

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, 2017 to December 31, 2017



FILED
11/16/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-17 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 Heather Garay	01-01-17 to 02-04-18 02-05-18 to 12-31-18
President of the Common Council	Janet Venecz	01-01-17 to 12-31-18
Sanitary District Manager	Marty J. Wielgos	01-01-17 to 12-31-18
Business Manager	Rachel Montes	01-01-17 to 12-31-18
President of the Sanitary District Board of Commissioners	Dean Button Sam Dimopoulos	01-01-17 to 12-31-17 01-01-18 to 12-31-18



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Sanitary District (Sanitary District), a department of the City of Hammond (City), as of and for the year ended December 31, 2017, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Sanitary District, a department of the City, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter


As discussed in Note 1.A., the financial statements of the Sanitary District, a department of the City, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of 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, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance 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 Schedule of Funding Progress, Schedule of Proportionate Share of 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 basic financial statements, is required by the Governmental 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. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic 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

October 9, 2018

BASIC 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, 2017

	2017	
Assets	SANITARY DISTRICT	STORM WATER UTILITY
Current assets:		
Cash and cash equivalents	\$ 9,124,201	\$ 3,075,195
Cash with fiscal agent	159,044	14
Accounts receivable (net of allowance)	2,291,016	218,947
Accounts receivable - Customer Communities	259,293	-
Inventories	871,859	-
Prepaid items	155,377	-
Total current assets	12,860,790	3,294,156
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Bond and interest cash and investments	2,851,498	-
Capital projects - cash and investments	2,322,158	-
Cash with fiscal agent - bond and interest	1,735,020	-
Cash with fiscal agent - construction	523,102	-
Taxes and accounts receivable (net of allowance)	332,560	-
Total restricted assets	7,764,338	-
Capital assets:		
Land and construction in progress	2,904,665	167,273
Other capital assets (net of accumulated depreciation)	174,308,150	203,368
Total capital assets	177,212,815	370,641
Total noncurrent assets	184,977,153	370,641
Total assets	197,837,943	3,664,797
Deferred Outflow of Resources		
Deferred pensions	1,204,432	-
Deferred bond issuance cost	362,221	-
Total Deferred outflow of resources	1,566,653	-
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	3,196,802	10,956
Deposits Payable	5,175	-
Accrued payroll and withholdings payable	286,949	-
Current liabilities payable from restricted assets:		
Capital lease payable	144,650	-
Loans payable	3,555,000	-
Bonds payable	3,170,000	-
Accrued interest payable	1,451,705	-
Total current liabilities	11,810,281	10,956
Noncurrent liabilities:		
Loans payable	56,525,000	-
Bonds payable (net of unamortized discount)	27,777,223	-
Capital lease payable	459,250	-
Other post employment benefits	3,684,557	-
Net pension liability	4,347,774	-
Compensated absences	395,004	-
Total noncurrent liabilities	93,188,808	-
Total liabilities	104,999,089	10,956
Deferred Inflow of Resources:		
Deferred pensions	390,670	-
Deferred customers	62,400	-
Total Deferred Inflow of Resources	453,070	-
<u>Net Position</u>		
Net invested in capital assets, net of related debt	84,129,987	370,641
Restricted for debt service	4,919,078	-
Restricted for capital improvements	2,845,260	-
Unrestricted	2,058,112	3,283,200
Total Net Position	\$ 93,952,437	\$ 3,653,841

The notes to the financial statement 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, 2017

	2017	
	SANITARY DISTRICT	STORM WATER UTILITY
Operating Revenues:		
Residential sales	\$ 8,448,096	\$ 2,257,594
Commercial and industrial sales	5,563,669	-
Municipal sales	2,492,300	-
Other charges for services	1,211,026	-
Local tax distributions for sewer maintenance	2,606,964	-
Other	570,066	-
Total operating revenues	20,892,121	2,257,594
Operating Expenses:		
Plant maintenance and operations:		
Salaries and wages	2,889,532	-
Employee pensions and benefits	1,931,922	-
Materials and supplies	294,507	-
Repairs and maintenance	728,475	-
Contractual services	3,166,079	-
Fuel purchased	65,167	-
Utilities	2,077,126	-
Sludge disposal	534,535	-
Insurance	247,732	-
Miscellaneous	100,244	-
Depreciation	2,991,594	-
Collection system:		
Salaries and wages	582,673	-
Employee pensions and benefits	416,351	-
Materials and supplies	10	-
Repairs and maintenance	133	-
Fuel purchased	5,965	-
Utilities	674,780	-
Sludge disposal	-	23,033
Insurance	107,595	-
Miscellaneous	4,922	-
Depreciation	2,666,117	-
Administration and general:		
Salaries and wages	1,368,697	-
Employee pensions and benefits	1,589,208	-
Materials and supplies	137,999	-
Repairs and maintenance	1,284	-
Contractual services	1,314,667	25,454
Fuel purchased	2,910	-
Utilities	103,623	-
Insurance	81,947	-
Miscellaneous	92,275	-
Bad debt expense	546,522	72,475
Depreciation	117,941	17,684
Total operating expenses	24,842,532	138,646
Operating income (loss)	(3,950,411)	2,118,948
Nonoperating Revenues (Expenses):		
Local tax distributions	7,599,549	-
Interest earned	4,580	2,870
Amortization of bond issuance cost	(32,532)	-
Sale of assets	27,500	-
Interest expense and fiscal agent fees	(3,229,719)	(1,184)
Lawsuit settlement	(562,219)	-
Total nonoperating revenues (expenses)	3,807,159	1,686
Income (loss) before contributions and transfers	(143,252)	2,120,634
Contributions and Transfers		
Grant proceeds and capital contributions	4,039,216	-
Payment in lieu of taxes (Hammond/Munster)	(700,000)	-
Transfers in/out	2,040,724	(2,040,724)
Total contributions and transfers	5,379,940	(2,040,724)
Change in net position	5,236,688	79,910
Total net position - beginning	88,715,749	3,573,931
Total net position - ending	\$ 93,952,437	\$ 3,653,841

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, 2017

	2017	
	SANITARY DISTRICT	Storm Water Utility
Cash flows from operating activities:		
Receipts from customers and users	\$ 22,824,569	\$ 2,294,070
Payments to suppliers	(10,273,612)	(47,587)
Payments to employees and benefits	(7,767,622)	-
Other receipts	570,066	-
Net cash provided by operating activities	<u>5,353,401</u>	<u>2,246,483</u>
Cash flows from noncapital financing activities:		
Proceeds from tax anticipation warrants	1,700,000	-
Principal paid on tax anticipation warrants	(1,700,000)	-
Interest paid on tax anticipation warrants	(35,924)	-
Lawsuit settlements	(562,219)	-
Transfers out to City and Town of Munster - PILOT	(700,000)	-
Transfers in/out	<u>2,040,724</u>	<u>(2,040,724)</u>
Net cash provided (used) by noncapital financing activities	<u>742,581</u>	<u>(2,040,724)</u>
Cash flows from capital and related financing activities:		
Local tax distributions/community customers debt service	7,802,611	-
Acquisition and construction of capital assets	(3,819,234)	(167,273)
Fiscal charges	(3,527)	(1,184)
Principal paid on capital debt	(6,540,000)	-
Principal paid on capital lease	(157,120)	(89,936)
Interest paid on capital debt	(3,239,875)	-
Interest paid on capital lease	<u>(4,802)</u>	<u>(562)</u>
Net cash provided (used) by capital and related financing activities	<u>(5,961,947)</u>	<u>(258,955)</u>
Cash flows from investing activities:		
Interest received	<u>4,580</u>	<u>2,870</u>
Net cash provided (used) by investing activities	<u>4,580</u>	<u>2,870</u>
Net increase in cash and cash equivalents	138,615	(50,326)
Cash and cash equivalents, January 1	<u>16,576,408</u>	<u>3,125,535</u>
Cash and cash equivalents, December 31	<u>\$ 16,715,023</u>	<u>\$ 3,075,209</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (3,950,411)	\$ 2,118,948
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,775,652	17,684
Bad debt expense	546,522	72,475
(Increase) decrease in assets:		
Accounts receivable	2,721,622	36,476
Taxes receivable	(219,108)	-
Inventories	(23,430)	-
Prepaid items	5,005	-
(Increase) decrease in deferred outflow of resources:		
Deferred outflow of resources - pensions	444,884	-
Increase (decrease) in liabilities:		
Accounts payable	(513,212)	900
Accrued payroll and withholdings payable	137,606	-
Other post Employment benefits	769,174	-
Compensated absences payable	72,711	-
Net pension liability	(30,463)	-
Increase (decrease) in deferred inflow of resources:		
Deferred inflow of resources - pensions	<u>(383,151)</u>	<u>-</u>
Total adjustments	<u>9,303,812</u>	<u>127,535</u>
Net cash provided by operating activities	<u>\$ 5,353,401</u>	<u>\$ 2,246,483</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets	\$ 4,039,216	\$ -
Transfer of completed construction in progress projects	11,820,642	-
Sale of assets, trade-ins	27,500	-

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.

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 Units

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 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.

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.

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

D. Assets, Liabilities and Net Assets 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. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

3. Inventories, Prepaid Items, and Deferred Charges

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

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

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

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

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 \$7,764,338 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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 shall convert 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.
- 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.

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

- 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 Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred outflow of resources and amortized over the term of the related debt.

8. Accounts Receivable - Customer Communities

Based upon agreements between user cities/towns and the Sanitary District, a set rate is paid for services. Annually, a study is performed to determine if the user cities/towns have underpaid or overpaid. The 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 made a one-time payment in July 2017 of the negotiated amount owed that included a 5% discount. The Town of Griffith's accounts receivable includes capital costs reimbursement. The amounts owed to the Sanitary District by Customer Communities are as follows:

<u>Customer Community</u>	<u>2017</u>
Griffith	\$ 198,333
Whiting	<u>60,960</u>
Total	<u>\$ 259,293</u>

9. Net Position Restricted by Enabling Legislation

The Sanitary District's 2017 Statement of Net Position reports \$7,764,338 of restricted net position, of which \$4,919,078 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, 2017, the Sanitary District had deposit balances in the amount of \$19,985,657.

Sanitary District:

General Operating Account -----	\$15,091,302
Payroll Account -----	221,566
General Operating Money Market Account -----	429,791
Bond 2010-----	983,383
Bond 2015 Operating Money Market Account-----	1,001,493
SRF 7 Construction Account -----	523,102

Hammond Sanitary Building Corporation:

Series 2014 Sinking Fund -----	575,022
Series 2014 Operation Account -----	2,694
Series 2014 Debt Service Reserve -----	1,157,304

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, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sanitary District:				
Capital assets, not being depreciated:				
Land	\$ 1,217,234	\$ 990,961	\$ 64,773	\$ 2,143,422
Construction in progress	4,927,600	7,654,286	11,820,642	761,244
Total capital assets, not being depreciated	6,144,834	8,645,247	11,885,415	2,904,666
Capital assets, being depreciated:				
Land improvements	178,297,342	2,100,349	-	180,397,690
Buildings	49,142,746	2,174,266	-	51,317,012
Buildings improvements	7,657,028	-	-	7,657,028
Major Equipment	46,955,550	7,494,404	409,280	54,040,674
Minor Equipment	3,667,108	53,347	-	3,720,455
Totals	285,719,774	11,822,365	409,280	297,132,860
Less accumulated depreciation for:				
Land improvements	58,281,697	3,078,767	-	61,360,464
Buildings	23,823,958	937,029	-	24,760,987
Buildings improvements	4,958,260	126,085	-	5,084,345
Major Equipment	27,476,227	1,430,315	409,280	28,497,262
Minor Equipment	2,918,192	203,455	-	3,121,647
Totals	117,458,334	5,775,652	409,280	122,824,706
Total capital assets, being depreciated, net	168,261,440	6,046,713	-	174,308,153
Total capital assets, net	\$ 174,406,274	\$ 14,691,960	\$ 11,885,415	\$177,212,819

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

	Beginning Balance	Increases	Decreases	Ending Balance
Storm Water Utility				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 167,273	\$ -	\$167,273
Total capital assets, not being depreciated	-	167,273	-	167,273
Capital Assets, being depreciated:				
Major Equipment (1340-1350)	265,262	-	-	265,262
Totals	265,262	-	-	265,262
Less Accumulated Depreciation for:				
Major Equipment (1440-1450)	44,210	17,684	-	61,894
Totals	44,210	17,684	-	61,894
Total Capital Assets, being depreciated	221,052	(17,684)	-	203,368
Total Capital Assets, Net	\$ 221,052	\$ 149,589	\$ -	\$ 370,641

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

	2017
Sanitary District	\$ 5,775,652
Storm Water Utility	17,684
Total depreciation expense	<u>\$ 5,793,336</u>

C. Construction Commitments

Transfers of Contributed Capital to the Sanitary District for the year ended December 31, 2017, was as follows:

	Sanitary District	Storm Water
Transfers:		
Contributed Capital from the Customer Cities	\$ 3,737,381	\$ -
Contributed Capital from the City of Hammond	301,835	-
Total Transfers	<u>\$ 4,039,216</u>	<u>\$ -</u>

Construction work in progress is composed of the following:

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<u>Sanitary District Project</u>	2017		
	Expended to December 31,	Authorized	Committed
Sludge Control	\$ 656,024	\$ 656,024	\$ -
Johnson Ave Flowmeters	105,219	105,219	-
Total Sanitary District Projects	\$ 761,243	\$ 761,243	\$ -
<u>Stormwater Utility Project</u>	Expended to December 31,	Authorized	Committed
Headworks Capacity	\$ 167,273	\$ 167,273	\$ -

D. Leases

Capital Leases

The Sanitary District has entered into capital leases for two sewer cleaners. Future minimum lease payments and present values of the net minimum lease payments under the capital leases as of December 31, 2017, are as follows:

	Sanitary District
Total minimum lease payments	\$ 647,687
Less amount representing interest	43,786
Present value of net minimum lease payments	\$ 603,900

The two sewer cleaners are included as major equipment at a cost of \$394,260, and \$366,761 per sewer cleaner for the Sanitary District. Accumulated Depreciation for the two sewer cleaners as of December 31, 2017 was \$39,426 per sewer cleaner.

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 \$1,700,000 were repaid as of December 31, 2017.

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F. Long-Term Liabilities

1. General Obligation Bonds

The Sanitary District issues bonds to provide funds for the acquisition and construction of major capital facilities. 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%	\$ 7,005,000
2014 Special Taxing District Refunding Bonds	2.50%	7,270,000
2014 First Mortgage Bonds	2.00% - 6.10%	12,040,000
2015 Special Taxing District Bonds	*VARIES	<u>4,720,000</u>
 Total		 <u><u>\$ 31,035,000</u></u>

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

Bonds debt service requirements to maturity are as follows:

	Principal	Interest
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	3,040,000	875,014
2023-2027	8,555,000	3,154,809
2028-2032	6,325,000	1,246,534
2033-2037	<u>1,095,000</u>	<u>50,325</u>
 Totals	 <u><u>\$ 31,035,000</u></u>	 <u><u>\$ 9,756,504</u></u>
 Bond 2010	 \$ 7,005,000	 \$ 2,188,228
Bond 2014 Refunding	7,270,000	431,250
Bond 2014 Mortgage	12,040,000	6,317,490
Bond 2015	<u>4,720,000</u>	<u>819,536</u>
	<u><u>\$ 31,035,000</u></u>	<u><u>\$ 9,756,504</u></u>

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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, 2017 cash balance not yet drawn down, reported as part of the Cash with Fiscal Agent - Construction is \$523,102. Annual debt service requirements to maturity for the loans for 2017 are as follows:

	Principal	Interest
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	4,045,000	1,305,083
2023-2027	22,170,000	4,512,774
2028-2032	17,140,000	1,456,764
2033-2037	1,755,000	23,166
 Totals	 \$ 60,080,000	 \$ 13,719,405
 2006A	 \$ 1,190,000	 \$ 200,659
2007B	13,910,000	3,400,286
2013	44,980,000	10,118,460
	 \$ 60,080,000	 \$ 13,719,405

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
General Obligation					
Bonds payable	\$ 34,125,000	\$ -	\$ 3,090,000	\$ 31,035,000	\$ 3,170,000
Less bond discount	(95,041)	-	(7,264)	(87,777)	-
Total general obligation bonds payable	34,029,959	-	3,082,736	30,947,223	3,170,000
Loans payable	63,530,000	-	3,450,000	60,080,000	3,555,000
Capital Lease	-	761,020	157,120	603,900	144,650
Other Post Employment Benefits	2,915,383	769,174	-	3,684,557	-
Net Pension Liability	4,378,237	-	30,463	4,347,774	-
Compensated absences	322,292	72,711	-	395,004	-
Total Long-term liabilities	 \$ 105,175,871	 \$ 1,602,905	 \$ 6,720,318	 \$ 100,058,459	 \$ 6,869,650

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NOTES TO FINANCIAL STATEMENTS
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	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Storm Water Utility:					
Capital Lease	\$ 89,936	-	\$ 89,936	-	-

G. Restricted Assets

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

Bond and interest cash and investments	\$ 2,851,498
Capital projects cash and investment	2,322,158
Cash with fiscal agent - bond and interest	1,735,020
Cash with fiscal agent - construction	523,102
Taxes and accounts receivable (net of allowance)	<u>332,560</u>
 Total restricted assets	 <u>\$ 7,764,338</u>

H. Transfers

Transfers to City and Town of Munster (PILOT)

In 2017, the Sanitary District transferred \$577,513 to the City of Hammond and \$122,487 to the Town of Munster for Payments in Lieu of Taxes (PILOT) since both communities are included in the Sanitary District's taxing unit.

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.

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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:

	2016	2017
Unpaid claims, beginning of fiscal year	\$ -	\$ 1,560
Incurred claims and changes in estimates	2,340	16,351
Claim payments	(780)	(13,258)
Unpaid claims, end of fiscal year	\$ 1,560	\$ 4,653

B. Subsequent Events

Capital Acquisitions

The Sanitary District is in the process of acquiring 25 to 30 properties in the area of 175th 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 December 31, 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 Sanitary 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 Sanitary District completed the refunding of the bonds on January 30, 2018.

The Sanitary District issued \$11,500,000 of Special Taxing District Bonds that closed on July 12, 2018. The Sanitary District had previously authorized the issuance of \$77 million in Special Taxing District Bonds which was adopted on December 11, 2011 and the bonds are a part of the previously authorized bond amount.

C. Contingent Liabilities

Other than the Clean Water Act allegations discussed (below) the Sanitary District 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.

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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 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. The Hammond Sanitary District has complied with its obligations.

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E. Other Postemployment Benefits

City of Hammond Self-Insured Single-Employer Defined Benefit Healthcare Plan

Plan Description

Sanitary District Retiree Healthcare Plan is a single-employer defined benefit Healthcare plan 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, 2017, the Sanitary District contributed \$302,527 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	\$ 1,070,946
Interest on net OPEB obligation	116,615
Adjustment to annual required contribution	<u>(115,860)</u>
Annual OPEB cost	1,071,701
Contributions made	<u>(302,527)</u>
Increase (decrease) in net OPEB obligation	769,174
Net OPEB obligation, beginning of year	<u>2,915,383</u>
Net OPEB obligation, end of year	<u><u>\$ 3,684,557</u></u>

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The Utility's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 879,269	27.7%	\$ 2,301,028
12/31/2016	\$ 879,433	30.1%	\$ 2,915,383
12/31/2017	\$ 1,071,701	28.2%	\$ 3,684,557

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$15,220,348, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,220,348. The covered payroll (annual payroll of active employees covered by the plan) was \$3,342,077, and the ratio of the UAAL to covered payroll was 455.4%.

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

The actuarial assumptions used in this report represent a reasonable long-term expectation of future OPEB outcomes. As a national economic and Sanitary District experience change over time, the assumptions will be tested for ongoing reasonableness, if necessary, updated.

In the January 1, 2017, 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 inflation rate of 3% per year. There are slight changes to the actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending December 31, 2014. For the current year GASB valuation, the mortality assumption, per capita costs, and healthcare trend rates have been updated. In the next full GASB valuation, which will be for the fiscal year ending December 31, 2018 under the GASB 75 accounting standard, the per capita costs, health care trend rates, discount rate, and actuarial cost methods will be updated.

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Insured Benefits

- a) The Teamsters Union No. 142 Health and Welfare Trust Fund retirement plan offers early retiree insurance benefits for all eligible members until they are eligible for Medicare. Specific eligibility guidelines are available at http://www.teamsters142.org/docs/SPD_hw.pdf.
- b) The Sanitary District withholds \$10 per pay for each of these employees and then distributes it to the Teamsters Union Local 142 office in Gary. For each pay the Sanitary District, as the employer, also pays \$10 per pay per employee to the Teamsters.
- c) The Hammond Sanitary District's only obligation is to pay for the premium of the retirement insurance benefit while the employee is active. Teamsters Union Local 142 of Gary retains the obligation for benefits in the event of the insurance company's insolvency.
- d) The current-year OPEB expense for the insured benefit is \$3,990.

F. Rate Structure

Wastewater Utility (Sanitary District)

The current rate structure was approved by the Common Council on June 12, 2017.

Storm Water Utility

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

G. Pension Plan

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

Indiana Public Employees' Retirement Fund (INPRS) or Public Employees' Retirement Fund (PERF) administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Indiana Public Employees' Retirement Fund
One North Capitol Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687
www.inprs.in.gov

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Indiana Public Employees' Retirement Fund (PERF) and additions to/deductions from PERF's fiduciary net position have been determined on the same basis as they are reported by PERF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Plan Description. The City, including the Sanitary District, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utility authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

Benefits Provided. PERF provides retirement, disability, and death 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.

Eligibility for Pension Benefit Payment are as follows:

- Age 65 with 10 years of service
- Age 60 with 15 years of service
- At age 55 if age and creditable service total at least 85 ("Rule of 85")
- Early retirement with reduced benefits between ages 50-59 with 15 years of service
- Age 70 with 20 years of service (Actively employed members who have completed at least 20 years of service may apply for retirement benefits at age 70, remain actively employed and receive monthly payments)

Eligibility for Disability Benefit Payment are as follows:

- Qualified for Social Security disability benefits and furnish proof of qualification
- Received a salary from a PERF-covered position within 30 days of termination dated
- Minimum five years of service

Eligibility for Death Benefits

Monthly Payment

- Following death of retired member under applicable payment options
- Following death of active member in limited circumstances

Balance Payment

- Receives total accumulated amount after death of active members or retired members who elected to defer payment
- Receives remainder of accumulated payment options chosen by member

Contributions. PERF members are required to contribute three percent of their annual covered salary. For the year 1992 and beyond, 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, 2017, 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 \$541,480 for the year ended December 31, 2017.

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

At December 31, 2017, the Sanitary District reported a liability of \$4,347,774 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Sanitary District's proportion was .0009745 percent, which was an increase of .00000098 from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Sanitary District recognized pension expense of \$541,480 in accordance with PERF's fiscal year of June 30, 2017. At December 31, 2017, the Sanitary District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ 82,569	\$ 3,374
Changes of Assumptions	687,742	217,982
Changes in Proportion and Differences Between District's Contributions and Proportionate Share of Contributions	69,807	-
District Contributions Subsequent to the Measurement Date	77,612	169,314
	286,702	-
Total	\$ 1,204,432	\$ 390,670

The \$286,702 reported as deferred outflows of resources related to pensions resulting from Sanitary District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2018	\$ 143,042
2019	308,707
2020	98,699
2021	(23,388)
2022	-
Thereafter	-
Total	\$ 527,060

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Actuarial Assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date:	June 30, 2017
Assets	
	June 30, 2016 - Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2016 to the June 30, 2017 measurement date.
Liabilities	
Actuarial Cost Method (Accounting)	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions: Experience Study Date	Period of 4 years ended June 30, 2014
Investment Rate of Return (Accounting)	6.75%, net of investment expense, including inflation
Cost of Living Increases (COLA) or "Ad Hoc" COLA (see Note 1.)	1.0%
Future Salary Increases, including Inflation	2.50% - 4.25%
Inflation	2.25%
Mortality - Healthy	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006
Mortality - Disabled	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006

The actuarial assumptions used in the June 30, 2017 valuations were the same assumptions used in the 2016 valuations. 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 for each major asset class are summarized in the following table:

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Geometric Basis

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Public Equity	4.9%	22.0%
Private Equity	5.7%	14.0%
Fixed Income - Ex Inflation-Linked	2.3%	20.0%
Fixed Income - Inflation-Linked	0.6%	7.0%
Commodities	2.2%	8.0%
Real Estate	3.7%	7.0%
Absolute Return	3.9%	10.0%
Risk Parity	5.1%	<u>12.0%</u>
		100.00%

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>
District's proportionate share of the net pension liability	\$6,341,053	\$4,347,774	\$2,690,804

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 www.in.gov/inprs/annualreports.htm.

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 requirement. 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 SUPPLEMENTAL INFORMATION

The Required Supplementary Information (RSI) was prepared by management of the Sanitary District. The RSI is presented as intended by the Sanitary District.

HAMMOND SANITARY DISTRICT
 January 1, 2017 to December 31, 2017
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits - Single-Employer Defined Benefit Healthcare Plan

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/2015	\$ 12,056,934	\$ -	\$ 12,056,934	0.0%	\$ 3,595,802	335.3%
1/1/2016	\$ 12,056,934	\$ -	\$ 12,056,934	0.0%	\$ 3,595,802	335.3%
1/1/2017	\$ 15,220,348	\$ -	\$ 15,220,348	0.0%	\$ 3,342,077	455.4%

*A full GASB 45 actuarial valuation was performed for 2017.

HAMMOND SANITARY DISTRICT
January 1, 2017 to December 31, 2017
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0009745%	0.0009647%	0.0009191%	0.001142300%
District's proportionate share of the net pension liability (asset)	\$4,347,774	\$4,378,237	\$3,743,404	\$3,001,890.00
District's covered-employee payroll	\$4,834,643	\$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	89.93%	94.70%	85.03%	53.80%
Plan fiduciary net position as a percentage of the total pension liability	76.60%	75.30%	77.30%	84.30%

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

HAMMOND SANITARY DISTRICT
 January 1, 2017 to December 31, 2017
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS

	2015	2016	2017
Contractually required contribution	\$493,044	\$517,828	\$541,480
Contributions in relation to the contractually required contribution	(\$493,044)	(\$517,828)	(\$541,480)
Contribution deficiency (excess)	\$0	\$0	\$0
District's covered-employee payroll	\$4,402,222	\$4,623,470	\$4,834,643
Contributions as a percentage of covered-employee payroll	11.20%	11.20%	11.20%

*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/>.