

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

FINANCIAL STATEMENTS AUDIT REPORT
OF

WATER UTILITY
CITY OF HAMMOND
LAKE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



FILED
11/21/2018

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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 |
| Chief Executive Operator | Edward Krusa | 01-01-17 to 12-31-18 |
| Office Manager | Deborah Van Meter | 01-01-17 to 12-31-18 |
| President of the Waterworks Board of Directors | Sharon Daniels | 01-01-17 to 12-31-18 |



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Utility (Utility), 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 Utility'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 Utility'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter


As discussed in Note 1.A., the financial statements of the Utility, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 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 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 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's 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 Utility. The financial statements and notes are presented as intended by the Utility.

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF NET POSITION
December 31, 2017

| | 2017 |
|---|---------------|
| <u>Assets and Deferred Outflows</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,881,608 |
| Accounts receivable | 1,127,161 |
| Other receivables | 715,646 |
| Inventories | 407,936 |
| Prepaid items | 145,366 |
| Due from State | (59) |
| Total current assets | 4,277,658 |
| Noncurrent assets: | |
| Restricted cash, cash equivalents and investments: | |
| Customer deposits | 806,938 |
| Capital Improvement Fund | 158,168 |
| Total Restricted Cash, cash equivalents and investments | 965,106 |
| Capital assets: | |
| Land, land rights, and construction in progress | 3,217,305 |
| Other capital assets (net of accumulated depreciation) | 35,705,795 |
| Total capital assets | 38,923,100 |
| Total noncurrent assets | 39,888,206 |
| Total assets | 44,165,864 |
| Deferred Outflow of Resources - deferred pension | 874,322 |
| <u>Liabilities, Deferred Inflows and Net Pension</u> | |
| Current liabilities: | |
| Accounts payable | 13,950 |
| Accrued payroll and withholding payable | 145,969 |
| Taxes payable | 23,271 |
| PERF payable | 20,135 |
| Compensated absences | 1,758 |
| Current liabilities payable from restricted assets: | |
| Customer deposits | 807,516 |
| Total current liabilities | 1,012,599 |
| Noncurrent liabilities: | |
| Net pension liability | 3,116,388 |
| Other post employment benefits | 7,113,315 |
| Compensated absences | 174,022 |
| Total noncurrent liabilities | 10,403,725 |
| Total liabilities | 11,416,324 |
| Deferred Inflow of Resources - deferred pension | 213,751 |
| <u>Net Position</u> | |
| Invested in capital assets | 38,923,100 |
| Restricted for customer deposits | 806,938 |
| Restricted for capital improvements | 158,168 |
| Unrestricted | (6,478,095) |
| Total net position | \$ 33,410,111 |

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET POSITION
As Of And For The Year Ended December 31, 2017

| | 2017 |
|---|---------------|
| Operating revenues: | |
| Metered water revenue: | |
| Residential | \$ 1,563,174 |
| Commercial | 9,941,617 |
| Other water revenue | 332,388 |
| Total operating revenues | 11,837,179 |
| Operating expenses: | |
| Water Treatment: | |
| Salaries and wages | 1,087,548 |
| Employee pensions and benefits | 150,201 |
| Purchased power | 1,307,358 |
| Fuel For Power Production | 5,141 |
| Chemicals | 760,983 |
| Materials and supplies | 117,687 |
| Contractual services | 379,836 |
| Insurance | 360,750 |
| Miscellaneous | 25,254 |
| Transmission and Distribution: | |
| Salaries and wages | 1,123,496 |
| Employee pensions and benefits | 165,361 |
| Materials and supplies | 814,852 |
| Contractual services | 140,487 |
| Transportation expense | 42,174 |
| Insurance | 629,634 |
| Miscellaneous | 6,341 |
| Customer Accounts: | |
| Salaries and wages | 746,355 |
| Employee pensions and benefits | 107,197 |
| Contractual services | 321,831 |
| Transportation expense | 10,294 |
| Insurance | 235,020 |
| Bad debt expense | 12,743 |
| Miscellaneous | 2,116 |
| Administrative and General: | |
| Salaries and wages | 806,957 |
| Employee pensions and benefits | 87,785 |
| Contractual services | 202,747 |
| Materials and supplies | 185,175 |
| Insurance | 456,951 |
| Taxes | 332,433 |
| Depreciation | 1,898,421 |
| Change in OPEB/Net Pension obligations | 1,394,643 |
| Miscellaneous | 128,333 |
| Total operating expenses | 14,046,104 |
| Operating loss | (2,208,925) |
| Nonoperating revenues (expenses): | |
| Interest and investment revenue | 62,626 |
| Loss on disposition of assets | (2,130) |
| Total nonoperating revenues (expenses) | 60,496 |
| Income before contributions and transfers | (2,148,429) |
| Contributions and transfers: | |
| Capital Contributions | 161,061 |
| Transfers to City | (150,000) |
| Total contributions and transfers | 11,061 |
| Change in net position | (2,137,368) |
| Total net position - beginning | 35,547,479 |
| Total net position - ending | \$ 33,410,111 |

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

WATER UTILITY
CITY OF HAMMOND
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2017

| | 2017 |
|---|----------------|
| Cash flows from operating activities: | |
| Receipts from customers and users | \$ 12,215,489 |
| Payments to suppliers and contractors | (6,569,159) |
| Payments to employees | (3,670,564) |
| Payments for employee pension and benefits | (499,261) |
| Receipts from other sources | 332,388 |
| Net cash provided (used) by operating activities | 1,808,893 |
| Cash flows from noncapital financing activities: | |
| Transfers to City | (150,000) |
| Net cash provided (used) by noncapital financing activities | (150,000) |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (1,699,564) |
| Net cash provided (used) by capital and related financing activities | (1,699,564) |
| Cash flows from investing activities: | |
| Interest received | 62,626 |
| Net increase (decrease) in cash and cash equivalents | 21,955 |
| Cash and cash equivalents, January 1 | 2,824,759 |
| Cash and cash equivalents, December 31 | \$ 2,846,714 |
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating loss | \$ (2,208,925) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation expense | 1,898,421 |
| Bad debt expense | 12,743 |
| (Increase) decrease in assets: | |
| Accounts receivable | 710,153 |
| Inventories | (67,573) |
| Prepaid items | (14,463) |
| Due from State | 546 |
| Increase (decrease) in deferred outflows of resources: | |
| Deferred pension | 362,339 |
| Increase (decrease) in liabilities: | |
| Accounts payable | (30) |
| Accrued payroll and withholding payable | 84,543 |
| PERF payable | 14,848 |
| Taxes payable | 9,247 |
| Customer deposits payable | (21,695) |
| Net pension liability | (76,309) |
| Other post employment benefits | 1,159,990 |
| Compensated absences | (3,565) |
| Increase (decrease) in deferred inflows of resources: | |
| Deferred pension | (51,377) |
| Total adjustments | 4,017,818 |
| Net cash provided (used) by operating activities | \$ 1,808,893 |
| Noncash investing, capital and financing activities: | |
| Contributions of capital assets from government | \$ 161,061 |
| Transfer of completed construction in progress projects | 545,189 |
| Deletion of obsolete capital assets | 79,125 |

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

WATER UTILITY
CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Other Changes in Fund Net Position; and the Statement of Cash Flows. Business-type activities 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 revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services and administrative costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

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

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

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

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

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Assets restricted on the Statement of Net Position for customer deposits totaled \$806,938 at December 31, 2017, respectively. Customer deposits are assets on hand that are refundable upon termination of customer services.

Assets restricted on the Statement of Net Position for various capital improvements totaled \$158,168 at December 31, 2017.

4. Capital Assets

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

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

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

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

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

5. Compensated Absences

- a. Sick Leave – Eligible Utility employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 75 days. Upon separation of employment, accumulated sick leave is paid to employees that have been employed at least 10 years at the rate of one day's pay for every four unused accumulated sick days or after 15 years of employment at the rate of one day's pay for every two unused accumulated sick days.

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

- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. However, unused vacation leave is paid to employees through cash payments upon separation of employment.
- c. Personal Leave – Full time utility employees employed on January 1st are entitled to three (3) personal days during the calendar year. New employees hired after January 1st will not be entitled to personal days until January of the following year. There shall be no carryover of personal business day from year to year and there shall be no payment for personal days at the end of any calendar year or in the event of termination of the employment relationship for any reason.

No liability is reported for vacation and personal leave.

6. Net Position Restricted by Enabling Legislation

The Utility's 2017 Statement of Net Position reports \$965,106 of restricted net position, of which \$806,938 is restricted by enabling legislation.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. . The Utility does not have a deposit policy for custodial credit risk. At December 31, 2017, the Utility had deposit balances in the amount of \$2,846,714.

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:

| | 2017 | | | Ending Balance |
|---|----------------------|------------------|----------------|-------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 134,466 | \$ - | \$ - | \$ 134,466 |
| Construction in progress | 2,214,376 | 1,413,652 | 545,189 | 3,082,839 |
| Total capital assets, not being depreciated | <u>2,348,842</u> | <u>1,413,652</u> | <u>545,189</u> | <u>3,217,305</u> |
| Capital assets, being depreciated: | | | | |
| Source and supply | 7,203,757 | 155,776 | - | 7,359,533 |
| Distribution lines | 48,366,243 | 613,194 | 31,724 | 48,947,713 |
| Pumping equipment | 15,055,336 | 179,465 | 15,141 | 15,219,660 |
| Treatment equipment | 11,179,814 | - | - | 11,179,814 |
| General building | 737,718 | - | - | 737,718 |
| General equipment | <u>1,491,369</u> | <u>43,727</u> | <u>32,260</u> | <u>1,502,836</u> |
| Totals | <u>84,034,237</u> | <u>992,162</u> | <u>79,125</u> | <u>84,947,274</u> |

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

| | 2017 | | | |
|--|----------------------|-------------------|-------------------|----------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Less accumulated depreciation for: | | | | |
| Source and supply | 3,998,702 | 435,361 | - | 4,434,063 |
| Distribution lines | 24,091,055 | 781,475 | 31,724 | 24,840,806 |
| Pumping equipment | 8,411,719 | 498,471 | 13,011 | 8,897,179 |
| Treatment equipment | 9,023,466 | 117,424 | - | 9,140,890 |
| General building | 508,980 | 27,869 | - | 536,849 |
| General equipment | 1,386,131 | 37,821 | 32,260.00 | 1,391,692 |
| Totals | <u>47,420,053</u> | <u>1,898,421</u> | <u>76,995</u> | <u>49,241,479</u> |
| | | | | |
| Total capital assets, being depreciated, net | <u>36,614,184</u> | <u>(906,259)</u> | <u>-</u> | <u>35,705,795</u> |
| Total capital assets, net | <u>\$ 38,963,026</u> | <u>\$ 507,393</u> | <u>\$ 545,189</u> | <u>\$ 38,923,100</u> |

C. Construction Commitments

Construction work in progress is composed of the following as of December 31, 2017:

| Project | 2017 | | |
|---|-----------------------------|-----------------------------|---------------------|
| | Total Project Authorized | Expended to December 31, | Committed |
| Five Year Plan Module | \$ 25,000 | \$ 24,900 | \$ 100 |
| Automatic Meter Replacement Program | 69,300 | 69,065 | 235 |
| Filtration Plant Elect Upgrades | 6,077,879 | 1,188,293 | 4,889,586 |
| Parrish & Harrison Tank Painting | 1,464,427 | 1,451,227 | 13,200 |
| 165th/Indy - BP Leak | 28,269 | 28,269 | - |
| 60" Rack Heaters Repair | 68,027 | 68,027 | - |
| 5100 Columbia Tunnel Pump Elect Upgrade | 38,707 | 38,707 | - |
| Chicago St Main Relocation | 156,601 | 156,601 | - |
| Lake St Valve Design & Replacement | 57,750 | 57,750 | - |
| Totals | <u>\$ 7,985,960</u> | <u>\$ 3,082,839</u> | <u>\$ 4,903,121</u> |

D. Changes in Noncurrent Liabilities

Long-term liability activity for the year ending December 31, 2017 were as follows:

| 2017 | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------|----------------------|---------------------|------------------|----------------------|------------------------|
| Net pension liability | \$ 3,192,697 | \$ - | \$ 76,309 | \$ 3,116,388 | \$ - |
| Other post employment benefits | 5,953,325 | 1,159,990 | - | 7,113,315 | - |
| Compensated absences | 179,345 | - | 3,565 | 175,780 | 1,758 |
| Total Long-term liabilities | <u>\$ 9,325,367</u> | <u>\$ 1,159,990</u> | <u>\$ 79,874</u> | <u>\$ 10,405,483</u> | <u>\$ 1,758</u> |

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

E. Restricted Assets

The balances of restricted asset accounts are as follows:

| | 2017 |
|--------------------------|------------|
| Customer deposits | \$ 806,938 |
| Capital Improvement fund | 158,168 |
| Total restricted assets | \$ 965,106 |

F. Transfers to the City

Interfund transfers at December 31, 2017 were as follows:

| Transfer From | Transfer To | 2017 |
|---------------|-------------------|------------|
| Water Utility | City General Fund | \$ 150,000 |

G. Other Receivable

Due to damages the Utility determined was caused by two private contractors, the Utility billed private contractors for the amount of the repairs. The amount of Other Receivable that is attributable to these repair reimbursements is \$695,187. Both claims are pending litigation.

III. Other Information

A. Risk Management

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

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

Unemployment Compensation

The City (including the Utility) has chosen to establish a risk financing fund for risks associated with unemployment compensation claims. The risk financing fund is accounted for in the City's Unemployment Compensation Fund (an internal service fund of the City) where assets are set aside for claim settlements and the Utility reimburses the City from the Utility's Unemployment

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

Compensation Account. The total charge allocated to each of the funds is based on each fund's actual number of employees which have had claims. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

B. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

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

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

Hammond Water Works
6505 Columbia Avenue
Hammond, IN 46320

Funding Policy

The contribution requirements of plan members for the Seniors Choice Healthcare Plan are established by the Utility's Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the governing board. For the year ended December 31, 2017, the Utility contributed \$238,406, to the plan. Plan members receiving benefits contributed \$19,954, or approximately 8% of the total premiums, through their required contribution of \$50 to \$130 per month.

Annual OPEB Cost and Net OPEB Obligation

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

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

| | 2017 |
|--|--------------|
| Annual required contribution | \$ 1,603,677 |
| Interest on net OPEB obligation | 208,366 |
| Adjustment to annual required contribution | (212,693) |
| Annual OPEB cost | 1,599,350 |
| Contributions made | 439,360 |
| Increase (decrease) in net OPEB obligation | 1,159,990 |
| Net OPEB obligation, beginning of year | 5,953,325 |
| Net OPEB obligation, end of year | \$ 7,113,315 |

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 three preceding years were as follows:

| Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------|------------------------|---|---------------------------|
| 12/31/2014 | 1,144,878 | 29% | 4,195,040 |
| 12/31/2015 | 1,195,676 | 28% | 5,051,034 |
| 12/31/2016 | 1,248,974 | 28% | 5,953,325 |
| 12/31/2017 | 1,599,350 | 27% | 7,113,315 |

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$19,235,156 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$19,235,156. The covered payroll as a percentage of the Actuarial Accrued Liability was (532%). 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 the 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.

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

Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2017, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent unfunded discount rate, and a 3 percent payroll growth. An annual healthcare cost trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent after 5 years. The actuarial value of assets was determined using Techniques that spread the effects of short-term volatility in the market value of investment 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, 2017 was 30 years.

C. Rate Structure

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

D. Agent Services

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

E. Customer Cities

The Utility sells water to eleven neighboring cities and towns. Revenues attributable to these cities and towns for 2017 are as follows:

| City or Town | Metered Revenue 2017 |
|-----------------|-------------------------|
| Burnham | \$ 446,238 |
| Calumet City | 3,620,271 |
| Chicago Heights | 1,171,868 |
| Ford Heights | 42,062 |
| Griffith | 311,983 |
| Highland | 668,475 |
| Lansing | 1,876,115 |
| Lynwood | 34,718 |
| Munster | 670,117 |
| South Holland | 20,940 |
| Whiting | 168,667 |
| Total | \$ 9,031,454 |

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

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

Plan Description

The Utility, contributes to the Indiana Public Employees' Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by 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 35IAC21-1-1, 35 IAC21-1-2 and amended IC 5-10.2-2-11(b).

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

All full-time employees are eligible to participate in the cost-sharing multiple-employer defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) provide the Utility authority to contribute 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 consist 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. The 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

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 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 adjustment 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.

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

Contributions

PERF members are required to contribute three percent of their annual covered salary. The Water Utility approved a Resolution to pay the employee's required three percent contribution. The Water Utility's contractually required contribution rate for the year ended December 31, 2017 was 11.2 percent of the annual covered payroll, actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the cost of benefits earned by employees during the year, with and additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water Utility were \$499,260, for the year ended December 31, 2017, respectively.

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

At December 31, 2017, the Water Utility reported a liability of \$3,116,388 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 Utility's proportion of the new pension liability was based on a projection of the Utility's long-term share of contributions to the pension plan relative to the projected contributions of all participating units, actuarially determined. At June 30, 2017, the Utility's proportion was 0.0006985 percent, which was a decrease of .0000050 from its proportion measured as of June 30, 2016

For the year ended December 31, 2017. The Utility's recognized pension expense of \$499,260. At December 31, 2017, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflow of Resources - Debit | Deferred Inflow of Resources - Credit |
|---|--|--|
| Differences Between Expected and Actual Experience | \$ 59,184 | \$ 2,419 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 492,958 | 156,245 |
| Change of Assumptions | 50,036 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 23,831 | 55,087 |
| Utility's contributions subsequent to the measurement date* | 248,313 | - |
| Total | \$ 874,322 | \$ 213,751 |

* Payments made to PERF July 2017 thru December 2017*

\$248,313 reported as deferred outflow of resources related to pensions resulting from Utility's contribution subsequent to the measurement date will be recognized as deferred outflows in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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

| Year Ended December 31, | |
|----------------------------|-------------------|
| 2018 | 159,976 |
| 2019 | 199,660 |
| 2020 | 69,385 |
| 2021 | (16,763) |
| 2022 | - |
| Thereafter | - |
| Total | <u>\$ 412,258</u> |

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.

| | |
|---------------------------|--|
| Experience Study Date | Period of 4 years ended June 30, 2014 |
| Cost of Living Increases | 1.00% |
| Inflation | 2.25% |
| Salary increases | 2.50% to 4.25%. |
| Investment rate of return | 6.75% net of pension plan investment expense, including inflation |
| Mortality rates | The RP-2014 Total Data Set Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report. |

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 rate of return on pension plan investments was determined using a building-block method in which best-estimates 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. The target allocation and best estimates of arithmetic real rates of return as of June 30, 2017 for each major asset class are summarized in the following table.

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

| Global Asset Class | Long-Term Expected Real Rate of Return | Target Allocation |
|--------------------------------------|--|-------------------|
| 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% | 12.0% |

Discount Rate

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

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

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

| | 5.75% 1% Decrease | 6.75% Current Rate | 7.75% 1% Increase |
|-----------------------|----------------------|-----------------------|----------------------|
| Net Pension Liability | \$ 4,545,126 | \$ 3,116,388 | \$ 1,928,709 |

Pension Plan Fiduciary Net Position

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

<http://www.in.gov/inprs/files/2016INPRSCAFRBook.pdf>
<http://www.in.gov/inprs/files/2016PERFActuarialValuationReport.pdf>

The plan's fiduciary net position has been determined on the same basis used by the plan.

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

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.

G. Subsequent Event- Bond Issuance

The Water Department entered into a \$7.5 million Bank Bond with Huntington Bank on May 30, 2018. The Bond was needed for Filtration Plant Improvements including electrical upgrades, rebuilding, repairing, extending and improving the waterworks system, as well as painting and improvements to the elevated storage tanks.

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REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information (RSI) was prepared by management of the Utility. The required supplementary information is presented as intended by the Utility.

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

| Other Postemployment Benefits - Single-Employer Defined Benefit Healthcare Plan | | | | | | |
|---|--|---|--------------------------|--------------------------|---------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c) |
| 12-31-11 | \$ - | \$ 12,808,314 | \$ (12,808,314) | 0% | \$ 3,197,367 | -401% |
| 12-31-12 | - | 13,639,047 | (13,639,047) | 0% | 3,241,491 | -421% |
| 12-31-13 | - | 13,542,671 | (13,542,671) | 0% | 3,231,307 | -419% |
| 12-31-14 | - | 14,320,319 | (14,320,319) | 0% | 3,328,247 | -430% |
| 12-31-15 | - | 15,145,105 | (15,145,105) | 0% | 3,428,094 | -442% |
| 12-31-16 | - | 16,015,057 | (16,015,057) | 0% | 3,530,937 | -454% |
| 12-31-17 | - | 20,353,754 | (20,353,754) | 0% | 3,829,253 | -532% |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|
| Proportion of the net pension liability (asset) | 0.0006985 | 0.0007035 | 0.0007223 | 0.0006764 |
| Proportion share of the net pension liability (asset) | \$ 3,116,388 | \$ 3,192,697 | \$ 2,941,857 | \$ 1,777,535 |
| Covered employee payroll | \$ 3,465,451 | \$ 3,371,488 | \$ 3,459,668 | \$ 3,302,177 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll | 89.3% | 93.2% | 84.80% | 53.70% |
| Plan fiduciary net position as a percentage of total pension liability | 76.6% | 75.3% | 77.30% | 84.30% |

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

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

| | 2017 | 2016 | 2015 |
|--|------------|--------------|--------------|
| Contractually required contributions | \$ 629,851 | \$ 623,278 | \$ 521,352 |
| Contributions in relation to the contractually required contribution | 388,131 | \$ 377,607 | \$ 385,666 |
| Contribution deficiency (excess) | (241,720) | (245,671) | (135,686) |
| Covered employee payroll | 3,465,451 | \$ 3,371,488 | \$ 3,459,668 |
| Contributions as a percentage of covered employee payroll | 11.2% | 11.2% | 11.2% |

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

OTHER REPORTS

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