

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

FINANCIAL STATEMENTS EXAMINATION REPORT
OF

WATER UTILITY
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2014 to December 31, 2015



FILED
09/14/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Robert Lendi, CPA Heather Garay	01-01-14 to 05-14-14 05-15-14 to 12-31-16
Mayor	Thomas M. McDermott, Jr.	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Robert Lendi, CPA Edward Krusa Stanley Dostatni	01-01-14 to 05-07-14 05-08-14 to 10-28-15 10-29-15 to 12-31-16
President of the Common Council	Michael Opinker Janet Venecz	01-01-14 to 07-28-16 07-29-16 to 12-31-16
Office Manager	Deborah Van Meter	01-01-14 to 12-31-16
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-14 to 12-31-16
President of the Utility Service Board	Sharon Daniels	01-01-14 to 12-31-16



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE WATER UTILITY, CITY OF HAMMOND, LAKE COUNTY, INDIANA

We have examined the accompanying financial statements of the Water Utility (Utility), a department of the City of Hammond (City), for the years ended December 31, 2014 and 2015. The financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on the financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Utility are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the major enterprise fund of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 2014 and 2015, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major enterprise fund for the Utility, as of December 31, 2014 and 2015, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

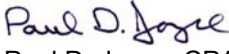
As discussed in Note II.H to the financial statements, the Utility adopted new accounting guidance, GASB Statement 68 *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress, Schedule of the Proportionate Share of the Net Pension Liability, and Schedule of Contributions, as listed in the Table of Contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally

INDEPENDENT ACCOUNTANT'S REPORT
(Continued)

accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our examination of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.


Paul D. Joyce, CPA
State Examiner

August 24, 2016

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utility. The financial statements and notes are presented as intended by the Utility.

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF NET POSITION
December 31, 2014 and 2015

	2014	2015
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,135,938	\$ 1,064,474
Accounts receivable	1,267,028	1,967,241
Other receivables	679,043	679,043
Inventories	420,571	311,214
Prepaid items	149,791	124,627
Total current assets	3,652,371	4,146,599
Noncurrent assets:		
Restricted cash and cash equivalents:		
Customer deposits	811,499	822,088
Capital Improvement fund	611,333	205,350
Total Restricted cash and cash equivalents	1,422,832	1,027,438
Capital assets:		
Land, land rights, and construction in progress	766,150	2,108,702
Other capital assets (net of accumulated depreciation)	38,349,895	37,385,936
Total capital assets	39,116,045	39,494,638
Total noncurrent assets	40,538,877	40,522,076
Total assets	44,191,248	44,668,675
Deferred Outflow of Resources - deferred pension	-	1,242,729
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	31,922	12,813
Accrued payroll and withholding payable	116,915	115,814
Taxes payable	17,713	10,744
PERF payable	14,255	14,810
Compensated absences	1,487	1,612
Current liabilities payable from restricted assets:		
Customer deposits	812,736	824,423
Total current liabilities	995,028	980,216
Noncurrent liabilities:		
Net pension liability	-	2,941,857
Other post employment benefits	4,195,040	5,051,034
Compensated absences	147,188	159,542
Total noncurrent liabilities	4,342,228	8,152,433
Total liabilities	5,337,256	9,132,649
Deferred Inflow of Resources - deferred pension	-	283,793
<u>Net Position</u>		
Invested in capital assets	39,116,045	39,494,638
Restricted for customer deposits	811,499	822,088
Restricted for capital improvements	611,333	205,350
Unrestricted	(1,684,885)	(4,027,114)
Total net position	\$ 38,853,992	\$ 36,494,962

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
As of and for the Years Ended December 31, 2014 and 2015

	2014	2015
Operating revenues:		
Metered water revenue:		
Residential	\$ 1,555,861	\$ 1,552,355
Commercial	9,365,407	10,671,226
Other water revenue	410,468	385,762
Total operating revenues	11,331,736	12,609,343
Operating expenses:		
Water Treatment:		
Salaries and wages	996,710	1,022,506
Employee pensions and benefits	149,551	138,001
Purchased power	1,162,780	1,034,135
Fuel For Power Production	11,074	7,441
Chemicals	564,649	558,069
Materials and supplies	214,175	249,505
Contractual services	483,450	418,580
Insurance	387,737	387,735
Miscellaneous	32,635	24,720
Transmission and Distribution:		
Salaries and wages	1,080,005	1,086,626
Employee pensions and benefits	158,099	164,368
Materials and supplies	870,730	926,883
Contractual services	225,610	213,047
Transportation expense	75,513	48,665
Insurance	673,151	629,994
Miscellaneous	13,902	7,148
Customer Accounts:		
Salaries and wages	675,056	684,895
Employee pensions and benefits	94,997	103,239
Contractual services	342,676	320,178
Transportation expense	10,076	9,858
Insurance	232,020	252,840
Bad debt expense	28,423	26,129
Miscellaneous	21,861	2,028
Administrative and General:		
Salaries and wages	764,791	685,974
Employee pensions and benefits	74,744	83,101
Contractual services	51,644	36,855
Materials and supplies	206,793	174,675
Insurance	366,993	384,969
Taxes	313,880	305,203
Depreciation	2,015,477	1,776,669
Change in OPEB/Net Pension obligations	807,860	757,861
Miscellaneous	304,920	172,110
Total operating expenses	13,411,982	12,694,007
Operating loss	(2,080,246)	(84,664)
Nonoperating revenues (expenses):		
Interest and investment revenue	3,923	4,077
Total nonoperating revenues (expenses)	3,923	4,077
Income before contributions and transfers	(2,076,323)	(80,587)
Contributions and transfers:		
Capital Contributions	223,600	417,610
Transfers to City	(615,000)	(615,000)
Total contributions and transfers	(391,400)	(197,390)
Change in net position	(2,467,723)	(277,977)
Restated total net position - beginning	41,321,715	36,772,939
Total net position - ending	\$ 38,853,992	\$ 36,494,962

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF CASH FLOWS
As of and for the Years Ended December 31, 2014 and 2015

	2014	2015
Cash flows from operating activities:		
Receipts from customers and users	\$ 10,718,411	\$ 11,497,239
Payments to suppliers and contractors	(6,604,086)	(6,037,539)
Payments to employees	(3,487,300)	(3,488,071)
Payments for employee pension and benefits	(483,754)	(475,674)
Receipts from other sources	410,468	385,762
Net cash provided (used) by operating activities	553,739	1,881,717
Cash flows from noncapital financing activities:		
Transfers to City	(615,000)	(615,000)
Net cash provided (used) by noncapital financing activities	(615,000)	(615,000)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(655,175)	(1,737,652)
Net cash provided (used) by capital and related financing activities	(655,175)	(1,737,652)
Cash flows from investing activities:		
Interest received	3,923	4,077
Net increase (decrease) in cash and cash equivalents	(712,513)	(466,858)
Cash and cash equivalents, January 1	3,271,283	2,558,770
Cash and cash equivalents, December 31	\$ 2,558,770	\$ 2,091,912
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (2,080,246)	\$ (84,664)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	2,015,477	1,776,669
Bad debt expense	28,423	26,129
(Increase) decrease in assets:		
Accounts receivable	(202,857)	(726,342)
Inventories	(61,933)	109,357
Prepaid items	(5,473)	25,164
(Increase) decrease in deferred outflows of resources:		
Deferred pension	-	(1,242,729)
Increase (decrease) in liabilities:		
Accounts payable	19,079	(19,109)
Accrued payroll and withholding payable	30,033	(1,101)
PERF payable	2,100	555
Taxes payable	(771)	(6,969)
Customer deposits payable	10,510	11,687
Net pension liability	-	860,804
Other Post Employment Benefits	807,860	855,994
Compensated absences	(8,463)	12,479
Increase (decrease) in deferred inflows of resources:		
Deferred pension	-	283,793
Total adjustments	2,633,985	1,966,381
Net cash provided (used) by operating activities	\$ 553,739	\$ 1,881,717
Noncash investing, capital and financing activities:		
Contributions of capital assets from government	\$ 223,600	\$ 417,610
Transfer of completed construction in progress projects	5,822	53,662
Deletion of obsolete capital assets	123,319	41,022

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

WATER UTILITY
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

Major enterprise fund financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Major enterprise funds rely to a significant extent on fees and charges for support.

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

The accounts of the major enterprise funds are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

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

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

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Assets restricted on the Statement of Net Position for customer deposits totaled \$811,499 and \$822,088 at December 31, 2014 and 2015, respectively. Customer deposits are assets on hand that are refundable upon termination of customer services.

Assets restricted on the Statement of Net Position for various capital improvements totaled \$611,333 and \$205,350 at December 31, 2014 and 2015, respectively.

4. Capital Assets

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

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

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

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

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

5. Compensated Absences

- a. Sick Leave - Eligible Utility employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 75 days. Upon separation of employment, accumulated sick leave is paid to employees that have been employed at least 10 years at the rate of one day's pay for every four unused accumulated sick days or after 15 years of employment at the rate of one day's pay for every two unused accumulated sick days.
- b. Vacation Leave - Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. However, unused vacation leave is paid to employees through cash payments upon separation of employment.
- c. Personal Leave - Full-time Utility employees employed on January 1 are entitled to 3 personal days during the calendar year. New employees hired after January 1 will not be entitled to personal days until January of the following year. There shall be no carryover of personal business day from year to year and there shall be no payment for personal days at the end of any calendar year or in the event of termination of the employment relationship for any reason.

No liability is reported for vacation and personal leave.

6. Net Position Restricted by Enabling Legislation

The Utility's 2014 Statement of Net Position reports \$1,422,832 of restricted net position, of which \$811,499 is restricted by enabling legislation. The Utility's 2015 Statement of Net Position reports \$1,027,438 of restricted net position, of which \$822,088 is restricted by enabling legislation.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. . The Utility does not have a deposit policy for custodial credit risk. At December 31, 2014 and 2015, the Utility had deposit balances in the amount of \$2,558,770 and \$2,091,912, respectively.

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.

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

B. Capital Assets

Capital asset activity for the years ended December 31, 2014 and 2015, were as follows:

	2014			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 134,466	\$ -	\$ -	\$ 134,466
Construction in progress	<u>207,851</u>	<u>429,655</u>	<u>5,822</u>	<u>631,684</u>
Total capital assets, not being depreciated	<u>342,317</u>	<u>429,655</u>	<u>5,822</u>	<u>766,150</u>
Capital assets, being depreciated:				
Source and supply	7,106,226	16,132	-	7,122,358
Distribution lines	47,000,302	319,976	77,181	47,243,097
Pumping equipment	14,511,852	65,102	13,208	14,563,746
Treatment equipment	11,156,524	23,291	-	11,179,815
General building	665,153	-	-	665,153
General equipment	<u>1,481,609</u>	<u>30,440</u>	<u>32,930</u>	<u>1,479,119</u>
Totals	<u>81,921,666</u>	<u>454,941</u>	<u>123,319</u>	<u>82,253,288</u>
Less accumulated depreciation for:				
Source and supply	2,794,220	396,941	-	3,191,161
Distribution lines	21,953,853	753,116	77,181	22,629,788
Pumping equipment	6,820,100	682,936	13,208	7,489,828
Treatment equipment	8,673,523	115,095	-	8,788,618
General building	437,071	21,032	-	458,103
General equipment	<u>1,332,469</u>	<u>46,356</u>	<u>32,930</u>	<u>1,345,895</u>
Totals	<u>42,011,236</u>	<u>2,015,476</u>	<u>123,319</u>	<u>43,903,393</u>
Total capital assets, being depreciated, net	<u>39,910,430</u>	<u>(1,560,535)</u>	<u>-</u>	<u>38,349,895</u>
Total capital assets, net	<u>\$ 40,252,747</u>	<u>\$ (1,130,880)</u>	<u>\$ 5,822</u>	<u>\$ 39,116,045</u>

	2015			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 134,466	-	-	\$ 134,466
Construction in progress	<u>631,684</u>	<u>1,396,214</u>	<u>53,662</u>	<u>1,974,236</u>
Total capital assets, not being depreciated	<u>766,150</u>	<u>1,396,214</u>	<u>53,662</u>	<u>2,108,702</u>

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

	2015			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, being depreciated:				
Source and supply	7,122,358	54,002	-	7,176,360
Distribution lines	47,243,098	649,577	41,022	47,851,653
Pumping equipment	14,563,747	97,463	-	14,661,210
Treatment equipment	11,179,814	-	-	11,179,814
General building	665,153	-	-	665,153
General equipment	1,479,119	11,667	-	1,490,786
Totals	82,253,289	812,709	41,022	83,024,976
Less accumulated depreciation for:				
Source and supply	3,191,161	402,454	-	3,593,615
Distribution lines	22,629,788	762,535	41,022	23,351,301
Pumping equipment	7,489,829	434,891	-	7,924,720
Treatment equipment	8,788,618	117,424	-	8,906,042
General building	458,103	21,032	-	479,135
General equipment	1,345,895	38,332	-	1,384,227
Totals	43,903,394	1,776,668	41,022	45,639,040
Total capital assets, being depreciated, net	<u>38,349,895</u>	<u>(963,959)</u>	<u>-</u>	<u>37,385,936</u>
Total capital assets, net	<u>\$ 39,116,045</u>	<u>\$ 432,255</u>	<u>\$ 53,662</u>	<u>\$ 39,494,638</u>

C. Construction Commitments

Construction work in progress is composed of the following as of December 31, 2014 and December 31, 2015:

Project	2014		
	Total Project Authorized	Expended to December 31,	Committed
Calumet Ave	\$ 283,734	\$ 39,938	\$ 243,796
High Lift	14,000	14,000	-
Capacity Study	70,000	32,890	37,110
Five Year Plan Module	25,000	18,675	6,325
Automatic Meter Replacement Program	727,398	69,065	658,333
Plant 1 MTU/RTU Upgrade	130,477	130,477	-
Plant 1 HMI	60,000	55,344	4,656
Filtration Plant Elect Upgrades	863,000	189,860	673,140
Parrish & Harrison Tank Painting	1,158,227	34,227	1,124,000
Generator Main Office	34,980	34,980	-
Filtration Plant New Boiler	12,228	12,228	-
Totals	<u>\$ 3,379,044</u>	<u>\$ 631,684</u>	<u>\$ 2,747,360</u>

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

Project	2015		
	Total Project Authorized	Expended to December 31,	Committed
Calumet Ave	\$ 283,734	\$ 39,938	\$ 243,796
High Lift	14,000	14,000	-
Capacity Study	70,000	32,890	37,110
Five Year Plan Module	25,000	24,900	100
Automatic Meter Replacement Program	1,448,950	69,065	1,379,885
Plant 1 MTU/RTU Upgrade	130,477	130,477	-
Plant 1 HMI	60,000	55,344	4,656
Filtration Plant Elect Upgrades	863,000	586,840	276,160
Parrish & Harrison Tank Painting	1,176,187	842,187	334,000
Generator Main Office	68,675	68,675	-
Backup System Filt Plant Transformer	90,000	53,260	36,740
Plant 1 Chlorine Shut Off	15,105	16,145	(1,040)
Elevated Tank Network Upgrade	72,913	35,581	37,332
Distribution Shop Security	4,934	4,934	-
Totals	<u>\$ 4,322,975</u>	<u>\$ 1,974,236</u>	<u>\$ 2,348,739</u>

D. Changes in Noncurrent Liabilities

Long-term liability activity for the years ended December 31, 2014 and 2015, were as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other post employment benefits	\$ 3,387,180	\$ 807,860	\$ -	\$ 4,195,040	\$ -
Compensated absences	157,138	-	8,463	148,675	1,487
Total Long-term liabilities	<u>\$ 3,544,318</u>	<u>\$ 807,860</u>	<u>\$ 8,463</u>	<u>\$ 4,343,715</u>	<u>\$ 1,487</u>
2015	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net pension liability	\$ 2,081,053	\$ 860,804	\$ -	\$ 2,941,857	\$ -
Other post employment benefits	4,195,040	855,994	-	5,051,034	-
Compensated absences	157,138	4,016	-	161,154	1,612
Total Long-term liabilities	<u>\$ 6,433,231</u>	<u>\$ 1,720,814</u>	<u>\$ -</u>	<u>\$ 8,154,045</u>	<u>\$ 1,612</u>

E. Restricted Assets

The balances of restricted asset accounts are as follows:

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

	2014	2015
Customer deposits	\$ 811,499	\$ 822,088
Capital Improvement fund	611,333	205,350
Total restricted assets	\$ 1,422,832	\$ 1,027,438

F. Transfers to the City

Interfund transfers at December 31, 2014 and 2015, were as follows:

Transfer From	Transfer To	2014	2015
Water Utility	City General Fund	\$ 615,000	\$ 615,000

G. Other Receivable

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

H. Restatement of Net Position

For the fiscal year ended December 31, 2015, certain changes have been made to the financial statements to more appropriately reflect financial activity. The prior period adjustment reflects the implementation of GASB 68 to recognize the liability associated with reporting the change of the Public Employees' Retirement Fund (PERF) to a cost-sharing multiple-employer defined benefit pension plan. The prior period adjustment is reflected in the beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position for the net pension obligation in the amount of \$2,081,053.

	Net Position	GASB 68 PERF	Restated Net Position
January 1, 2014	\$ 41,321,715	\$ -	\$ 41,321,715
January 1, 2015	\$ 38,853,992	\$ (2,081,053)	\$ 36,772,939

III. Other Information

A. Risk Management

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

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

Unemployment Compensation

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

B. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The Utility provides postemployment benefits (medical, and life insurance) to eligible retirees and their spouses.

The Hammond Water Works Group Retiree Medical Program is a single-employer defined benefit healthcare plan administered by Blue Cross and Blue Shield (BCBS). The plan provides postemployment medical, dental, vision, and life insurance benefits to eligible retirees and their spouses. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the Utility. The Hammond Water Works Seniors Choice Healthcare Plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for the participants. That report may be obtained by contacting the plan administrator:

Hammond Water Works
6505 Columbia Avenue
Hammond, IN 46327

Funding Policy

The contribution requirements of plan members for the Seniors Choice Healthcare Plan are established by the Utility's Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the years ended December 31, 2014 and 2015, the Utility contributed \$148,052 and \$168,560, respectively, to the plan. Plan members receiving benefits contributed \$8,307 or approximately 10 percent of the total premiums in 2014, through their required contribution of \$20 to \$130 per month. Plan members receiving benefits contributed \$15,395 or approximately 16 percent of total premiums in 2015, through their required contribution of \$20 to \$130 per month.

WATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual OPEB Cost and Net OPEB Obligation

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

	<u>2014</u>	<u>2015</u>
Annual required contribution	\$ 1,147,340	\$ 1,198,725
Interest on net OPEB obligation	118,551	146,826
Adjustment to annual required contribution	<u>(121,013)</u>	<u>(149,875)</u>
Annual OPEB cost	1,144,878	1,195,676
Contributions made	<u>337,018</u>	<u>339,682</u>
Increase (decrease) in net OPEB obligation	807,860	855,994
Net OPEB obligation, beginning of year	<u>3,387,180</u>	<u>4,195,040</u>
Net OPEB obligation, end of year	<u>\$ 4,195,040</u>	<u>\$ 5,051,034</u>

The Utility's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2013	\$ 1,215,428	11%	\$ 3,387,180
12/31/2014	1,144,878	29%	4,195,040
12/31/2015	1,195,676	28%	5,051,034

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$15,145,105, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,145,105. The covered payroll (annual payroll of active employees covered by the plan) was \$3,428,094, and the ratio of the UAAL to covered payroll was 442 percent.

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

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

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

Actuarial Methods and Assumption

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent unfunded discount rate, and a 3 percent payroll growth. An annual healthcare cost trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent after 5 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2014 was 30 years.

C. Rate Structure

The current rate structure was approved by the Indiana Regulatory Commission on June 18, 1985. The Utility has approximately 26,000 customers.

D. Agent Services

The Utility provides billing and collection services for the City and Sanitary District of Hammond, and as such acts as their agent.

E. Customer Cities

The Utility sells water to eleven neighboring cities and towns. Revenues attributable to these cities and towns for 2014 and 2015 are as follows:

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

City or Town	Metered Revenue	
	2014	2015
Burnham	\$ 371,771	\$ 484,589
Calumet City	3,023,841	4,319,541
Chicago Heights	1,235,767	1,212,256
Ford Heights	68,795	61,185
Griffith	278,099	277,549
Highland	614,605	645,980
Lansing	1,945,672	1,856,782
Lynwood	31,773	33,467
Munster	619,578	607,581
South Holland	21,658	21,004
Whiting	180,940	184,773
Total	\$ 8,392,500	\$ 9,704,706

F. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan - Public Employees' Retirement Fund

Plan Description

The Utility contributes to the Public Employees' Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS). PERF as part of the implementation of GASB Statement No. 67 changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013 based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b).

The Indiana Code, Title 5, Articles 10.2 and 10.3, amended only by the Indiana General Assembly, identifies the benefit provisions and establishes the authority under which members and employers are obligated to contribute to the Plan.

All full-time employees are eligible to participate in the cost-sharing multiple-employer defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) provide the Utility authority to contribution to the plan and govern, through the INPRS Board, most requirements of the system. 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 (3%) of compensation, plus the interest credited to the member's account. Under state statute, the employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

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

Indiana Public Retirement System
1 North Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687
www.inprs.in.gov

Benefits Provided

The plan provides retirement, disability, and survivor benefits. Retirement benefits are determined by age, years of service, average of annual compensation (Final Average Salary) based on 20 quarters, with a multiplier of 1.1 percent (.011). Employees with 10 years of PERF service are vested. An employee who leaves service may withdraw his or her Annuity Savings Account contributions, plus any accumulated interest.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are granted by the Indiana General Assembly on an ad hoc basis.

Contributions

PERF members are required to contribute three percent of their annual covered salary. The Utility approved a Resolution to pay the employees' required three percent contribution. The Utilities contractually required contribution rates for the years ended December 31, 2014 and 2015 were 11.2 percent of the annual covered payroll, actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Utility were \$438,135, \$483,763 and \$475,675 for the years ended December 31, 2013, 2014 and 2015, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At December 31, 2015, the Utility reported a liability of 2,941,857 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the new pension liability was based on a projection of the Utility's long-term share of contributions to the pension plan relative to the projected contributions of all participating units, actuarially determined. At June 30, 2015, the Utility's proportion was 0.0007223 percent, which was an increase of .0000459 from its proportion measured as of June 30, 2014

For the year ended December 31, 2015, the Utility's recognized pension expense of \$521,352. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	<u>Deferred Outflow of Resources - Debit</u>	<u>Deferred Inflow of Resources - Credit</u>
Differences Between Expected and Actual Experience	\$ 126,278	\$ 6,084
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	496,034	276,671
Change of Assumptions	248,686	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	137,913	1,038
Utility's contributions subsequent to the measurement date*	<u>233,818</u>	<u>-</u>
Total	<u>\$ 1,242,729</u>	<u>\$ 283,793</u>

* Payments made to PERF July 2015 thru December 2015*

\$233,818 reported as deferred outflow of resources related to pensions resulting from Utility's contribution subsequent to the measurement date will be recognized as deferred outflows in the year ended December 31, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>Year Ended December 31,</u>
2016	\$ 242,853
2017	242,853
2018	115,404
2019	124,008
2020	-
Thereafter	<u>-</u>
Total	<u>\$ 725,118</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Inflation	2.25%
Salary increases	2.50% to 4.25% including inflation
Investment rate of return	6.75% net of pension plan investment expense, including inflation
Mortality rates	RP-2014 Total Data Set Mortality tables projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the four years ended June 30, 2014. The Study was performed in April 2015. As a result of the study inflation decreased from 3.00% to 2.25%, future salary rates decreased from a table range of 3.25% to 4.50% to a table ranging from 2.50% to 4.25%. The mortality rates changed from the 2013 IRS Static Mortality projected five years with Scale AA to the process referenced above. Each of these assumption changes were made to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of June 30, 2015 for each major asset class are summarized in the following table.

<u>Global Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	22.5%	5.3%
Private equity	10.0%	5.6%
Fixed income - Ex inflation - linked	22.0%	2.1%
Fixed income - inflation - linked	10.0%	0.7%
Commodities	8.0%	2.0%
Real estate	7.5%	3.0%
Absolute return	10.0%	3.9%
Risk parity	10.0%	5.0%

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

Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from units will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Utility's proportional share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	<u>5.75%</u> <u>1% Decrease</u>	<u>6.75%</u> <u>Current Rate</u>	<u>7.75%</u> <u>1% Increase</u>
Net Pension Liability	\$ 4,339,491	\$ 2,941,857	\$ 1,781,565

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued INPRS Comprehensive Annual Financial Report (CAFR) and Actuarial Valuations. These reports can be found at:

<http://www.in.gov/inprs/files/2015INPRSCAFRBook.pdf>
<http://www.in.gov/inprs/files/2015PERFActuarialValuationReport.pdf>

The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

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REQUIRED SUPPLEMENTARY INFORMATION

The Required Supplementary Information presented was prepared by management of the Utility. It is presented as intended by the Utility.

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

Other Postemployment Benefits - Single-Employer Defined Benefit Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
12-31-11	\$ -	\$ 12,808,314	\$ (12,808,314)	0%	\$ 3,197,367	-401%
12-31-12	-	13,639,047	(13,639,047)	0%	3,241,491	-421%
12-31-13	-	13,542,671	(13,542,671)	0%	3,231,307	-419%
12-31-14	-	14,320,319	(14,320,319)	0%	3,328,247	-430%
12-31-15	-	15,145,105	(15,145,105)	0%	3,428,094	-442%

WATER UTILITY
 CITY OF HAMMOND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Public Employees' Retirement Fund
 Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset)	0.0007223	0.0006764
Proportion share of the net pension liability (asset)	\$ 2,941,857	\$ 1,777,535
Covered employee payroll	\$ 3,459,668	\$ 3,302,177
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	85.0%	53.8%
Plan fiduciary net position as a percentage of total pension liability	77.3%	84.3%

Information is not available prior to 2014.
 Additional years will be added until 10 years of historical data are shown.

WATER UTILITY
 CITY OF HAMMOND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 Public Employees' Retirement Fund
 Last 10 Fiscal Years

	2015
Contractually required contributions	\$ 521,352
Contributions in relation to the contractually required contribution	385,666
Contribution deficiency (excess)	(135,686)
Covered employee payroll	3,459,668
Contributions as a percentage of covered employee payroll	11.1%

Information is not available prior to 2015.
 Additional years will be added until 10 years of historical data are shown.

OTHER REPORTS

In addition to this report, other reports may have been issued for the Utility. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.