

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

FINANCIAL STATEMENTS AUDIT REPORT  
OF

SANITARY DISTRICT  
CITY OF HAMMOND  
LAKE COUNTY, INDIANA

January 1, 2016 to December 31, 2016



**FILED**  
03/20/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Heather Garay	01-01-16 to 12-31-18
Mayor	Thomas M. McDermott, Jr.	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Stanley J. Dostatni	01-01-16 to 12-31-18
President of the Common Council	Michael Opinkier Janet Venecz	01-01-16 to 07-28-16 07-29-16 to 12-31-18
Sanitary District Manager	Marty J. Wielgos	01-01-16 to 12-31-18
Business Manager	Rachel Montes	01-01-16 to 12-31-18
President of the Sanitary District Board of Commissioners	Dean Button	01-01-16 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the business-type activities and each major fund of the Sanitary District, a department of the City of Hammond (City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, as listed in the Table of Contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Sanitary District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sanitary District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Sanitary District, a department of the City, as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Emphasis of Matter***


As discussed in Note I, the financial statements of the Sanitary District, a department of the City, are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Sanitary District. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 2016, the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the 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 basic 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 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 financial statements, and other knowledge we obtained during our audit 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

  
Paul D. Joyce, CPA  
State Examiner

February 7, 2018

## FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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

SANITARY DISTRICT  
CITY OF HAMMOND  
STATEMENT OF NET POSITION  
December 31, 2016

<u>Assets</u>	2016	
	SANITARY DISTRICT	STORM WATER UTILITY
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,326,073	\$ 3,125,515
Cash with fiscal agent	85,151	20
Accounts receivable (net of allowance)	1,481,510	327,898
Accounts receivable - Customer Communities	3,790,421	-
Inventories	848,429	-
Prepaid items	160,382	-
Total current assets	8,691,966	3,453,433
<b>Noncurrent assets:</b>		
<b>Restricted cash, cash equivalents and investments:</b>		
Bond and interest cash and investments	3,685,842	-
Capital projects cash and investments	3,861,354	-
Cash with fiscal agent - bond and interest	1,732,255	-
Cash with fiscal agent - construction	4,885,733	-
Taxes and accounts receivable (net of allowance)	845,311	-
Total restricted assets	15,010,495	-
<b>Capital assets:</b>		
Land and construction in progress	6,144,834	-
Other capital assets (net of accumulated depreciation)	168,261,438	221,052
Total capital assets	174,406,272	221,052
Total noncurrent assets	189,416,767	221,052
<b>Total assets</b>	<b>198,108,733</b>	<b>3,674,485</b>
<b>Deferred Outflow of Resources:</b>		
Deferred pensions	1,649,316	-
Deferred bond issuance cost	394,754	-
Total deferred outflow of resources	2,044,070	-
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	3,710,014	10,056
Accrued payroll and withholdings payable	149,343	-
Capital Lease Payable	-	89,936
Accrued interest payable	-	563
<b>Current liabilities payable from restricted assets:</b>		
Loans payable	3,450,000	-
Bonds payable	3,090,000	-
Accrued interest payable	1,513,378	-
Total current liabilities	11,912,735	100,555
<b>Noncurrent liabilities:</b>		
Loans payable	60,080,000	-
Bonds payable (net of unamortized discount)	30,939,959	-
Other Post Employment Benefits	2,915,383	-
Net Pension Liability	4,378,237	-
Compensated absences	322,293	-
Total noncurrent liabilities	98,635,872	-
<b>Total liabilities</b>	<b>110,548,607</b>	<b>100,555</b>
<b>Deferred Inflow of Resources:</b>		
Deferred pensions	773,821	-
Deferred customers	114,626	-
Total deferred inflow of resources	888,447	-
<b>Net Position</b>		
Net investment in capital assets	75,332,935	221,052
Restricted for debt service	6,194,528	-
Restricted for capital improvements	8,747,087	-
Unrestricted	(1,558,801)	3,352,878
<b>Total net position</b>	<b>\$ 88,715,749</b>	<b>\$ 3,573,930</b>

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, 2016

	2016	
	Sanitary District	Storm Water Utility
Operating Revenues:		
Residential sales	\$ 7,324,379	\$ 2,337,926
Commercial and industrial sales	6,137,264	-
Municipal sales	3,091,378	-
Other charges for services	1,059,452	-
Local tax distributions for sewer maintenance	2,381,269	-
Other	1,124,489	-
 Total operating revenues	 21,118,231	 2,337,926
Operating expenses:		
Plant maintenance & operations:		
Salaries and wages	2,835,744	-
Employee pensions and benefits	2,001,514	-
Materials and supplies	351,940	-
Repairs and maintenance	731,773	-
Contractual services	2,721,848	-
Fuel purchased	57,600	-
Utilities	1,921,055	-
Sludge disposal	601,094	-
Insurance	237,334	-
Miscellaneous	88,469	-
Depreciation	2,616,360	-
Collection system:		
Salaries and wages	580,654	-
Employee pensions and benefits	424,412	-
Repairs and maintenance	79,152	-
Fuel purchased	7,068	-
Utilities	711,486	-
Insurance	110,533	-
Miscellaneous	5,048	-
Depreciation	2,681,740	-
Administration and general:		
Salaries and wages	1,359,298	-
Employee pensions and benefits	1,605,095	-
Materials and supplies	171,266	-
Repairs and maintenance	123,515	-
Contractual services	1,887,044	38,789
Fuel purchased	1,110	-
Utilities	115,798	-
Insurance	79,071	-
Miscellaneous	96,316	432,391
Bad Debt Expense	436,990	224
Depreciation	121,861	17,684
 Total operating expenses	 24,762,188	 489,088
 Operating income (loss)	 (3,643,957)	 1,848,838
Nonoperating revenues (expenses):		
Local tax distributions	8,192,130	-
Interest earned	8,670	1,243
Amortization of Bond Issuance Cost	(32,532)	-
Sale of Assets	21,500	-
Interest expense and fiscal agent fees	(3,348,710)	(2,540)
Lawsuit Settlement	(15,000)	-
 Total nonoperating revenues (expenses)	 4,826,058	 (1,297)
 Income (loss) before contributions and transfers	 1,182,101	 1,847,541
Contributions and transfers:		
Capital Contributions	2,889,893	-
Payment in Lieu of Taxes (Hammond/Munster)	(751,224)	-
Transfers In/Out	854,701	(854,701)
 Total contributions and transfers	 2,993,370	 (854,701)
 Change in net position	 4,175,471	 992,840
Restated total net position - beginning	84,540,278	2,581,090
Total net position - ending	\$ 88,715,749	\$ 3,573,930

The notes to the financial statement 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, 2016

	2016	
	Sanitary District	Storm Water Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 19,190,192	\$ 2,266,756
Payments to suppliers	(10,009,274)	(461,124)
Payments to employees and benefits	(8,247,182)	-
Other receipts	1,124,489	-
	<u>2,058,225</u>	<u>1,805,632</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Proceeds from tax anticipation warrants	1,520,200	-
Principal paid on tax anticipation warrants	(1,520,200)	-
Interest paid on tax anticipation warrants	(18,843)	-
Lawsuit Settlements	(15,000)	-
Loan to Sanitary District	200,000	(200,000)
Loan to Sanitary District repaid	(200,000)	200,000
Transfers Out to City and Town of Munster - PILOT	(751,224)	-
Transfers In/Out	854,701	(854,701)
	<u>69,634</u>	<u>(854,701)</u>
Net cash provided (used) by noncapital financing activities		
Cash flows from capital and related financing activities:		
Local tax distributions/community customers debt service	8,192,130	-
Acquisition and construction of capital assets	(5,584,282)	-
Sale of Assets	21,500	-
Fiscal Charges	(3,475)	-
Principal paid on capital debt	(5,615,000)	-
Principal paid on capital lease	-	(88,365)
Interest paid on capital debt	(3,294,346)	-
Interest paid on capital lease	-	(3,390)
	<u>(6,283,473)</u>	<u>(91,755)</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received	8,670	1,243
	<u>8,670</u>	<u>1,243</u>
Net cash provided (used) by investing activities		
Net increase in cash and cash equivalents	<u>(4,146,944)</u>	<u>860,419</u>
Cash and cash equivalents, January 1	<u>20,723,352</u>	<u>2,265,116</u>
Cash and cash equivalents, December 31	<u>\$ 16,576,408</u>	<u>\$ 3,125,535</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	<u>\$ (3,643,957)</u>	<u>\$ 1,848,838</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,419,961	17,684
Bad Debt Expense	436,990	224
(Increase) decrease in assets:	-	-
Accounts receivable	(794,721)	(71,170)
Taxes receivable	(8,829)	-
Inventories	12,531	-
Prepaid items	125,294	-
(Increase) decrease in deferred outflow of resources:	-	-
Deferred outflow of resources - Pension Liability	(264,450)	-
Increase (decrease) in liabilities:	-	-
Accounts payable	(48,579)	10,056
Accrued payroll and withholdings payable	44,302	-
Other Post Employment Benefits	614,355	-
Compensated absences payable	12,106	-
Net Pension Liability	634,833	-
Increase (decrease) in deferred inflow of resources:	-	-
Deferred inflow of resources	(481,611)	-
	<u>5,702,182</u>	<u>(43,206)</u>
Total adjustments	<u>5,702,182</u>	<u>(43,206)</u>
Net cash provided by operating activities	<u>\$ 2,058,225</u>	<u>\$ 1,805,632</u>
Noncash Investing, capital and financing activities:		
Contributions of capital assets from government	\$ 539,893	\$ -
Transfer of completed construction in progress projects	1,925,842	-

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 and Storm Water Utility whose functions include the collection, transmission, storage and treatment of sewage and storm water financed with local user fees and tax collections.

The accompanying financial statements present the activities of the Sanitary District and its significant component unit. The component unit discussed below is included in the Sanitary District's reporting entity because of the significance of its operational or financial relationship with the Sanitary District. The blended component unit, although a legally separate entity, is in substance, part of the Sanitary District's operations and exists solely to provide services for the Sanitary District's operations and exists solely to provide services for the Sanitary District; data from the unit is blended with data of the Sanitary District.

Blended Component Unit

The Hammond Sanitary Building Corporation is a significant blended component unit of the Sanitary District. The Mayor appoints a voting majority of the Hammond Sanitary Building Corporation's board and a financial benefit/burden relationship exists between the Sanitary District and the Hammond Sanitary Building Corporation. Although it is legally separate from the Sanitary District, the Hammond Sanitary Building Corporation is reported as if it were a part of the Sanitary District because it provides services entirely to the Sanitary District. The Hammond Sanitary Building Corporation's sole purpose was to finance continued improvements to the Sanitary District. The Hammond Sanitary Building Corporation does not issue a separate financial statement.

B. Fund Financial Statements

Major enterprise fund financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Fund 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 business-type activity 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.

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

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 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.

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.

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; however, situations can arise which would delay the distributions. 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 lien date (March 1 in a year ending before January 1, 2016 and January 1 in a year beginning after December 31, 2015) 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.

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

The unamortized balance of bond issuance costs is reported as a deferred outflow of resources.

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 \$15,010,495 of restricted assets.

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.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 25,000	Straight-line	25-60 years
Buildings	25,000	Straight-line	60 years
Buildings improvements	25,000	Straight-line	20 to 40 years
Major Equipment	25,000	Straight-line	10 to 40 years
Minor Equipment	25,000	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 to 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.

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

- 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 earned.

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 Assets. 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.

8. Accounts Receivable – Customer Communities

Based upon agreements 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 Sanitary District has been in negotiations with the customer cities since 2012. The Accounts Receivable - customer communities represents the amount owed to the Sanitary District based upon studies performed for 2012, 2013, 2014, 2015 and 2016. The Sanitary District has settled with the Town of Griffith on November 15, 2016 and the Town of Highland on February 13, 2017. The Town of Griffith will make 29 payments of \$11,666.66 and one payment of \$11,666.86. The Town of Highland will make a one-time payment in July 2017 of the negotiated amount owed that includes a 5% discount. The Town of Griffith's accounts receivable includes capital costs reimbursement. The amounts owed to the Sanitary District by Customer Cities are as follows:

Customer Community	2016
Town of Griffith	\$ 2,700,000
Town of Highland	885,993
City of Whiting	204,428
Total	\$ 3,790,421

9. Net Position Restricted by Enabling Legislation

The Sanitary District's 2016 Statement of Net Position reports \$14,941,615 of restricted net position, of which \$6,194,528 is restricted by enabling legislation.

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, 2016, the Sanitary District had deposit balances in the amount of \$19,822,887.

Sanitary District:	
General Operating Account	\$ 8,400,320
Payroll Account	218,805
General Operating Money Market Account	1,003,737
Bond2010/BAN2013 Account	2,580,561
Bond 2015 Operating Money Market Account	1,001,476
SRF 7 Construction Account	4,885,733
Hammond Sanitary Building Corporation:	
Series 2014 Sinking Fund	447,556
Series 2014 Operation Account	127,994
Series 2014 Debt Service Reserve	1,156,705

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, 2016, was as follows:

	2016					
	Beginning Balance	Prior Year Adjustment	Restated Balance	Increases	Decreases	Ending Balance
Sanitary District:						
Capital assets, not being depreciated:						
Land	\$ 507,419	\$ -	\$ 507,419	\$ 709,815	\$ -	\$ 1,217,234
Construction in progress	612,319	500,923	1,113,242	5,740,200	1,925,842	4,927,600
Total capital assets, not being depreciated	<u>1,119,738</u>	<u>500,923</u>	<u>1,620,661</u>	<u>6,450,015</u>	<u>1,925,842</u>	<u>6,144,834</u>
Capital assets, being depreciated:						
Land improvements	177,734,808	-	177,734,808	562,534	-	178,297,342
Buildings	48,667,434	-	48,667,434	475,312	-	49,142,746
Buildings improvements	7,657,028	-	7,657,028	-	-	7,657,028
Major Equipment	46,428,120	-	46,428,120	527,430	-	46,955,550
Minor Equipment	3,632,382	-	3,632,382	34,726	-	3,667,108
Totals	<u>284,119,772</u>	<u>-</u>	<u>284,119,772</u>	<u>1,600,002</u>	<u>-</u>	<u>285,719,774</u>

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

Less accumulated depreciation for:						
Land improvements	55,219,272	2,121	55,221,393	3,060,304	-	58,281,697
Buildings	22,993,502	1,776	22,995,278	828,680	-	23,823,958
Buildings improvements	4,816,550	84	4,816,634	141,626	-	4,958,260
Major Equipment	26,293,747	505	26,294,252	1,181,975	-	27,476,227
Minor Equipment	2,710,685	132	2,710,817	207,375	-	2,918,192
	<u>112,033,757</u>	<u>4,618</u>	<u>112,038,374</u>	<u>5,419,961</u>	<u>-</u>	<u>117,458,335</u>
Totals						
Total capital assets, being depreciated, net	<u>172,086,015</u>	<u>(4,618)</u>	<u>172,081,398</u>	<u>(3,819,959)</u>	<u>-</u>	<u>168,261,438</u>
Total capital assets, net	<u>\$ 173,205,753</u>	<u>\$ 496,305</u>	<u>\$ 173,702,059</u>	<u>\$ 2,630,056</u>	<u>\$ 1,925,842</u>	<u>\$ 174,406,272</u>
2016						
	Beginning Balance	Prior Year Adjustment	Restated Balance	Increases	Decreases	Ending Balance
Storm Water Utility:						
Capital assets, being depreciated:						
Major Equipment	\$ 265,262	\$ -	\$ 265,262	\$ -	\$ -	\$ 265,262
Less accumulated depreciation for:						
Major Equipment	<u>26,526</u>	<u>-</u>	<u>26,526</u>	<u>17,684</u>	<u>-</u>	<u>44,210</u>
Total capital assets, being depreciated, net	<u>\$ 238,736</u>	<u>\$ -</u>	<u>\$ 238,736</u>	<u>\$ (17,684)</u>	<u>\$ -</u>	<u>\$ 221,052</u>

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

	<u>2016</u>
Sanitary District	\$5,419,961
Storm Water Utility	<u>17,684</u>
Total depreciation expense	<u>\$5,437,645</u>

C. Construction Commitments

Construction in progress is composed of the following as of December 31, 2016:

	<u>2016</u>		
Sanitary District Projects	Expended to December 31,	Authorized	Committed
Aeration Diffusers	\$ 1,240,290	\$ 1,691,407	\$ 451,117
Secondary Treatment Expansion	1,718,897	5,486,718	3,767,821
CSO Control Dewatering	391,009	391,009	-
Sludge Control	72,447	72,447	-
CSO Basin	1,226,564	1,226,564	-
Johnson Sewer Separation	23,423	23,423	-
Machinery	196,188	196,188	-
Johnson Ave Flowmeters	<u>58,783</u>	<u>60,263</u>	<u>1,481</u>
Totals	<u>\$ 4,927,600</u>	<u>\$ 9,148,019</u>	<u>\$ 4,220,419</u>

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D. Leases

Capital Leases

The Storm Water Utility has entered into a capital lease for a TV Truck. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2016, are as follows:

	Storm Water Utility
Total minimum lease payments	\$ 91,641
Less amount representing interest	1,705
Present value of net minimum lease payments	\$ 89,936

The TV truck is included as major equipment at a cost of \$265,262 for the Storm Water Utility. Accumulated Depreciation on the TV truck as of December 31, 2016 was \$44,210.

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 totaling \$1,720,200 were repaid as of December 31, 2016.

F. Long-Term Liabilities

1. Bonds

The Sanitary District issues bonds to provide funds for the acquisition and construction of major capital facilities. Bonds are direct obligations and pledge the full faith and credit of the Sanitary District. Bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
2010 Special Taxing District Bonds	2.50% - 4.75%	\$ 7,430,000
2014 Special Taxing District Refunding Bonds	2.50%	8,955,000
2014 First Mortgage Bonds	2.00% - 6.10%	12,555,000
2015 Special Taxing District Bonds	*VARIES	5,185,000
Total		\$ 34,125,000

\*Interest is based on one-month Libor plus 350 basis points

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Bonds debt service requirements to maturity are as follows:

<u>Sanitary District</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 3,090,000	\$ 1,326,131
2018	3,170,000	1,240,878
2019	3,055,000	1,152,226
2020	2,845,000	1,063,927
2021	2,950,000	972,792
2022-2026	10,180,000	3,556,823
2027-2031	6,705,000	1,605,549
2032-2036	<u>2,130,000</u>	<u>164,310</u>
Totals	<u>\$ 34,125,000</u>	<u>\$ 11,082,635</u>
Bond 2010	\$7,430,000	\$2,494,103
Bond 2014	\$8,955,000	\$634,063
Bond 2014 Mortg:	\$12,555,000	\$6,948,358
Bond 2015	<u>\$5,185,000</u>	<u>\$1,006,112</u>
	\$34,125,000	\$11,082,635
	\$0	\$0

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 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 December 31, 2016 cash balance not yet drawn down, reported as part of the Cash with Fiscal Agent - Construction is \$4,885,733. Annual debt service requirements to maturity for the loans for 2016 are as follows:

<u>Sanitary District</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 3,450,000	\$ 1,885,760
2018	3,555,000	1,777,446
2019	3,680,000	1,665,403
2020	3,805,000	1,549,470
2021	3,930,000	1,429,299
2022-2026	21,615,000	5,197,497
2027-2031	18,300,000	1,962,548
2032-2036	<u>5,195,000</u>	<u>137,742</u>
Totals	<u>\$ 63,530,000</u>	<u>\$ 15,605,164</u>

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3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
Bonds payable	\$ 36,400,000	\$ -	\$ 2,275,000	\$ 34,125,000	\$ 3,090,000
Less bond discount	(102,305)	-	(7,264)	(95,041)	-
Total bonds payable	<u>36,297,695</u>	-	<u>2,267,736</u>	<u>34,029,959</u>	<u>3,090,000</u>
Loans payable	66,870,000	-	3,340,000	63,530,000	3,450,000
Other Post Employment Benefits	2,301,028	614,355	-	2,915,383	-
Net Pension Liability	3,743,404	634,833	-	4,378,237	-
Compensated absences	<u>310,186</u>	<u>12,107</u>	<u>-</u>	<u>322,293</u>	<u>-</u>
Total Long-term liabilities	<u>\$ 109,522,313</u>	<u>\$ 1,261,295</u>	<u>\$ 5,607,736</u>	<u>\$ 105,175,872</u>	<u>\$ 6,540,000</u>
Storm Water Utility:					
Capital Lease	<u>\$ 178,302</u>	<u>\$ -</u>	<u>\$ 88,366</u>	<u>\$ 89,936</u>	<u>\$ 89,936</u>

G. Restricted Assets

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

	2016
Bond and interest cash and investments	\$ 3,685,842
Capital projects cash and investments	3,861,354
Cash with fiscal agent - bond and interest	1,732,255
Cash with fiscal agent - construction	4,885,733
Taxes and accounts receivable	<u>845,311</u>
Total restricted assets	<u>\$ 15,010,495</u>

H. Transfers to City and Town of Munster - PILOT

In 2016, the Sanitary District transferred \$611,472 to the City of Hammond and \$139,752 to the Town of Munster for Payments in Lieu of Taxes (PILOT) since both communities are included in the Sanitary District's taxing unit.

I. Restatement of Net Position

For the fiscal year ended December 31, 2016, certain changes have been made to the financial statements to more appropriately reflect financial activity. The prior period adjustment include adjustments to capital assets for accurate reporting. The following schedule represents a summary of restated beginning balances:

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Sanitary District	Amount
Balance as Reported, December 31, 2015	\$ 84,043,973
Restatements:	
Capital assets adjusted for accurate activity	500,923
Accumulated depreciation adjusted for accurate activity	(4,618)
Restated Total Net Position - January 1, 2016	\$ 84,540,278

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 are as follows:

	2015	2016
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	-	2,340
Claim payments	-	(780)
Unpaid claims, end of fiscal year	\$ -	\$ 1,560

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B. Subsequent Events

Wastewater Service Rate Increase:

On March 28, 2017, the Sanitary District Board of Commissioners approved a rate increase as follows:

Residential and Industrial Customers	
Increase of monthly flow charge per 1,000 gallons	\$2.31
Increase of bi-monthly base charge	\$16.79
Commercial Customers	
Increase of monthly flow charge per 1,000 gallons	\$4.90
Increase of bi-monthly base charge	\$16.79
Industrial Customers per lb.	
Increase Carbonaceous Oxygen Demand (COD)	\$0.19
Increase Suspended Solids (SS)	\$0.31
Increase Total Kjeldahl Nitrogen (TKN)	\$1.00

The Common Council approved the rate increase on June 12, 2017. The Munster Town Council approved the rate increase on June 19, 2017. The new rates were set to take effect on July 15, 2017.

Capital Acquisitions

The Sanitary District is in the process of acquiring 25 to 30 properties in the area of 175<sup>th</sup> Street and Columbia Avenue. The properties acquired will be demolished for the purpose of constructing a 1.36 MG storm water storage basin with appurtenant structures. The estimated completion date is April 30, 2018.

The estimated cost is \$4.5M and will be allocated as follows:

- Property Acquisition \$2,114,000
- Storm Basin and Appurtenances \$2,164,824
- Engineering, Legal, and Administration \$ 216,482

New Bond Issuance

On December 12, 2017, the District adopted Resolution 64-2017 authorizing the refunding of Special Taxing District Bonds, Series 2006A, 2007B and 2010 in the amount not to exceed \$23,500,000. The Common Council also approved the refunding by adopting Resolution 17R-36 on December 18, 2017. The District has scheduled January 30, 2018 as its closing date on the new debt to complete the refunding of the bonds.

The District is considering the issuance of \$11,500,000 of Special Taxing District Bonds that is anticipated to close by the end of the first quarter of 2018. The District had previously authorized the issuance of \$77 million in Special Taxing District Bonds which was adopted on December 11, 2011 and the proposed bonds are a part of the previously authorized bond amount.

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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 the Sanitary District 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.

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. After initial motion practice and limited discovery, the matter is now pending and has been stayed by the Court since April 9, 2013. Most recently, the parties reported to the Court that negotiations on an amended consent decree between them are ongoing and that a tolling agreement with a present expiration date of December 15, 2015 is in place. HSD continues to dispute a large portion of the penalty assessed by EPA that is the subject of the appeal and has noted to EPA, IDEM and the Court that the major CSO improvements required by the 1999 Consent Decree have now been constructed and are operational.

The United States, on behalf of the US EPA and the State of Indiana, on behalf of IDEM filed a Complaint alleging violations of the Clean Water Act, and simultaneously, the parties filed a Consent Decree supplanting entirely the 1999 Consent Decree and resolving all claims against HSD arising from that decree. The effective date of the Consent Decree is May 9, 2017. It required payment of civil penalties to the U.S. and IDEM, and payment of stipulated penalties to the U.S. by July 10, 2017 which have all been paid. The Consent Decree requires completion of certain tasks

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within specific time frames including a Sewer Overflow Response Plan, Columbia Avenue Basin Disinfection and Bike Trail, and the Columbia Avenue Basin Post Construction Compliance Monitoring Program (Phase I and II). It further requires submission of a final Long Term Control Plan (LTCP) by March 31, 2018 and calls for the completion of the revised LTCP by March 1, 2035. The Consent Decree contains a schedule of stipulated penalties for failure to meet the deadlines prescribed in the Consent Decree and for violations of HSD's NPDES permit.

E. Other Postemployment Benefits

City of Hammond Self-Insured Healthcare Plan

Plan Description

Sanitary District Retiree Healthcare Plan is provided by the City of Hammond self-insurance plan. 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 information may be obtained by contacting the plan administrator:

City of Hammond  
Controller's Office  
5924 Calumet Avenue  
Hammond, IN 46320

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, 2016, the Sanitary District contributed \$703,500 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:

Annual required contribution	\$	878,837
Interest on net OPEB obligation		92,041
Adjustment to annual required contribution		<u>(91,445)</u>
Annual OPEB cost		879,433
Contributions made		<u>(265,078)</u>
Increase (decrease) in net OPEB obligation		614,355
Net OPEB obligation, beginning of year		<u>2,301,028</u>
Net OPEB obligation, end of year	\$	<u><u>2,915,383</u></u>

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The Sanitary District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the preceding year were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 879,102	26.9%	\$ 1,665,646
12/31/2015	879,269	27.7%	2,301,028
12/31/2016	879,433	30.1%	2,915,383

Funded Status and Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$12,056,934, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,056,934. The covered payroll (annual payroll of active employees covered by the plan) was \$3,595,802, and the ratio of the UAAL to covered payroll was 335.3%.

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, 2016, 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 8% initially, reduced by decrements to an ultimate rate of 5% after 10 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2016, was 30 years.

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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 34,427 customers.

Storm Water Utility

The current rate structure was approved by the City Common Council on September 22, 2014.

G. Delinquent Obligations

The Sanitary District was delinquent in the payment of NIPSCO (gas and electric services) invoices of \$740,435 as of December 31, 2016. Payments on the delinquent claims will be paid in full by July 2017.

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

Plan Description

The Sanitary District 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 (IC 5-10.2 and 5-10.3) provide the Sanitary District 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:

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

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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 and /or TRP-covered 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 Sanitary District approved Resolution 95-1991 to pay the employee's required three percent contribution. The Sanitary District's contractually required contribution rate for the year ended December 31, 2016, was 11.2 percent of annual covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs 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 Sanitary District were \$661,415 for the year ended December 31, 2016.

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

At December 31, 2016, the Sanitary District reported a liability of \$4,378,237 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Sanitary District's proportion of the net pension liability was based on a projection of the Sanitary District's long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2016, the Sanitary District's proportion was .0009647 percent, which was an increase of .0000456 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Sanitary District recognized pension expense of \$523,691 in accordance with PERF's fiscal year of June 30, 2016. At December 31, 2016, the Sanitary District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources - Debit	Deferred Inflows of Resources - Credit
Differences Between Expected and Actual Experience	\$ 98,089	\$ 8,082
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	962,975	246,347
Changes of Assumptions	193,171	-
Changes in Proportion and Differences Between District's Contributions and Proportionate Share of Contributions	101,824	519,392
District Contributions Subsequent to the Measurement Date	293,257	-
Totals	\$ 1,649,316	\$ 773,821

\$293,257 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as flows:

	Year Ended December 31,
2017	\$ 60,034
2018	120,233
2019	285,447
2020	116,524
2021	-
Thereafter	-
Total	\$ 582,238

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Valuation Date:	
Assets	June 30, 2016
Liabilities	June 30, 2015 - Member census data as of June 30, 2015 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2015 and June 30, 2016. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2015 to the June 30, 2016 measurement date.
Actuarial Cost Method (Accounting)	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions:	
Experience Study Date	Period of 4 years ended June 30, 2014
Inflation	2.25%
Future Salary Increases, including Inflation	2.50% - 4.25%
Investment Rate of Return (Accounting)	6.75%, net of investment expense, including inflation
Mortality	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four years ended June 30, 2015. 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, 2016 for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Geometric Basis Long-Term Expected Real Rate of Return
Public Equity	22.0%	5.7%
Private Equity	10.0%	6.2%
Fixed Income - Ex Inflation-Linked	24.0%	2.7%
Fixed Income - Inflation-Linked	7.0%	0.7%
Commodities	8.0%	2.0%
Real Estate	7.0%	2.7%
Absolute Return	10.0%	4.0%
Risk Parity	12.0%	5.0%

SANITARY DISTRICT  
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 the employee contributions will be made at the current contribution rate and that contributions from participants 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 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 Sanitary District's proportionate share of the net pension liability to changes in the discount rate

The following presents the Sanitary District's proportionate share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the Sanitary District'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>1% Decrease (5.75%)</u>	<u>Current (6.75%)</u>	<u>1% Increase (7.75%)</u>
Sanitary District's proportionate share of the net pension liability	\$ 6,288,186	\$ 4,378,237	\$ 2,790,782

Pension Plan Fiduciary Net Position

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

<http://www.in.gov/inprs/files/2016INPRSCAFRBook.pdf>  
<http://www.in.gov/inprs/files/2016PERFActuarialReport.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 Sanitary District. It is presented as intended by the Sanitary District.

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

Other Postemployment Benefits - Single-Employer Defined Benefit Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (b/a)	Covered Payroll ( c )	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/2012	\$ -	\$ 7,387,762	\$ (7,387,762)	0%	\$ 6,382,197	-116%
1/1/2013	-	7,306,518	(7,306,518)	0%	3,287,143	-222%
1/1/2014	-	12,056,934	(12,056,934)	0%	3,595,802	-335%

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

	2016	2015	2014
District's proportion of the net pension liability (asset)	0.000009647	0.000009191	0.001142300
District's proportionate share of the net pension liability (asset)	\$ 4,378,237	\$ 3,743,404	\$ 3,001,890
District's covered-employee payroll	\$ 4,623,470	\$ 4,402,222	\$ 5,576,857
District's proportionate share of the net liability (asset) as a percentage of its covered-employee payroll	94.7%	85.0%	53.8%
Plan fiduciary net position as a percentage of the total pension liability	75.3%	77.3%	84.3%

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

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

	2015	2016
Contractually required contribution	\$ 493,044	\$ 517,828
Contributions in relation to the contractually required contribution	(493,044)	(517,828)
Contribution deficiency (excess)	-	-
District's covered-employee payroll	4,402,222	4,623,470
Contributions as a percentage of covered-employee payroll	11.2%	11.2%

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 Sanitary District. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.