | -                        | 231,128,389         | 16,172,183    | -             | 247,300,572       |
| Less accumulated depreciation for:           |                      |                          |                     |               |               |                   |
| Land improvements                            | 47,917,483           | (75,390)                 | 47,842,093          | 2,213,111     | -             | 50,055,203        |
| Buildings                                    | 21,732,131           | -                        | 21,732,131          | 812,465       | -             | 22,544,597        |
| Buildings improvements                       | 4,970,719            | -                        | 4,970,719           | 159,752       | -             | 5,130,471         |
| Major Equipment                              | 27,170,605           | -                        | 27,170,605          | 1,106,883     | -             | 28,277,488        |
| Minor Equipment                              | 2,761,666            | -                        | 2,761,666           | 212,305       | -             | 2,973,971         |
| Totals                                       | 104,552,604          | (75,390)                 | 104,477,214         | 4,504,515     | -             | 108,981,730       |
| Total capital assets, being depreciated, net | 126,575,785          | 75,390                   | 126,651,175         | 11,667,668    | -             | 138,318,843       |
| Total capital assets, net                    | \$ 135,579,104       | \$ 75,390                | \$ 135,654,494      | \$ 40,081,728 | \$ 16,172,183 | \$ 159,564,039    |

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

|  | Beginning<br>Balance | Prior Year<br>Adjustment | Restated<br>Balance | Increases   | Decreases | Ending<br>Balance |
|--|----------------------|--------------------------|---------------------|-------------|-----------|-------------------|
| Sanitation Utility:                          |                      |                          |                     |             |           |                   |
| Capital assets, being depreciated:           |                      |                          |                     |             |           |                   |
| Major Equipment                              | \$ 1,094,662         | \$ -                     | \$ 1,094,662        | \$ 338,624  | \$ -      | \$ 1,433,286      |
| Minor Equipment                              | -                    | -                        | -                   | 9,106       | -         | 9,106             |
| Totals                                       | 1,094,662            | -                        | 1,094,662           | 347,730     | -         | 1,442,392         |
| Less accumulated depreciation for:           |                      |                          |                     |             |           |                   |
| Major Equipment                              | 835,223              | -                        | 835,223             | 165,506     | -         | 1,000,729         |
| Minor Equipment                              | -                    | -                        | -                   | 707         | -         | 707               |
| Totals                                       | 835,223              | -                        | 835,223             | 166,213     | -         | 1,001,436         |
| Total capital assets, being depreciated, net | \$ 259,439           | \$ -                     | \$ 259,439          | \$ 181,517  | \$ -      | \$ 440,956        |
| Recycling Utility                            |                      |                          |                     |             |           |                   |
| Capital assets, being depreciated:           |                      |                          |                     |             |           |                   |
| Major Equipment                              | \$ 33,137            | \$ -                     | \$ 33,137           | \$ -        | \$ -      | \$ 33,137         |
| Minor Equipment                              | 696,632              | -                        | 696,632             | 5,530       | -         | 702,162           |
| Totals                                       | 729,769              | -                        | 729,769             | 5,530       | -         | 735,299           |
| Less accumulated depreciation for:           |                      |                          |                     |             |           |                   |
| Major Equipment                              | 80,069               | -                        | 80,069              | 3,882       | -         | 83,951            |
| Minor Equipment                              | 289,164              | -                        | 289,164             | 75,916      | -         | 365,081           |
| Totals                                       | 369,233              | -                        | 369,233             | 79,798      | -         | 449,031           |
| Total capital assets, being depreciated, net | \$ 360,536           | \$ -                     | \$ 360,536          | \$ (74,268) | \$ -      | \$ 286,267        |

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

|                      | Sanitary<br>District | Sanitation<br>Utility | Recycling<br>Utility |
|----------------------|----------------------|-----------------------|----------------------|
| Depreciation expense | \$ 4,504,516         | \$ 166,214            | \$ 79,798            |

C. Construction Commitments

Construction work in progress is composed of the following:

| Sanitary District Projects                  | 2013                        |               |               |
|---|-----------------------------|---------------|---------------|
|   | Expended to<br>December 31, | Authorized    | Committed     |
| CSO (Combined Sewer Overflow) Storage Basin | \$ 19,881,724               | \$ 40,317,104 | 20,435,380    |
| Long Term Control Plan                      | 558,210                     | 576,450       | 18,240        |
| Robertsdale Forcemain 36"                   | 163,227                     | 495,200       | 331,973       |
| Aeration Diffusers                          | 134,616                     | 1,477,060     | 1,342,444     |
| Totals                                      | \$ 20,737,777               | \$ 42,865,814 | \$ 22,128,037 |

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

D. Leases

Capital Leases

The Sanitary District has entered into a capital lease for a vector truck. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2013, are as follows:

|   | Sanitary<br>District |
|---|----------------------|
| Total minimum lease payments                | \$ 137,505           |
| Less amount representing interest           | 9,444                |
| Present value of net minimum lease payments | \$ 128,061           |

The vector truck is included as major equipment at a cost of \$341,029 in the Sanitary District. Accumulated Depreciation on the vector truck as of December 31, 2013 was \$93,783.

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. All short-term notes and loans, totalling \$3,494,200, were repaid as of December 31, 2013.

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<br>Rates | Amount        |
|-------------------------------------|-------------------|---------------|
| 2007A Special Taxing District Bonds | 4.25% to 4.5%     | \$ 1,395,000  |
| 2010 Special Taxing District Bonds  | 2.50% - 4.75%     | 8,645,000     |
| Total                               |                   | \$ 10,040,000 |

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

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

|                    | <u>Principal</u>     | <u>Interest</u>     |
|--------------------|----------------------|---------------------|
| Sanitary District: |                      |                     |
| 2014               | \$ 1,080,000         | \$ 394,268          |
| 2015               | 1,115,000            | 353,280             |
| 2016               | 415,000              | 318,505             |
| 2017               | 425,000              | 305,875             |
| 2018               | 440,000              | 292,000             |
| 2019-2030          | <u>6,565,000</u>     | <u>1,896,228</u>    |
| Totals             | <u>\$ 10,040,000</u> | <u>\$ 3,560,156</u> |

2. 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 and 2013A Loan Program Funds of \$52,850,000. 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 \$31,086,685. Annual debt service requirements to maturity for the loans are as follows:

|                    | <u>Principal</u>     | <u>Interest</u>      |
|--------------------|----------------------|----------------------|
| Sanitary District: |                      |                      |
| 2014               | \$ 2,855,000         | \$ 2,594,969         |
| 2015               | 4,040,000            | 2,484,621            |
| 2016               | 4,895,000            | 2,348,732            |
| 2017               | 5,070,000            | 2,185,535            |
| 2018               | 5,230,000            | 2,016,446            |
| 2019-2023          | 25,190,000           | 7,536,854            |
| 2023-2028          | 21,895,000           | 3,809,778            |
| 2029-2033          | <u>14,985,000</u>    | <u>1,006,038</u>     |
| Totals             | <u>\$ 84,160,000</u> | <u>\$ 23,982,973</u> |



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

3. Bond Anticipation Note Payable

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. On April 24, 2013, the Sanitary District repaid the Bond Anticipation Note, Series 2012A and issued a \$5,000,000 Bond Anticipation Note for the same purpose as the Bond Anticipation Note, Series 2013A due on or before April 11, 2014. The District renewed the Bond Anticipation Note in the amount of \$5,000,000 for projects not covered in the 2013 SRF loan in 2014. As of December 31, 2014, the Bond Anticipation Note has not been repaid. It is due to be repaid in 2015 including interest of \$208,448.

|        | Principal           | Interest          |
|--------|---------------------|-------------------|
| 2014   | \$ -                | \$ 81,413         |
| 2015   | <u>5,000,000</u>    | <u>127,035</u>    |
| Totals | <u>\$ 5,000,000</u> | <u>\$ 208,448</u> |

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

|  | Beginning<br>Balance | Additions            | Reductions          | Ending<br>Balance     | Due Within<br>One Year |
|--|----------------------|----------------------|---------------------|-----------------------|------------------------|
| Sanitary District:                     |                      |                      |                     |                       |                        |
| General obligation                     |                      |                      |                     |                       |                        |
| Bonds payable                          | \$ 11,400,000        | \$ -                 | \$ 1,360,000        | \$ 10,040,000         | \$ 1,080,000           |
| Less bond discount                     | <u>(131,329)</u>     | <u>10,157</u>        | <u>-</u>            | <u>(121,172)</u>      | <u>-</u>               |
| Total general obligation bonds payable | 11,268,671           | 10,157               | 1,360,000           | 9,918,828             | 1,080,000              |
| Loans payable                          | 34,350,000           | 52,850,000           | 3,040,000           | 84,160,000            | 2,855,000              |
| Bond Anticipation Note Payable         | 7,000,000            | -                    | 2,000,000           | 5,000,000             | -                      |
| Capital Lease Payable                  | 202,385              | -                    | 74,324              | 128,061               | -                      |
| Other Post Employment Benefits         | 845,373              | 177,796              | -                   | 1,023,169             | -                      |
| Compensated absences                   | <u>311,576</u>       | <u>-</u>             | <u>18,072</u>       | <u>293,504</u>        | <u>-</u>               |
| Total Long-term liabilities            | <u>\$ 53,978,005</u> | <u>\$ 53,037,953</u> | <u>\$ 6,492,396</u> | <u>\$ 100,523,562</u> | <u>\$ 3,935,000</u>    |
| Sanitation Utility:                    |                      |                      |                     |                       |                        |
| Compensated absences                   | <u>\$ 51,176</u>     | <u>\$ -</u>          | <u>\$ 24,318</u>    | <u>\$ 26,858</u>      | <u>\$ -</u>            |
| Recycling Utility:                     |                      |                      |                     |                       |                        |
| Compensated absences                   | <u>\$ 24,177</u>     | <u>\$ -</u>          | <u>\$ 10,740</u>    | <u>\$ 13,437</u>      | <u>\$ -</u>            |

G. Restricted Assets

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

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

Sanitary District:

|  |                  |
|--|------------------|
| Bond and interest cash and investments | \$ 7,971,132     |
| Cash with fiscal agent - construction  | 31,086,685       |
| Due From Other Utilities               | 1,413,724        |
| Due from Sanitary Unrestricted         | <u>1,005,468</u> |

|                         |                             |
|-------------------------|-----------------------------|
| Total restricted assets | <u><u>\$ 41,477,009</u></u> |
|-------------------------|-----------------------------|

H. Cash Balance Deficits

As of December 31, 2013, 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                         | Cash with<br>Fiscal Agent | Due<br>From | Amount<br>Overdrawn |
|------------------------------|---------------------------|-------------|---------------------|
| Sanitary District Operating  | \$ 85,551                 | \$1,005,468 | \$1,091,019         |
| Sanitation Utility Operating | 111,870                   | 418,302     | 530,172             |
| Recycling Utility Operating  | -                         | 995,422     | 995,422             |

I. Restatement of Net Position

The following schedule presents a summary of restated beginning balances:

| Restatement  | Sanitary<br>District       |
|--|----------------------------|
| Balance as Reported, December 31, 2012                       | \$97,380,495               |
| Restatements:  |                            |
| Tax anticipation warrant payable erroneously reported        | 297,484                    |
| Deferred outflow of resources adjusted for accurate activity | (431,111)                  |
| Accumulated depreciation adjustment previously not reported  | <u>75,390</u>              |
| Restated total net position - beginning                      | <u><u>\$97,322,258</u></u> |

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

III. Other Information

A. Risk Management

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

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

Unemployment Compensation

The Sanitary District has chosen to establish a risk financing fund for risks associated with unemployment compensation claims. The risk financing fund is accounted for in the Sanitary District Fund, whereby a separate account has been established (Unemployment Compensation Account). The Sanitary District sets aside assets in this account for claim settlements. Provisions are also made for unexpected and unusual claims.

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

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

|  | <u>2012</u>     | <u>2013</u>    |
|--|-----------------|----------------|
| Unpaid claims, beginning of fiscal year  | \$ -            | \$ -           |
| Incurred claims and changes in estimates | 32,030          | 4,281          |
| Claim payments                           | <u>(32,030)</u> | <u>(4,281)</u> |
| Unpaid claims, end of fiscal year        | <u>\$ -</u>     | <u>\$ -</u>    |

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

B. Subsequent Events

Debt:

Bond 2013

The District's board during 2011 and early 2012 approved the issuance of \$77,000,000 of bonds for construction projects in relation to the current consent decree. In July of 2012 the District issued \$7,000,000 of Bond Anticipation Note, for flood control and sewer separation, due on or before March 31, 2013. On April 24, 2013, the Sanitary District repaid the Bond Anticipation Note, Series 2012A and issued \$5,000,000 of Bond Anticipation Note for the same purpose as the Bond Anticipation Note, Series 2012A due on or before April 11, 2014. The District renewed the Bond Anticipation Note in the amount of \$5,000,000 for projects not covered in the 2013 SRF loan.

Refunding Bonds

In June 2014, Hammond City Council approved an ordinance for the issuance and sale of refunding bonds for the Sanitary District to refund a portion of the loans payable totaling \$12,500,000.

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%. 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.

Commercial Class/Sanitary Rate

The Sanitary District created a Sanitary Commercial class and user rate for the sanitary charges of commercial property currently billed at the residential rate. The commercial class and user rate was approved by the Hammond City Council on September 22, 2014, effective October 1, 2014.

Storm Water Rates

Beginning January 1, 2015, the Storm Water rates will be removed from the water department's billings and will be added to the property tax bill collected by Lake County Auditor. The rate will also be increased following the guidelines as approved by the Hammond City Council on September 22, 2014.

Leases:

Administration Building

On April 22, 2014, the Sanitary District entered into a lease agreement with the Hammond Sanitary Building Corporation for the Administration building in the amount of \$12,555,000. Interest payments are capitalized through January 15, 2016. The next five year payments are as follows:

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

|        |                      |
|--------|----------------------|
| 2016   | \$ 316,709           |
| 2017   | 1,145,867            |
| 2018   | 1,144,347            |
| 2019   | 1,147,454            |
| 2020   | <u>1,149,796</u>     |
| Totals | <u>\$ 10,040,000</u> |

TV Truck

On August 10, 2014 the Sanitary District entered into a lease agreement with First Midwest Bank for the purchase of a new TV truck for the Sewer Maintenance Department. The principal and interest amount of the lease is \$275,266.47 and \$10,004.47, respectively.

Funds:

As of January 1, 2014 the Recycling and Sanitation Utilities were transferred to the City of Hammond and will no longer be managed by the Sanitary District Board of Commissioners.

C. Contingent Liabilities

Other than the Clean Water Act allegations discussed (below) HSD has no pending or threatened litigation seeking money damages that would not be covered by existing public liability insurance. Claims against HSD in current litigation with customer communities seek non-monetary relief.

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 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.

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

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. 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 ad Anthem Insurance Companies. 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 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, 2013, the Sanitary District contributed \$252,850 to the plan.

Annual OPEB Cost and Net OPEB Obligation

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

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

|  |                            |
|--|----------------------------|
| Annual required contribution               | \$ 430,427                 |
| Interest on net OPEB obligation            | 33,815                     |
| Adjustment to annual required contribution | <u>(33,596)</u>            |
| Annual OPEB cost                           | 430,646                    |
| Contributions made                         | <u>(252,850)</u>           |
|  |                            |
| Increase (decrease) in net OPEB obligation | 177,796                    |
| Net OPEB obligation, beginning of year     | <u>845,373</u>             |
|  |                            |
| Net OPEB obligation, end of year           | <u><u>\$ 1,023,169</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 2013 and the preceding year were as follows:

| Year<br>Ending | Annual<br>OPEB<br>Cost | Percentage<br>of Annual<br>OPEB Cost<br>Contributed | Net<br>OPEB<br>Obligation |
|----------------|------------------------|---|---------------------------|
| 12-31-11       | \$ 521,230             | 53.2%   | \$ 612,348                |
| 12-31-12       | 510,217                | 54.3%   | 845,373                   |
| 12-31-13       | 177,796                | 58.7%   | 1,023,169                 |

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$7,306,518, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,306,518. The covered payroll (annual payroll of active employees covered by the plan) was \$3,287,143, and the ratio of the UAAL to covered payroll was 222%.

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.

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

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 December 31, 2013, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% unfunded discount rate, and a 3% payroll growth. An annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5% after 8 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 December 31, 2013, was 30 years.

F. 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.

G. 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 District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.



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

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

The Sanitary District pays the employee's three percent contribution PERF members are required to contribute 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 2013, the Sanitary District's annual pension cost of \$843,326 for PERF was equal to the Sanitary District's required and actual contributions.

J. Delinquent Obligations

The District was delinquent in the payment of NIPSCO (gas and electric services) invoices of \$2,277,431 and \$3,372,878 as of December 31, 2013, and December 31, 2014, respectively.

SANITARY DISTRICT  
CITY OF HAMMOND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Other Post Employment Benefits - Single-Employer Defined Benefit Healthcare Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(a-b) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | Unfunded<br>AAL as a<br>Percentage<br>of Covered<br>Payroll<br>((a-b)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 01-01-11                       | \$ -                                   | \$ 7,387,762                                      | \$ (7,387,762)           | 0%                       | 3,158,530                 | (117%)   |
| 01-01-12                       | -                                      | 7,387,762   | (7,387,762)              | 0%                       | 6,382,197                 | (116%)   |
| 01-01-13                       | -                                      | 7,306,518   | (7,306,518)              | 0%                       | 3,287,143                 | (222%)   |

SANITARY DISTRICT  
CITY OF HAMMOND  
EXAMINATION RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER FINANCIAL STATEMENTS***

The Sanitary District (District) did not have a proper system of internal controls in place to prevent or detect and correct errors in the preparation of the financial statements. The District 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 District's financial activity. In addition, adequate internal control requires sufficient supervision and oversight to ensure complete and accurate financial reporting. Due to the lack of internal controls the following material misstatements in the District prepared financial statements were undetected:

*Scope Limitation*

1. The District failed to calculate the amount of taxes and intergovernmental receivable, and the related allowance for doubtful accounts for inclusion in the financial statements. An allowance for doubtful accounts policy as it relates to the taxes and intergovernmental receivables was not provided.
2. The District failed to consider and include capital contributions for capital asset improvements that were funded by City resources in accordance with Government Accounting Standards Board (GASB) issued Statement No. 33 - Accounting and Financial Reporting for Nonexchange Transactions. Based upon inquiry with the City's Engineering Department, it was determined that certain City funded projects completed in 2013 included improvements of District owned capital assets that meet the definition and threshold of the District's capital asset policy.

Since we were unable to determine if the taxes and intergovernmental receivables, the related allowance for doubtful accounts, and capital contributions that the District failed to consider during the preparation of the District's financial statements represent material items, the financial statements examination opinion was modified.

*Material Adjustments*

1. Certain amounts reported within the various financial statements must agree. The District does not have controls in place to ensure that those amounts agree. The financial statements presented for examination failed to report the same Net Position balance on the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. In addition, the Statement of Cash Flows beginning cash and cash equivalents balance did not agree with the prior year ending cash and cash equivalents balance. Nor did the ending cash and cash equivalents balances agree to the Statement of Net Position.
2. The reporting of a Discount and Issuance Costs are separate accounting principles and should be reported on the financial statements separately in accordance with generally accepted accounting principles. On the Statement of Net Position, the Discount is netted with the Bonds Payable whereas the Issuance Costs are reported as a Noncurrent Asset – Deferred Outflow of Resources. On the Statement of Revenues, Expenses and Changes in Net Position, the amortization expense over the life of the debt instrument for the discount and issuance costs is to be reported as interest expense and amortization expense, respectively.

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

The District reported \$209,322 of issuance costs as unamortized discount which understated assets and reflected an inaccurate net payable amount. In addition, the issuance cost annual amortization expense was inaccurately reported as interest expense. The annual amortization expense should have been reported as amortization expense.

The District also did not take into consideration the effects, if any, of the implementation of the Government Accounting Standards Board (GASB) issued Statement No. 65 Items Previously Reported as Assets and Liabilities and how it effects the reporting of debt issuance costs.

3. The District failed to record all of the 2012 audit adjustments for taxes receivable and related allowance for doubtful accounts. This resulted in the District's financial statements reporting \$750,113 of an allowance for doubtful accounts without any corresponding taxes receivable as an offset.
4. The Statement of Net Position presented for examination did not properly report the Current and Noncurrent Liabilities' as follows:

| <u>Statement of Net Postion</u>                     | <u>Overstated<br/>(Understated)</u> |
|---|-------------------------------------|
| Current liabilities payable from restricted assets: |                                     |
| Loans payable                                       | \$ (1,045,000)                      |
| General obligation bonds payable                    | 870,000                             |
| Noncurrent liabilities:                             |                                     |
| Loans payable                                       | 720,000                             |
| General obligation bonds payable                    | (545,000)                           |

5. The Statement of Net Position presented for examination failed to classify certain accounts properly when compared to the ledgers. On the Statement of Net Position, \$85,551 of Cash with Fiscal Agent was classified as Accounts Receivable. Interest Payable of \$521,506 was classified as Tax Anticipation Warrants Payable. A \$5,000,000 Bond Anticipation Note Payable was classified as Loans Payable.
6. The Statement of Revenues, Expenses and Changes in Net Position presented for examination misclassified the Sanitary District's operating local tax distribution for sewer maintenance of \$2,311,122 as nonoperating revenues.
7. The Statement of Revenues, Expenses, and Changes in Net Position reported expenses for the Sanitary District's Collection System and Administration and General did not agree to the ledger. It was determined that the Sanitary District's Collection system expenses and the Administration and General expenses of \$4,944,144 and \$3,774,356, respectively, were transposed.
8. The notes to the financial statements are an integral part of the financial statements. The notes had to be materially adjusted to agree with the adjustments noted above.

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

9. The District 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). The results of that study were reported on the financial statements and within the note disclosures, however, the required supplementary schedule was not prepared for examination.

Audit adjustments were proposed for the material items, accepted by the District, and made to the financial statements, notes to the financial statements, and required supplementary information.

*Immaterial Items Noted*

The following items are immaterial in amount to the financial statements, but could potentially have a qualitatively material effect in the presentation of the District's financial statements:

1. On the Statement of Net Position, the capital lease payable and compensated absences should have a current portion. The governing body should have an approved policy that describes the basis for the determination of the noncurrent estimate.
2. The District recorded both the principal and interest paid during 2013 to the capital lease payable. This error results in a \$6,250 understatement of the capital lease payable and interest expense.
3. The District's detail supporting documentation for Accounts Receivable and Accounts Payable did not agree to amounts reported on the financial statements.
4. The Sanitary District's repairs and maintenance expenses were reported as a negative \$85,067 amount on the Statement of Revenue, Expenses and Changes in Net Position.

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; Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

**OVERDRAWN CASH BALANCES**

Overdrawn cash balances at December 31, 2013, were as follows:

| Fund                         | Amount<br>Overdrawn |
|------------------------------|---------------------|
| Sanitary District Operating  | \$ 1,091,019        |
| Sanitation Utility Operating | 530,172             |
| Recycling Utility Operating  | 995,422             |

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

For financial statement reporting, the Cash with Fiscal Agent was reduced from \$85,551 and \$111,870 to zero for both the Sanitary District and Sanitation Utility, respectively. The remaining overdrafts reduced the Bond and Interest Fund, a restricted fund. The overdrafts are reported as "Due from Sanitary District Unrestricted Funds" on the Statement of Net Position. A similar comment appeared in prior Report B43106.

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 Cities and Towns, Chapter 7; Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

***CURRENT PAYMENT OF CLAIMS***

The District was delinquent in the payment of gas and electric services invoices of \$2,250,432 and \$3,207,429 as of December 31, 2013, and December 31, 2014, respectively.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7; Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

***CAPITAL ASSET RECORDS***

The Utility did not maintain accurate detailed records of capital assets for its Capital Asset accounts. Upon purchase, the costs of the capital assets were added to an aggregate Capital Asset Service account, and should also be added to subsidiary accounts for land, buildings, etc., in the general ledger. However, the detail asset value reports did not agree with the general ledger balance for Capital Assets and Accumulated Depreciation. In addition, reclassification of assets was not recorded in the capital asset ledger.

The detail asset value reports were \$188,524 greater than the general ledger balance. The detail asset value reports for the Accumulated Depreciation were \$460,467 greater than the general ledger balance. This resulted in the net value of the detail asset value report to be \$271,943 less than the general ledger balance. These amounts were determined to be immaterial to the financial statements and thus no adjusting entries were warranted; however, the District should research and determine the nature of the discrepancies to lessen the potential for material misstatement of the financial statements.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger, City and Town Form 211, or properly approved form, as applicable. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7; Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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

***DELINQUENT WASTEWATER FEES***

Delinquent wastewater fees had not been certified to the County Auditor nor recorded with the County Recorder in 2013.

Indiana Code 36-9-25-11(g) states in part:

". . . fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of the filing of the notice of lien in the county recorder's office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under IC 36-9-23-33 and IC 36-9-23-34."

Indiana Code 36-9-23-33 states in part:

"(c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
  - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
  - (B) A description of the premises, as shown by the records of the county auditor.
  - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the liens that remain unpaid for collection in the next May installment of property taxes. . . ."

SANITARY DISTRICT  
CITY OF HAMMOND  
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Heather Garay, City Controller; Kimberly Fabris, Deputy City Controller; Rachel Montes, Business Manager; Marty Wielgos, Sanitary District Manager; Stanley J. Dostatni, President of the Sanitary District Board of Commissioners; Mark McLaughlin, Mayor's Chief of Staff; and Joe Allegretti, Sanitary District Attorney.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, Mayor's Chief of Staff; Stanley J. Dostatni, President of the Sanitary District Board of Commissioners; Marty Wielgos, Sanitary District Manager; Rachel Montes, Business Manager; and Kimberly Fabris, Deputy City Controller.



# SANITARY DISTRICT of HAMMOND

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## Board of Sanitary Commissioners

STANLEY J. DOSTATNI  
SAM DIMOPOULOS  
MICHAEL HAWKINS, SR.  
MATTHEW J. MUTA  
MICHAEL DYE



MARTY WIELGOS  
District Manager  
RACHEL MONTES  
Business Manager  
JOSEPH P. ALLEGRETTI  
Legal Counsel

May 20, 2015

State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, IN 46204-2765

Re: State Board of Accounts Examination Results and Comments  
(Exam Period: January 1, 2013 – December 31, 2013)

## Internal Controls Over Financial Statements

### Examination Position

The Sanitary District did not have a proper system of internal controls in place to prevent or detect and correct errors in the preparation of the financial statements. The District failed to calculate the amount of taxes and intergovernmental receivable and the related allowance for doubtful account for inclusion in the financial statements.

### Response

The Sanitary District did make a calculation of its taxes receivable and related allowance for doubtful accounts, but had not made the journal entries to record these adjustments. It was under the impression that the auditors would make this adjustment. Beginning in 2014, the Sanitary District will record the taxes receivable and related allowance for doubtful accounts in the general ledger.

### Examination Position

Certain amounts reported within the various financial statements are to agree. The District does not have controls in place to ensure those amounts agree. The financial statements presented for examination failed to report the same Net Position balance on the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. In addition, the Statement of Cash Flows beginning cash and cash equivalents balance did not agree with the prior year ending cash and cash equivalent balance. Nor did the ending cash and cash equivalents balances agree to the Statement of Net Position.

In addition, the examination refers to eight additional deficiencies under material adjustments

### Response

The Sanitary District acknowledges the scope limitation and material adjustments. The Sanitary District will be making best efforts to correct the findings listed under material adjustments in 2014.

However, the District did post all of the 2012 audit adjustments for taxes receivable and related allowance for doubtful accounts.

The Sanitary District will implement a proper system of internal controls to ensure all transactions are posted and correctly recorded. The District will develop a process that requires supervision and oversight to ensure complete and accurate financial reporting.

### **Overdrawn Cash Balances**

#### Examination Position

The Sanitary District had overdrawn cash balances.

#### Response

The Sanitary District makes every effort to eliminate overdrawn cash balances. Deficit balances gradually accumulate due to diminished property taxes collections and the circuit breaker credit. The District is diligently working to obtain new revenue streams or reduce expenditures to assist in reducing the overdrawn cash balances.

### **Current Payment of Claims**

#### Examination Position

The Sanitary District was delinquent in the payment of gas and electric services invoices as of December 31, 2013 and December 2014, respectively.

#### Response

The Sanitary District is currently paying its gas and electric utility bills on time. The District is in negotiations with the utility vendor to agree on a payment plan for the past due amounts. Going forward, the District will make every effort to pay claims and remit taxes on a timely basis.


### **Capital Asset Records**

#### Examination Position

The Sanitary District did not maintain accurate detailed records of capital assets for its Capital Asset accounts.

#### Response

The Sanitary District does maintain detailed records of its capital assets, but does admit that there are immaterial differences between the detailed capital asset records and the general ledger amounts. The Sanitary District will review these differences and make the necessary correcting entries in 2014. While the goal of the Sanitary District is to maintain good internal controls, it is not feasible nor cost effective to perform an annual inventory of its capital assets every year. The majority of the material amounts of the assets are buildings, structures, large pieces of equipment and pipes in the ground that would be difficult to remove without being noticed. The Sanitary District plans to take an inventory of its capital assets in the next three to five years.

  
(Signature)

Rachel Montes, Business Manager

(Title)

May 20, 2015

(Date)

  
(Signature)

Marty Wielgos, District Manager

(Title)

May 20, 2015

(Date)