

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, 2018 to December 31, 2018



FILED
10/28/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-18 to 12-31-19
Mayor	Thomas M. McDermott, Jr.	01-01-18 to 12-31-19
President of the Board of Public Works and Safety	Stanley J. Dostatni Heather Garay	01-01-18 to 02-04-18 02-05-18 to 12-31-19
President of the Common Council	Janet Venecz Robert Markovich	01-01-18 to 12-31-18 01-01-19 to 12-31-19
Sanitary District Manager	Marty J. Wielgos	01-01-18 to 12-31-19
Business Manager	Rachel Montes	01-01-18 to 12-31-19
President of the Sanitary District Board of Commissioners	Sam Dimopoulos	01-01-18 to 12-31-19



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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, 2018, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund of the Sanitary District, a department of the City, as of December 31, 2018, 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 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, 2018, 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.


As discussed in Note II. J. to the financial statements, during 2018, the Sanitary District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Schedule of the District's Proportionate Share of the Net Pension Liability - Cost-Sharing Multiple-Employer Defined Benefit Pension Plan, Schedule of the District's Contributions - Cost-Sharing Multiple Employer Defined Benefit Pension Plan, Schedule of Changes in Net OPEB Liability - Single-Employer Defined Benefit Healthcare Plan, and Schedule of Contributions - Single-Employer Defined Benefit Healthcare Plan, 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

September 11, 2019

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, 2018

	2018	
Assets	SANITARY DISTRICT	STORM WATER UTILITY
Current assets:		
Cash and cash equivalents	\$ 9,889,679	\$ 3,234,676
Cash with fiscal agent	149,559	-
Accounts receivable (net of allowance)	1,595,761	242,472
Accounts receivable - customer communities	58,334	-
Inventories	891,185	-
Prepaid items	165,156	-
Total current assets	12,749,674	3,477,148
Non current assets:		
Restricted cash, cash equivalents and investments:		
Bond and interest cash and investments	3,383,669	-
Capital projects - cash and investments	12,526,617	-
Cash with fiscal agent - bond and interest	1,741,916	-
Cash with fiscal agent - construction	163	-
Taxes receivable (net of allowance)	404,644	-
Total restricted assets	18,057,009	-
Capital assets		
Land and construction in progress	5,167,454	167,273
Other capital assets (net of accumulated depreciation)	173,437,024	185,683
Total capital assets	178,604,478	352,956
Total noncurrent assets	196,661,487	352,956
Total assets	209,411,161	3,830,104
Deferred outflow of resources		
Deferred pensions	451,959	-
Deferred bond issuance cost	176,917	-
Deferred loss on refunding	332,764	-
Total deferred outflow of resources	961,640	-
Liabilities		
Current liabilities		
Accounts payable	1,407,507	-
Accrued payroll and withholdings payable	195,907	-
Compensated absences	23,391	-
Current Liabilities payable from restricted assets:		
Capital lease payable	215,549	-
Loans payable	2,450,000	-
Bonds payable	4,150,000	-
Accrued interest payable	1,316,183	-
Total current liabilities	9,758,537	-
Noncurrent liabilities:		
Loans payable	40,155,000	-
Bonds payable (net of unamortized bond discount/premium)	50,568,124	-
Capital lease payable	525,288	-
Other post employment benefits	16,670,080	-
Net pension liability	3,255,728	-
Compensated absences	358,714	-
Total noncurrent liabilities	111,532,934	-
Total liabilities	121,291,471	-
Deferred inflow of resources		
Deferred pension	573,051	-
Deferred other post employment benefits	2,483,499	-
Deferred customers	60,960	-
Total deferred inflow of resources	3,117,510	-
Net Position		
Net invested in capital assets, net of related debt	92,757,165	352,956
Restricted for debt service	5,530,229	-
Restricted for capital improvements	642,896	-
Unrestricted	(12,966,470)	3,477,148
Total net position	\$ 85,963,820	\$ 3,830,104

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

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
As of and for the Year Ended December 31, 2018

	2018	
	SANITARY	STORM WATER
	DISTRICT	UTILITY
Operating Revenues		
Residential sales	\$ 10,623,021	\$ 2,325,743
Commercial and industrial sales	6,576,739	-
Municipal sales	2,615,389	-
Other charges for services	1,439,155	-
Local tax distributions for Sewer Maintenance	2,348,763	-
Other	371,305	-
Total operating revenues	23,974,372	2,325,743
Operating Expenses		
Plant & Operations		
Salaries & wages	2,586,812	-
Employee pensions and benefits	1,806,911	-
Materials & supplies	310,574	-
Repairs & maintenance	1,454,418	-
Contractual services	3,443,104	-
Fuel purchased	83,824	-
Utilities	1,876,933	-
Sludge disposal	467,061	-
Insurance	198,881	-
Miscellaneous	120,703	-
Depreciation expense	2,721,973	-
Collections System		
Salaries & wages	711,131	-
Employee pensions and benefits	502,407	-
Materials & supplies	28	-
Contractual services	8,453	-
Fuel purchased	8,842	-
Utilities	748,565	-
Insurance	116,011	-
Miscellaneous	6,291	-
Depreciation expense	2,736,582	-
Administration and General		
Salaries & wages	1,600,990	-
Employee pensions and benefits	1,159,431	-
Materials & supplies	171,119	-
Repairs & maintenance	22,310	-
Contractual services	2,135,264	15,568
Fuel purchased	4,066	-
Utilities	135,072	-
Insurance	132,362	-
Miscellaneous	140,841	4,036
Bad debts expense	125,552	7,916
Depreciation expense	293,385	17,684
Total Operating expenses	25,829,896	45,204
Operating income (loss)	(1,855,524)	2,280,539
Nonoperating Revenues (Expenses)		
Local tax distributions	9,284,837	-
Interest earned	167,754	7,798
Bond issuance costs	(726,453)	-
Amortization of prior bond issuance cost	(185,306)	-
Gain/Loss on sale of assets/retirement of assets	50,900	-
Interest expense	(3,173,881)	-
Fiscal charges	(2,477)	-
Total nonoperating revenues (expenses)	5,415,374	7,798
Income (loss) before contributions and transfers	3,559,850	2,288,337
Contributions and Transfers		
Capital contributions	2,093,907	-
Payment in lieu of taxes (Hammond/Munster)	(700,000)	-
Transfers in/out	2,112,074	(2,112,074)
Total contributions and transfers	3,505,981	(2,112,074)
Change in net position	7,065,831	176,263
Restated total net position - beginning (Note II. J)	78,897,989	3,653,841
Total net position - ending	\$ 85,963,820	\$ 3,830,104

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

SANITARY DISTRICT
CITY OF HAMMOND
STATEMENT OF CASH FLOWS
As of and for the Year Ended December 31, 2018

	2018	
	SANITARY DISTRICT	STORM WATER UTILITY
Cash flows from operating activities:		
Receipts from customers and users	\$ 24,470,337	\$ 2,294,302
Payments to suppliers	(13,403,122)	(30,559)
Payments to employees	(8,214,241)	-
Other receipts	371,305	-
	<u>3,224,279</u>	<u>2,263,743</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Proceeds from tax anticipation warrants	3,595,000	-
Principal paid on tax anticipation warrants	(3,595,000)	-
Interest paid on tax anticipation warrants	(78,654)	-
Transfers Out to City and Town of Munster - PILOT	(875,000)	-
Transfers In/Out	2,112,074	(2,112,074)
	<u>1,158,420</u>	<u>(2,112,074)</u>
Net cash provided (used) by noncapital financing activities		
Cash flows from capital and related financing activities:		
Local tax distributions/community customers debt service	9,116,145	-
Proceeds from bonds	12,382,882	-
Net proceeds from refunding bonds	22,011,655	-
Bond issuance costs	(726,453)	-
Acquisition and construction of capital assets	(4,472,079)	-
Fiscal charges	(2,477)	-
Net refunding of capital debt	(21,523,450)	-
Principal paid on capital debt	(6,720,000)	-
Principal paid on Capital Lease	(221,395)	-
Interest paid on capital debt	(3,401,429)	-
Interest paid on capital Lease	(17,272)	-
	<u>6,426,127</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest received	167,754	7,798
	<u>167,754</u>	<u>7,798</u>
Net cash provided (used) by investing activities		
Net increase in cash and cash equivalents	10,976,580	159,467
Cash and cash equivalents, January 1	16,715,023	3,075,209
Cash and cash equivalents, December 31	<u>\$ 27,691,603</u>	<u>\$ 3,234,676</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,855,524)	\$ 2,280,539
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,751,940	17,684
Bad debt expense	125,552	7,916
(Increase) decrease in assets:		
Accounts receivable	896,214	(31,441)
Taxes receivable	(28,944)	-
Inventories	(19,326)	-
Prepaid items	(9,779)	-
(Increase) decrease in deferred outflow of resources:		
Deferred outflow of resources - pensions	752,473	-
Increase (decrease) in liabilities:		
Accounts payable	(1,789,295)	(10,955)
Accrued payroll and withholdings payable	(91,042)	-
Other Post Employment Benefits	(2,068,925)	-
Compensated absences payable	(12,899)	-
Net Pension Liability	(1,092,046)	-
Increase (decrease) in deferred inflow of resources:		
Deferred inflow of resources - pensions	182,381	-
Deferred inflow of resources - health insurance	2,483,499	-
	<u>5,079,803</u>	<u>(16,796)</u>
Total adjustments	<u>5,079,803</u>	<u>(16,796)</u>
Net cash provided by operating activities	\$ 3,224,279	\$ 2,263,743
Noncash Investing, capital and financing activities:		
Contributions of capital assets	2,093,907	-
Transfer of completed construction in progress projects	4,259,892	-
Purchase of equipment by capital lease	358,332	-
Sale of Assets, Trade-Ins	50,900	-

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 Unit

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

B. Fund Financial Statements

Major enterprise fund financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in 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, Deferred Inflows/Outflows of Resources and Net Position or Equity

1. Deposits and Investments

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

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

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

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

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Sanitary District in June and in December. 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 Inflow/Outflow of Resources

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

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

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

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Sanitary District have deferred outflows and deferred inflows related to their Other Post-Employment Benefits and Pension Plans (see Note III E and G for additional information on the District's Other Post-Employment Benefits and Pension Plans). The Sanitary District recognized a deferred outflow for contributions made to Pension Plans made after the measurement date. In addition, the Sanitary District have deferred outflows and deferred inflows related to differences between the Plans expected and actual experience, differences between projected and actual investment earnings on Pension Plan investments, change in Pension Plan assumptions, and changes in the proportion and differences between employer contributions and proportionate share of contributions.

The unamortized balance of bond issuance costs and the loss on refunding are reported as a deferred outflow of resources.

4. Restricted Assets

Certain proceeds of the enterprise fund general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because their use is limited based upon the bond indenture, grant agreements, and tax rate budgetary restrictions.

The financial statements report \$18,057,009 of restricted assets.

5. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 25,000	Straight-line	25-60 years
Buildings	25,000	Straight-line	60 years
Buildings improvements	25,000	Straight-line	20 to 40 years
Major Equipment	25,000	Straight-line	10 to 40 years
Minor Equipment	25,000	Straight-line	3 to 10 years

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

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

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 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.
- 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 District based upon studies performed for 2012, 2013, 2014, 2015 and 2016. The Sanitary District settled with the Town of Griffith on November 15, 2016. The receivable from the Town of Griffith consists of four payments of \$11,666.66 and one payment of \$11,666.86 totaling \$58,334.50 as of December 31, 2018. The Town of Griffith's accounts receivable includes capital costs reimbursement.

9. Net Position Restricted by Enabling Legislation

The Sanitary District's 2018 Statement of Net Position reports \$6,173,125 of restricted net position, of which \$5,530,229 is restricted by enabling legislation.

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

10. Accounting Pronouncements

The Sanitary District adopted GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). The requirements of the Statement are effective for financial reporting periods beginning after June 15, 2017

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, 2018, the Sanitary District had deposit balances in the amount of \$31,361,352.

Sanitary District:

General Operating Account	\$ 15,448,851
Payroll Account	377,222
General Operating Money Market Account	905,354
Bond 2015 Operating Money Market Account	1,003,963
Bond 2010	11,883,884
SRF 7 Construction Account	163

Hammond Sanitary Building Corporation:

Series 2014 Sinking Fund	575,066
Series 2014 Operation Account	6,472
Series 2014 Debt Service Reserve	<u>1,160,377</u>

Total	<u>\$ 31,361,352</u>
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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, 2018, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Sanitary District:				
Capital assets, not being depreciated:				
Land	\$ 2,143,422	\$ 1,913,068	\$ -	\$ 4,056,490
Construction in progress	761,244	4,609,612	4,259,892	1,110,964
	<u>2,904,666</u>	<u>6,522,680</u>	<u>4,259,892</u>	<u>5,167,454</u>
Total capital assets, not being depreciated	<u>2,904,666</u>	<u>6,522,680</u>	<u>4,259,892</u>	<u>5,167,454</u>
Capital assets, being depreciated:				
Land improvements	180,397,690	3,284,960	-	183,682,650
Buildings	51,317,012	668,446	-	51,985,458
Buildings improvements	7,657,028	-	-	7,657,028
Major Equipment	54,040,674	927,404	252,946	54,715,132
Minor Equipment	3,720,455	-	-	3,720,455
	<u>297,132,859</u>	<u>4,880,810</u>	<u>252,946</u>	<u>301,760,723</u>
Totals	<u>297,132,859</u>	<u>4,880,810</u>	<u>252,946</u>	<u>301,760,723</u>
Less accumulated depreciation for:				
Land improvements	61,360,464	3,138,164	-	64,498,628
Buildings	24,760,987	956,120	-	25,717,107
Buildings improvements	5,084,345	124,696	-	5,209,041
Major Equipment	28,497,262	1,490,472	252,946	29,734,788
Minor Equipment	3,121,647	42,488	-	3,164,135
	<u>122,824,705</u>	<u>5,751,940</u>	<u>252,946</u>	<u>128,323,699</u>
Totals	<u>122,824,705</u>	<u>5,751,940</u>	<u>252,946</u>	<u>128,323,699</u>
Total capital assets, being depreciated, net	<u>174,308,154</u>	<u>(871,130)</u>	<u>-</u>	<u>173,437,024</u>
Total capital assets, net	<u>\$ 177,212,821</u>	<u>\$ 5,651,550</u>	<u>\$ 4,259,892</u>	<u>\$178,604,478</u>

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

Storm Water Utility				
Capital assets, not being depreciated:				
Construction in progress	\$ 167,273	\$ -	\$ -	\$ 167,273
	<u>167,273</u>	<u>-</u>	<u>-</u>	<u>167,273</u>
Total capital assets, not being depreciated				
Capital Assets, being depreciated:				
Major Equipment	265,262	-	-	265,262
	<u>265,262</u>	<u>-</u>	<u>-</u>	<u>265,262</u>
Totals				
Less Accumulated Depreciation for:				
Major Equipment	61,895	17,684	-	79,579
	<u>61,895</u>	<u>17,684</u>	<u>-</u>	<u>79,579</u>
Totals				
Total Capital Assets, being depreciated	<u>203,367</u>	<u>(17,684)</u>	<u>-</u>	<u>185,683</u>
Total Capital Assets, Net	<u>\$ 370,640</u>	<u>\$ (17,684)</u>	<u>\$ -</u>	<u>\$ 352,956</u>

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

	<u>2018</u>
Sanitary District	\$ 5,751,940
Storm Water Utility	<u>17,684</u>
Total depreciation expense	<u>\$ 5,769,624</u>

C. Construction Commitments and Contributed Capital

Transfers of Contributed Capital to the Sanitary District for the year ended December 31, 2018, was as follows:

	<u>Sanitary District</u>	<u>Storm Water</u>
Transfers:		
Contributed Capital to/from the City of Hammond	\$ 2,093,907	\$ -
	<u>2,093,907</u>	<u>-</u>
Total Transfers	<u>\$ 2,093,907</u>	<u>\$ -</u>

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

Construction work in progress is composed of the following:

<u>Sanitary District Project</u>	2018		
	Expended to December 31,	Authorized	Committed
CSO Basin - Expansion Cell 3&4	\$ 165,299	\$ 165,299	\$ -
Johnson Ave Flowmeters	145,999	145,999	-
Headworks Capacity	770,837	770,837	-
Southside Capacity Increase	28,829	28,829	-
	\$ 1,110,964	\$ 1,110,964	\$ -
<u>Stormwater Utility Project</u>	Expended to December 31,	Authorized	Committed
Headworks Capacity	\$ 167,273	\$ 167,273	\$ -
	\$ 167,273	\$ 167,273	\$ -

D. Leases

Capital Leases

The Sanitary District has entered into capital leases for three sewer cleaners. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2018, are as follows:

	Sanitary District
Total minimum lease payments	\$ 792,742
Less amount representing interest	51,905
Present value of net minimum lease payments	\$ 740,837

Three sewer cleaners are included as major equipment. Two were leased in 2017 at a cost of \$394,260 and \$366,760. The third sewer cleaner leased in 2018 at a cost of \$358,332. Accumulated Depreciation for the three sewer cleaners as of December 31, 2018 was \$198,537 for the three sewer cleaners.

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 \$3,595,000 were repaid as of December 31, 2018.

F. Long-Term Liabilities

1. General Obligation Bonds

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CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

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
2014 Special Taxing District Refunding Bonds	2.50%	\$ 5,550,000
2014 First Mortgage Bonds	2.00% - 6.10%	11,515,000
2015 Special Taxing District Bonds	*VARIES	4,235,000
2018 Special Taxing District Refunding Bonds	3.00% - 5.00%	18,900,000
2018 Special Taxing District Bonds	3.625% - 5.00%	<u>11,500,000</u>
Total		<u>\$ 51,700,000</u>

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

Bonds debt service requirements to maturity are as follows:

	Principal	Interest
2019	\$ 4,150,000	\$ 2,295,514
2020	4,485,000	2,137,676
2021	4,510,000	1,961,610
2022	4,695,000	1,778,898
2023	3,480,000	1,603,795
2024-2028	18,535,000	5,265,281
2029-2033	10,460,000	1,541,763
2034-2038	1,135,000	165,228
2039-2043	<u>250,000</u>	<u>7,031</u>
Totals	<u>\$ 51,700,000</u>	<u>\$ 16,756,796</u>

2. Loans Payable

The Sanitary District has entered into various loans with the State Revolving Loan Fund (SRF). Under the terms of the loans, revenue bonds issued by the Sanitary District have been purchased by the Indiana Bond Bank. The proceeds are set aside to finance the Sanitary District improvements. Funds are loaned to the Sanitary District as costs are incurred to the maximum allowed. The Sanitary District has drawn down all of the funds, except for the 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, 2018 cash balance not yet drawn down, reported as part of the Cash with Fiscal Agent - Construction is \$163. Annual debt service requirements to maturity for the loans for 2018 are as follows:

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NOTES TO FINANCIAL STATEMENTS
(Continued)

	Principal	Interest
2019	\$ 2,450,000	\$ 1,108,668
2020	2,515,000	1,043,592
2021	2,585,000	976,734
2022	2,645,000	908,094
2023	2,725,000	837,738
2024-2028	14,700,000	3,065,700
2029-2033	14,985,000	1,006,038
Totals	<u>\$ 42,605,000</u>	<u>\$ 8,946,564</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sanitary District:					
General Obligation					
Bonds payable	\$ 31,035,000	\$ 31,155,000	\$ 10,490,000	\$ 51,700,000	\$ 4,150,000
Less bond discount	(87,777)	-	(87,777)	-	-
Plus bond premium	-	3,239,537	221,413	3,018,124	-
Total general obligation bonds payable	30,947,223	34,394,537	10,623,636	54,718,124	4,150,000
Loans payable	60,080,000	-	17,475,000	42,605,000	2,450,000
Capital Lease	603,900	358,332	221,395	740,837	215,549
Other Post Employment Benefits	3,684,557	15,798,777	2,813,254	16,670,080	-
Net Pension Liability	4,347,774	-	1,092,046	3,255,728	-
Compensated absences	395,004	9,748	22,646	382,105	23,391
Total Long-term liabilities	<u>\$ 100,058,459</u>	<u>\$ 50,561,394</u>	<u>\$ 32,247,978</u>	<u>\$ 118,371,874</u>	<u>\$ 6,838,940</u>

G. Refunding of Debt

On January 30, 2018, the Sanitary District issued \$19,655,000 in refunding general obligation bonds with an average interest rate of 2.72%(TIC) to refund \$1,075,000 of outstanding 2006A series SRF bonds, \$13,385,000 of outstanding 2007A series SRF bonds and \$6,785,000 of outstanding 2010 series bonds with an average interest rate of 3.58%, 4.14%, and 4.08%, respectively. The refunding, after all expenses applied, provided a savings of \$1,330,362 (net present value of \$1,129,871), which, as a percentage of the Refunded Bonds, provided a savings of 5.32%.

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NOTES TO FINANCIAL STATEMENTS
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H. Restricted Assets

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

Bond and interest cash and cash equivalents	\$	3,383,669
Capital projects cash and investment		12,526,617
Cash with fiscal agent - bond and interest		1,741,916
Cash with fiscal agent - construction		163
Taxes and accounts receivable		<u>404,644</u>
 Total restricted assets	 \$	 <u><u>18,057,009</u></u>

I. Transfers

Transfers to City and Town of Munster (PILOT)

In 2018, the Sanitary District transferred \$579,441 to the City of Hammond and \$120,559 to the Town of Munster for Payments in Lieu of Taxes (PILOT) since both communities are included in the Sanitary District's taxing unit.

J. Restatement of Net Position

For the fiscal year ended December 31, 2018, certain changes have been made to the financial statements to more appropriately reflect financial activity. The prior period adjustment include adjustments to the OPEB liability for the implementation of GASB 75 to recognize the liabilities associated with employee retirement.

The following schedule represents a summary of restated beginning balances:

Restatement	<u>Sanitary District</u>	<u>Storm Water</u>
Balance as Reported, December 31, 2017	\$ 93,952,437	\$ 3,653,841
Restatements:		
GASB 75 Net OPEB Liability	<u>(15,054,448)</u>	<u>-</u>
Restated Total Net Position - Beginning	<u><u>\$ 78,897,989</u></u>	<u><u>\$ 3,653,841</u></u>

SANITARY DISTRICT
CITY OF HAMMOND
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(Continued)

III. Other Information

A. Risk Management

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

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

Unemployment Compensation

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

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

Changes in the balance of claim liabilities are as follows:

	2017	2018
Unpaid claims, beginning of fiscal year	\$ 1,560	\$ 4,653
Incurred claims and changes in estimates	16,351	7,099
Claim payments	(13,258)	(11,752)
Unpaid claims, end of fiscal year	\$ 4,653	\$ -

B. Subsequent Events

Capital Acquisitions

The District is almost complete with the acquiring 25 to 30 properties in the area of 175th Street and Columbia Avenue. The properties acquired were demolished for the purpose of constructing a 1.36 MG storm water storage basin with appurtenant structures. The demolitions were completed by April 2019.

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NOTES TO FINANCIAL STATEMENTS
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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

Headworks Capacity Increase Project

In February 2019, Hasse Construction was awarded with the Headworks Capacity Increase Project. The total cost of the project is \$14,062,310.73. Proceeds from Bond Series 2018C of \$11,883,884.33 plus earned interest will be used to fund this improvement. The remaining balance will be funded from Sanitary District revenues

Circuit Breaker

In 2019, the Circuit Breaker credits will go into full effect. This may reduce the amount of property taxes collected by the Sanitary District in 2020 and beyond.

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.

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.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

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 was 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 required 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.

E. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

Sanitary District Retiree Healthcare Plan is a single-employer defined benefit Healthcare plan 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

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Plan Provisions

Eligibility: Employees must earn at least 15 years of continuous service and be eligible for retirement under PERF to be eligible for health insurance benefits during retirement. The health insurance benefits effective on 1/1/19 are provided through the City of Hammond for all District's active employees and retirees (pre and post-Medicare).

PERF Retirement Eligibility: Eligibility requirements for pension benefit payment:

* Age 65 with 10 years of service

* Age 60 with 15 years of service

* Rule of 85 (the sum of age and years of service equals 85 or greater)

* Early retirement with reduced benefits between ages 50 to 59 with 15 years of service.

Spouse Benefit: Retiree health care coverage continues to surviving spouse upon death of retirees.

Retiree Cost Sharing: Retirees contribute the following amounts towards retiree health care coverage effective on January 1, 2019

	DOR < 1/1/1997	DOR >= 1/1/1997
Retiree under 65	\$70.00	\$50.00
Dependent under 65	\$60.00	\$55.00
Retiree over 65	\$25.00	\$55.00
Dependent over 65	\$27.00	\$50.00

Medical Benefits: Hammond Sanitary District retirees have the same health benefit options as City of Hammond's active employees and retirees.

* For pre-Medicare retirees and spouses, three health benefit options are available, all of these options are self-funded. No information is available on the premium equivalent rates for these plans.

* Upon Medicare eligibility, health coverage is provided through a community-rated Medicare Supplement plan. The monthly premium rates effective on January 1, 2019 are as shown below.

Age	Rates
65	\$271.67
66-69	\$294.57
70-74	\$344.58
75-79	\$406.02
80-84	\$457.65
85+	\$497.52

Full Report Availability: The full report is available at:
Hammond Sanitary District
5143 Columbia Avenue
Hammond, IN 46327

Funding Policy

The contribution requirements of plan members for the Sanitary District's Healthcare Plan are established by the Sanitary District's Board. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2018, the Sanitary District contributed \$329,755 to the plan.

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OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB information

As of January 1, 2018, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$16,670,080, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,670,080. The covered payroll (annual payroll of active employees covered by the plan) was \$3,869,517, and the ratio of the UAAL to covered payroll was 430.8%.

At December 31, 2018, 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	\$ -	\$ (804,370)
Changes of Assumptions	-	(1,679,129)
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	N/A
Total	\$ -	\$ (2,483,499)

Annual Amortization of Deferred Outflows / (Inflows)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as flows:

Year ended	Amount
December 31:	
2019	\$ (413,917)
2020	(413,917)
2021	(413,917)
2022	(413,917)
2023	(413,917)
Thereafter	(413,914)
Total	\$ (2,483,499)

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 75. 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 Sanitary District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Sanitary District's net OPEB obligation to the plan:

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NOTES TO FINANCIAL STATEMENTS
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Total OPEB Liability - beginning of year (Restated)	\$ 18,739,005
Service cost	501,980
Interest	656,266
Change in benefit terms	-
Changes in assumptions	(1,958,984)
Differences between expected and actual experience	(938,432)
Benefit payments	(329,755)
Net change in total OPEB liability	<u>(2,068,925)</u>
Total OPEB Liability - end of year	<u>\$ 16,670,080</u>

Funded Status and Funding Progress

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

There have been no substantive plan provision changes since the last full valuation, which was for the fiscal year ending December 31, 2018.

The District will disclose OPEB liabilities under GASB 75 for the current valuation. The prior valuation was disclosed under GASB 45. The following has been updated in accordance with GASB 75.

1. The actuarial cost method has been updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary. In conjunction with this change, the payroll growth assumption has been updated based on the most recent Indiana Public Employees' Retirement Fund (PERF) actuarial valuation as of June 30, 2018. The net impact of these changes is an increase in liabilities.

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2. Discount rate as of the Measurement Date has been updated to be based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The prior full valuation used a discount rate of 4.00%. The current full valuation uses a discount rate of 3.44% as of January 1, 2018 and 4.11% as of December 31, 2018. This change has caused an increase in the liabilities as of the beginning of the year and a decrease in liabilities during the year. The discount rate will be updated annually to reflect market conditions as of the Measurement Date.

	<u>1% Decrease (3.11%)</u>	<u>Current (4.11%)</u>	<u>1% Increase (5.11%)</u>
District's Net OPEB liability	\$19,725,384	\$16,670,080	\$14,256,178

Additionally, the following assumptions have also been updated:

1. Mortality table has been updated from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 to SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018. The impact of this change is a slight decrease in liabilities.
2. The turnover assumption has been updated to follow the most recent PERF actuarial valuation as of June 30, 2018 (ultimate turnover rate for employees with earnings of at least \$20,000). This change has caused a slight increase in liabilities.
3. Retiree contribution trend rates have been updated to 1% per year. This change has caused an increase in liabilities.
4. Health care trend rates have been updated to an initial rate of 8.50% decreasing by 0.50% annually to an ultimate rate of 4.50% as shown below. This change caused a decrease in liabilities.

Measurement Date: December 31, 2018

Actuarial Valuation Date: December 31, 2018 with no adjustments to the December 31, 2018 measurement date. Liabilities as of January 1, 2018 are based on an actuarial valuation date of January 1, 2018 with no adjustments.

Discount Rate: 3.44% as of January 1, 2018 and 4.11% as of December 31, 2018. Refer to the Discussion of Discount Rates section for more information on selection of the discount rate.

Payroll Growth: Payroll growth rates include general inflation of 2.25% plus merit/productivity increases as shown below are based on Indiana Public Employees' Retirement Fund (PERF) actuarial valuation as of June 30, 2018.

Age	PERF
20	2.00%
30	2.00%
40	1.50%
50	1.00%
60	0.50%
61+	0.25%

Inflation Rate: 2.25% per year

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Cost Method: Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where:

* Service cost for each individual participant, payable from the date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement: and

* Annual Service Cost is a constant percentage of the participant's salary that is assumed to increase according to the Payroll Growth.

Employer Funding Policy: Pay-as-you-go cash basis

Census Data: Census information was provided by the District in January 2019. The final modifications were made:

* For retirees where DOB, DOH, and health coverage information was not provided, this information was filled in from data used for previous valuations.

Experience Study: Best Actuarial call for a periodic assumption review.

Health Care Coverage Election Rate: Active employees with current coverage: 100%
Active employees with no coverage: 0%

Inactive employees with current coverage: 100%
Inactive employees with no coverage: 0%

Spousal Coverage: Spousal coverage for future and current retirees is based on actual data. Husbands are assumed to be three years older than wives if spouse's birth dates were not available, otherwise actual spouse age is used.

Mortality: RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018 (RPH-2018 table is created based on RPH-2014 Total Dataset Mortality Table with 8 years of MP-2014 mortality improvement bached out, projected to 2018 using MP-2018 improvement.)

Disability: None

Turnover Rate: Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. The rates represent the probability of termination in the next 12 months. The termination rates are based on the PERF actuarial valuation for fiscal year ending June 30, 2018 (ultimate turnover rate for employees with earnings of at least \$20,000). Sample turnover rates are shown below:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	7.0%	8.0%
30	7.0%	8.0%
40	5.0%	6.0%
50	4.0%	6.0%
60+	4.0%	6.0%

Retirement Rate: Annual rates of retirement are based on the District's historical retirement experience through December 31, 2014.

<u>Age</u>	<u>Rates</u>
55	15%
56-61	2%
62	35%
63	10%
64	15%
65-69	50%
70+	100%

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

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 District withholds \$10 per pay for each of these employees and then distributes it to the Teamsters Union Local 142 office in Gary, Indiana. For each pay the District, as the employer, also contributes \$10 per pay per employee to the Teamsters.
- c) The District's only obligation is to pay for the premium of the retirement 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 \$3,960.

F. Rate Structure

Wastewater Utility (Sanitary District)

The current rate structure was approved by the Common Council on July 24, 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 Employee's 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.

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

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, 2018, 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 \$547,729 for the year ended December 31, 2018.

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

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

At December 31, 2018, the Sanitary District reported a liability of \$3,255,728 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Sanitary District's proportion was .0009584 percent, which was a decrease of .0000161 from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Sanitary District recognized pension expense of \$547,729 in accordance with PERF's fiscal year of June 30, 2018. At December 31, 2018, 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	\$ 42,579	\$ 222
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	96,422	-
Changes of Assumptions	7,757	522,752
Changes in Proportion and Differences Between District's Contributions and Proportionate Share of Contributions	20,591	50,077
District Contributions Subsequent to the Measurement Date	284,610	-
Total	\$ 451,959	\$ 573,051

The \$284,610 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as flows:

Year ended December 31:	
2019	\$ 57,448
2020	(149,305)
2021	(256,186)
2022	(57,659)
2023	-
Thereafter	-
Total	\$ (405,702)

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

Actuarial Assumptions.

In 2018, the following actuarial assumptions and methods were changed: the COLA assumption was changed due to passage of Senate Enrolled Act No. 373. In lieu of a 1.0 percent COLA beginning on January 2020, INPRS now assumes the COLA will be replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter, would be 0.4 percent beginning on January 1, 2022, changing to 0.5 percent beginning on January 1, 2034, and ultimately 0.6 percent beginning on January 1, 2039.

Valuation Date:

Assets

June 30, 2018

June 30, 2017 - Member census data as of June 30, 2017 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2017 and June 30, 2018. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2017 to the June 30, 2018 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.)

2019-2020 - 13th check, 2021-2032 - 0.40%, 2033-2037 - 0.50% 2038
and on - 0.60%

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 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:

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

Asset Class	Geometric Basis Long-Term Expected Real Rate of Return	Target Asset Allocation
Public Equity	4.4%	22.0%
Private Equity	5.4%	14.0%
Fixed Income - Ex Inflation-Linked	2.2%	20.0%
Fixed Income - Inflation-Linked	0.8%	7.0%
Commodities	2.3%	8.0%
Real Estate	6.5%	7.0%
Absolute Return	2.7%	10.0%
Risk Parity	5.2%	<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 District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the 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	\$5,125,039	\$3,255,728	\$1,696,926

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.

REQUIRED SUPPLEMENTARY INFORMATION

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

SANITARY DISTRICT
 CITY OF HAMMOND
 January 1, 2018 to December 31, 2018
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
 Last 10 Fiscal Years*

	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0958400%	0.0009745%	0.0009647%	0.0009191%
District's proportionate share of the net pension liability (asset)	\$3,255,728	\$4,347,774	\$4,378,237	\$3,743,404
District's covered-employee payroll	\$4,890,446	\$4,834,643	\$4,623,470	\$4,402,222
District's proportionate share of the net liability (asset) as a percentage of its covered-employee payroll	66.57%	89.93%	94.70%	85.03%
Plan fiduciary net position as a percentage of the total pension liability	78.90%	76.60%	75.30%	77.30%

* The amounts presented for each fiscal year were determined as of 6/30
 *Information is not available prior to 2015.
 *Additional years will be added until 10 years of historical data are shown.

SANITARY DISTRICT
 CITY OF HAMMOND
 January 1, 2018 to December 31, 2018
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS - COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
 Last 10 Fiscal Years*

	2018	2017	2016	2015
Contractually required contribution	\$547,729	\$541,480	\$517,828	\$493,044
Contributions in relation to the contractually required contribution	(\$547,729)	(\$541,480)	(\$517,828)	(\$493,044)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
District's covered-employee payroll	\$4,890,446	\$4,834,643	\$4,623,470	\$4,402,222
Contributions as a percentage of covered-employee payroll	11.20%	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.

SANITARY DISTRICT
 CITY OF HAMMOND
 January 1, 2018 to December 31, 2018
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET OPEB LIABILITY - SINGLE-EMPLOYER DEFINED BENEFIT HEALTHCARE PLAN
 Last 10 Years*

		<u>2018</u>
Total OPEB liability		
Service Cost	\$	501,980
Interest		656,266
Changes of benefit terms		-
Changes in assumptions		(1,958,984)
Differences between expected and actual experience		(938,432)
Benefit payments		(329,755)
Net change in total OPEB liability	\$	(2,068,925)
Total OPEB liability - beginning	\$	18,739,005
Total OPEB liability - ending (a)	\$	<u>16,670,080</u>
Plan fiduciary net position		
Contributions - employer	\$	329,755
Contributions - employee		-
Net investment income		-
Benefit payments, including refunds of employee contributions		(329,755)
Administrative expense		-
Other		-
Net change in plan fiduciary net position		-
Plan fiduciary net position - beginning		-
Plan fiduciary net position - ending (b)	\$	<u>-</u>
Net OPEB liability - ending (a) - (b)	\$	<u>16,670,080</u>
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%
Covered-employee payroll		3,869,517
Net OPEB liability as percentage of covered-employee payroll		430.8%

*Complete information is not available prior to 2018.

SANITARY DISTRICT
 CITY OF HAMMOND
 January 1, 2018 to December 31, 2018
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS - SINGLE-EMPLOYER DEFINED BENEFIT HEALTHCARE PLAN

	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$329,755	\$302,527	\$265,078	\$243,887	\$236,625	\$252,850	\$277,192	\$277,192
Contributions in relation to the actuarially determined contribution	(\$329,755)	(\$302,527)	(\$265,078)	(\$243,887)	(\$236,625)	(\$252,850)	(\$277,192)	(\$277,192)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District's covered-employee payroll	\$3,869,517	\$3,342,007	\$3,595,802	\$3,595,802	\$3,595,802	\$3,287,143	\$6,382,197	\$3,253,286
Contributions as a percentage of covered-employee payroll	8.52%	9.05%	7.37%	6.78%	6.58%	7.69%	4.34%	8.52%

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

I. Other Postemployment Benefits – Single-Employer Defined Benefit Healthcare Plan

There have been no substantive plan provision changes since the last full valuation, which was for the fiscal year ending December 31, 2017.

The District will disclose OPEB liabilities under GASB 75 for the current valuation. The prior valuation was disclosed under GASB 45. The following assumptions have been updated in accordance with GASB 75.

1. The actuarial cost method has been updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary. In conjunction with this change, the payroll growth assumption has been updated based on the most recent Indiana Public Employees' Retirement Fund (PERF) actuarial valuation as of June 30, 2018. The net impact of these changes is an increase in liabilities.

2. Discount rate as of the Measurement Date has been updated to be based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The prior full valuation used a discount rate of 4.00%. The current full valuation uses a discount rate of 3.44% as of January 1, 2018 and 4.11% as of December 31, 2018. This change has caused an increase in liabilities as of the beginning of the year and a decrease in liabilities during the year. The discount rate will be updated annually to reflect market conditions as of the Measurement Date.

Additionally, the following assumptions have also been updated:

1. Mortality table has been updated from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 to SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018. The impact of this change is a slight decrease in liabilities.

2. The turnover assumption has been updated to follow the most recent PERF actuarial valuation as of June 30, 2018 (ultimate turnover rate for employees with earnings of at least \$20,000). This change has caused a slight increase in liabilities.

3. Retiree contribution trend rates have been updated to 1% per year. This change has caused an increase in liabilities.

4. Health care trend rates have been updated to an initial rate of 8.50% decreasing by 0.50% annually to an ultimate rate of 4.50%. This change caused a decrease in liabilities.

Methods and assumptions used to determine contribution rates:

Inflation	2.25%
Salary increases	2.25% plus merit/productivity increases

SANITARY DISTRICT
CITY OF HAMMOND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Continued)

Investment rate of return	0%
Healthcare cost trend rates	8.5% for 2018, decreasing 0.5% per year to an ultimate rate of 4.5% for 2027 and later years

II. Pension Plan – Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Valuation Date: June 30, 2018

Member census data as of June 30, 2017 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2017 and June 30, 2018. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2017 to the June 30, 2018 measurement date.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal (Level Percent Payroll)
Amortization method	Level dollar
Remaining amortization period	25 years
Asset valuation method	5-year smoothed of gains and losses of the Fair Value of assets subject to a 20% corridor.
Inflation	2.25%
Future salary increases, Including inflation	2.50% - 4.25%
Investment rate of return expenses	6.75%, includes inflation and net of investment expenses
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.

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/>.