

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, 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.	01-01-16 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
Chief Executive Operator	Edward Krusa	01-01-18 to 12-31-19
Office Manager	Deborah Van Meter	01-01-18 to 12-31-19
President of the Waterworks Board of Directors	Sharon Daniels	01-01-18 to 12-31-19



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AN EQUAL OPPORTUNITY EMPLOYER

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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, 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 audits. Except as discussed in the *Basis for Qualified Opinion* paragraph below, 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 City'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 City'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.

Basis for Qualified Opinion

We were unable to audit the Other Post-Employment Benefits Payable since management had not performed an analysis of the future costs associated with Other Post-Employment Benefits as required in accordance with Governmental Accounting Standards Board Statement 75, Accounting and Financial

INDEPENDENT AUDITOR'S REPORT
(Continued)

Reporting for Postemployment Benefits Other Than Pensions. We were unable to apply alternative procedures to satisfy ourselves as to whether or not a material change to the liability, deferred inflow of resources, deferred outflow of resources, or net position should have been included on the financial statements as well as the required note disclosures for Other Post-Employment Benefits.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility, as of December 31, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter


As discussed in Note 1.A., the financial statements of the 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, 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.

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

September 11, 2019

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, 2018

<u>Assets and Deferred Outflows</u>	<u>2018</u>
Current assets:	
Cash and cash equivalents	\$ 1,114,508
Accounts receivable	1,466,578
Other receivables	735,484
Inventories	413,627
Prepaid items	150,191
Due from State	<u>(38)</u>
Total current assets	<u>3,880,350</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Customer deposits	793,501
Capital improvement fund	194,864
Debt service reserve cash	364,378
Depreciation	981,174
Construction account cash	<u>4,115,022</u>
Total restricted cash, cash equivalents and investments	<u>6,448,939</u>
Capital assets:	
Land, land rights, and construction in progress	5,470,444
Other capital assets (net of accumulated depreciation)	<u>36,120,464</u>
Total capital assets	<u>41,590,908</u>
Total noncurrent assets	<u>48,039,847</u>
Total assets	<u>51,920,197</u>
Deferred Outflow of Resources - deferred pension	<u>354,293</u>
<u>Liabilities, Deferred Inflows and Net Position</u>	
Current liabilities:	
Accounts payable	13,964
Accrued payroll and withholding payable	149,339
Taxes payable	23,657
PERF payable	20,594
Compensated absences	1,875
Bonds payable (current)	335,000
Accrued interest payable	199,123
Current liabilities payable from restricted assets:	
Customer deposits	<u>793,790</u>
Total current liabilities	<u>1,537,342</u>
Noncurrent liabilities:	
Bonds payable (net of unamortized discounts)	6,827,500
Net pension liability	2,314,747
Other post employment benefits	8,269,489
Compensated absences	<u>185,663</u>
Total noncurrent liabilities	<u>17,597,399</u>
Total liabilities	<u>19,134,741</u>
Deferred Inflow of Resources - deferred pension	<u>432,749</u>
<u>Net Position</u>	
Invested in capital assets, net of related debt	34,428,408
Restricted for customer deposits	793,501
Restricted for capital improvements	5,291,060
Restricted for debt service	364,378
Unrestricted	<u>(8,170,347)</u>
Total net position	<u>\$ 32,707,000</u>

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, 2018

	2018
Operating revenues:	
Metered water revenue:	
Residential	\$ 1,538,745
Commercial	9,938,154
Other water revenue	394,071
Total operating revenues	11,870,970
Operating expenses:	
Water Treatment:	
Salaries and wages	1,048,259
Employee pensions and benefits	158,511
Purchased power	1,086,508
Fuel For Power Production	20,129
Chemicals	652,207
Materials and supplies	152,808
Contractual services	531,771
Insurance	356,610
Miscellaneous	25,490
Transmission and Distribution:	
Salaries and wages	1,085,374
Employee pensions and benefits	160,937
Materials and supplies	849,854
Contractual services	247,350
Transportation expense	29,096
Insurance	622,300
Miscellaneous	11,806
Customer Accounts:	
Salaries and wages	764,827
Employee pensions and benefits	111,126
Contractual services	509,871
Transportation expense	11,095
Insurance	242,460
Bad debt expense	17,440
Miscellaneous	1,963
Administrative and General:	
Salaries and wages	710,544
Employee pensions and benefits	76,065
Contractual services	109,825
Materials and supplies	186,459
Insurance	515,819
Taxes	317,766
Depreciation	1,955,807
Change in OPEB/Net Pension obligations	1,093,560
Miscellaneous	91,508
Total operating expenses	13,755,145
Operating loss	(1,884,175)
Nonoperating revenues (expenses):	
Interest and investment revenue	106,037
Bond issuance costs	(257,617)
Loss on disposition of assets	(1,888)
Interest expense	(199,123)
Total nonoperating revenues (expenses)	(352,591)
Income before contributions and transfers	(2,236,766)
Contributions and transfers:	
Capital contributions	1,683,655
Transfers to City	(150,000)
Total contributions and transfers	1,533,655
Change in net position	(703,111)
Total net position - beginning	33,410,111
Total net position - ending	\$ 32,707,000

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, 2018

	2018
Cash flows from operating activities:	
Receipts from customers and users	\$ 11,100,183
Payments to suppliers and contractors	(6,596,923)
Payments to employees	(3,605,248)
Payments for employee pension and benefits	(494,422)
Receipts from other sources	394,071
Net cash provided (used) by operating activities	797,661
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	(2,941,848)
Bond Proceeds	7,162,500
Bond issuance costs	(257,617)
Temporary loan received	600,000
Temporary loan repaid	(600,000)
Net cash provided (used) by capital and related financing activities	3,963,035
Cash flows from investing activities:	
Interest received	106,037
Net increase (decrease) in cash and cash equivalents	4,716,733
Cash and cash equivalents, January 1	2,846,714
Cash and cash equivalents, December 31	\$ 7,563,447
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,884,175)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,955,807
Bad debt expense	17,440
(Increase) decrease in assets:	
Accounts receivable	(376,695)
Inventories	(5,691)
Prepaid items	(4,825)
Due from state	(21)
Increase (decrease) in deferred outflows of resources:	
Deferred pension	520,029
Increase (decrease) in liabilities:	
Accounts payable	14
Accrued payroll and withholding payable	3,370
PERF payable	459
Taxes payable	386
Customer deposits payable	(13,726)
Net pension liability	(801,641)
Other Post Employment Benefits	1,156,174
Compensated absences	11,758
Increase (decrease) in deferred inflows of resources:	
Deferred pension	218,998
Total adjustments	2,681,836
Net cash provided (used) by operating activities	\$ 797,661
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 1,683,655
Transfer of completed construction in progress projects	343,549
Deletion of obsolete capital assets	69,266

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, Deferred Inflows/Outflows of Resources, 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 the financial statements.

3. Restricted Assets

Assets restricted on the Statement of Net Position for customer deposits totaled \$793,501 at December 31, 2018. 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 \$5,291,060 at December 31, 2018.

Assets restricted on the Statement of Net Position for repayment of debt totaled \$364,378 at December 31, 2018.

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.

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

5. Compensated Absences

- a. Sick Leave – Eligible Utility employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 75 days. Upon separation of employment, accumulated sick leave is paid to employees that have been employed at least 10 years at the rate of one day's pay for every four unused accumulated sick days or after 15 years of employment at the rate of one day's pay for every two unused accumulated sick days.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 30 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. However, unused vacation leave is paid to employees through cash payments upon separation of employment.
- c. Personal Leave – Full time utility employees employed on January 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 2018 Statement of Net Position reports \$6,448,939 of restricted net position, of which \$5,272,901 is restricted by enabling legislation for customer deposits and bond covenants for use of construction proceeds and debt service reserves.

7. Deferred Outflows/Inflows of Resources

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.

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 Utility has deferred outflows and deferred inflows related to the Pension Plan (see Note III F for additional information on the Utility's Pension Plan). The Utility recognized a deferred outflow for Utility contributions made to Pension Plans made after the measurement date. In addition, the Utility has deferred outflows and deferred inflows related to differences between the Plan 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.

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

8. 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 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 expensed in the period incurred.

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, 2018, the Utility had deposit balances in the amount of \$7,563,447.

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:

	2018			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 134,466	-	-	\$ 134,466
Construction in progress	3,082,839	2,596,688	343,549	5,335,978
Total capital assets, not being depreciated	3,217,305	2,596,688	343,549	5,470,444
Capital assets, being depreciated:				
Source and supply	7,359,533	14,916	-	7,374,449
Distribution lines	48,947,713	2,114,738	49,184	51,013,267
Pumping equipment	15,219,660	192,196	20,082	15,391,774
Treatment equipment	11,179,814	-	-	11,179,814
General building	737,718	-	-	737,718
General equipment	1,502,836	50,514	-	1,553,350
Totals	84,947,274	2,372,364	69,266	87,250,372
Less accumulated depreciation for:				
Source and supply	4,434,063	437,943	-	4,872,006
Distribution lines	24,840,806	809,652	49,184	25,601,274
Pumping equipment	8,897,179	524,301	18,193	9,403,287
Treatment equipment	9,140,890	117,424	-	9,258,314
General building	536,849	25,487	-	562,336
General equipment	1,391,692	40,999	-	1,432,691
Totals	49,241,479	1,955,806	67,377	51,129,908
Total capital assets, being depreciated, net	35,705,795	416,558	1,889	36,120,464
Total capital assets, net	\$ 38,923,100	\$ 3,013,246	\$ 345,438	\$ 41,590,908

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

C. Construction Commitments

Construction work in progress is composed of the following as of December 31, 2018:

Project	2018		
	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	7,565,234	3,434,084	4,131,150
Parrish & Harrison Tank Painting	1,464,427	1,451,227	13,200
165th/Indy - BP Leak	28,269	28,269	-
60" Rack Heaters Repair	123,497	123,497	-
5100 Columbia Tunnel Pump Elect Upgrade	38,707	38,707	-
Chicago St Main Relocation	166,229	166,229	-
Totals	<u>\$ 9,480,663</u>	<u>\$ 5,335,978</u>	<u>\$ 4,144,685</u>

D. Long-Term Liabilities - Revenue Bonds

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

Purpose	Interest Rate	Amount
2018 Waterworks District Revenue Bonds: improvements	4.625%	<u>\$ 7,500,000</u>

Bonds debt service requirements to maturity are as follows:

	Principal	Interest
2019	\$ 335,000	\$ 386,881
2020	395,000	326,872
2021	415,000	308,372
2022	425,000	289,062
2023	445,000	269,175
2024-2028	2,590,000	1,009,637
2029-2033	2,895,000	344,679
Totals	<u>\$ 7,500,000</u>	<u>\$ 2,934,678</u>

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

E. Changes in Noncurrent Liabilities

Long-term liability activity for the year ending December 31, 2018 were as follows:

2018	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Bonds payable	\$ -	\$ 7,500,000	\$ -	\$ 7,500,000	\$ 335,000
Less bond discount	-	(337,500)	-	(337,500)	-
Total bonds payable	-	7,162,500	-	7,162,500	335,000
Net pension liability	3,116,388	-	801,641	2,314,747	-
Other post employment benefits	7,113,315	1,156,175	-	8,269,490	-
Compensated absences	175,780	11,758	-	187,538	1,875
Total Long-term liabilities	<u>\$ 10,405,483</u>	<u>\$ 8,330,433</u>	<u>\$ 801,641</u>	<u>\$ 17,934,275</u>	<u>\$ 336,875</u>

F. Restricted Assets

The balances of restricted asset accounts are as follows:

	2018
Customer deposits	\$ 793,501
Capital Improvement fund	194,864
Debt service reserve cash	364,378
Depreciation	981,174
Construction account cash	<u>4,115,022</u>
Total restricted assets	<u>\$ 6,448,939</u>

G. Transfers to the City

Interfund transfers at December 31, 2018 were as follows:

Transfer From	Transfer To	2018
Water Utility	City General Fund	<u>\$ 150,000</u>

H. Other Receivable

Due to damages the Utility determined was caused by private contractors, the Utility billed the private contractors for the amount of the repairs. The amount of Other Receivable that is attributable to these repair reimbursements is \$695,187 (Walsh & Kelly \$104,383, Dyer Construction \$580,184 and Bowen Engineering for \$10,620). The claims are pending litigation.

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

I. Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2018. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2033. Annual principal and interest payments are expected to require less than 7 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$10,434,678. The 2019 annual principal and interest payments and total operating revenues were \$721,881 and \$11,870,970, respectively.

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 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

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

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, 2018, the Utility contributed \$250,155 to the plan. Plan members receiving benefits contributed \$16,998, or approximately 7% 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:

	2018
Annual required contribution	\$ 1,676,274
Interest on net OPEB obligation	248,966
Adjustment to annual required contribution	(254,135)
Annual OPEB cost	1,671,105
Contributions made	514,931
Increase (decrease) in net OPEB obligation	1,156,174
Net OPEB obligation, beginning of year	7,113,315
Net OPEB obligation, end of year	\$ 8,269,489

The Utility's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, And the net OPEB obligation for 2018 and the four preceding years were as follows:

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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
12/31/2018	1,671,105	31%	8,269,489

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 \$21,465,844 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,465,844. The covered payroll as a percentage of the Actuarial Accrued Liability was (544%). 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.

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.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Agent Services

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

E. Customer Cities

The Utility sells water to eleven neighboring cities and towns. Revenues attributable to these cities and towns for 2018 are as follows:

City or Town	<u>Metered Revenue</u> 2018
Burnham	\$ 461,916
Calumet City	3,549,039
Chicago Heights	1,370,114
Ford Heights	48,912
Griffith	294,166
Highland	623,669
Lansing	1,789,498
Lynwood	33,322
Munster	630,609
South Holland	19,726
Whiting	156,376
Total	\$ 8,977,347

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.

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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.

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 Utilities contractually required contribution rate for the year ended December 31, 2018 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 an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water Utility were \$494,423, for the year ended December 31, 2018.

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

At December 31, 2018, the Water Utility reported a liability of \$2,314,747 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 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, 2018, the Utility's proportion was 0.0006814 percent, which was a decrease of .0000171 from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Utility's recognized pension expense of \$494,423. At December 31, 2018, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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CITY OF HAMMOND
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Deferred Outflow of Resources - Debit</u>	<u>Deferred Inflow of Resources - Credit</u>
Differences Between Expected and Actual Experience	\$ 30,272	\$ 158
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	68,554	371,665
Change of Assumptions	5,515	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	948	60,926
Utility's contributions subsequent to the measurement date*	<u>249,004</u>	<u>-</u>
Total	<u>\$ 354,293</u>	<u>\$ 432,749</u>

* Payments made to PERF July 2018 thru December 2018*

\$249,004 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2019	\$ 13,807
2020	(113,012)
2021	(187,261)
2022	(40,994)
2023	-
Thereafter	<u>-</u>
Total	<u>\$ (327,460)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation of the Public Employees' Defined Benefit Account were adopted by the INPRS Board April 2018. The majority of the actuarial assumptions and methods are based on plan experience from July 1, 2010 through June 30, 2014 and were first used in the June 30, 2015 valuation. The INPRS Board adopted a funding policy in April 2014, and the policy was last updated in October 2017. The funding policy is available online at: www.in.gov/inprs/files/INPRS_Funding_Policy.pdf.

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NOTES TO FINANCIAL STATEMENTS
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Changes in Actuarial Assumptions

For the actuarial valuation as of June 30, 2018, 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 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.

There were no changes to the actuarial methods during the fiscal year.

Legislation passed in the 2018 legislative session creates a funding mechanism to provide for future benefit increases or 13th checks. The INPRS Board has the authority to have employers contribute up to 1.0 percent of member pay into the fund. Increases or payments are made upon passed legislation subject to the availability of funds to provide the benefit.

Except as noted actuarial assumptions used for funding purposes are the same as those used for accounting and financial reporting.

Funding	6.75 percent (net of administrative and investment expenses)
Accounting/Financial Reporting	6.75 percent (net of investment expenses)
Inflation	2.25 percent per year
Cost of Living Increases	It is assumed a service-based 13 th check will be paid in the 2020 and 2021 fiscal years. Thereafter, the following COLA's Compounded annually, are assumed: 0.4 percent beginning on January 1, 2022 0.5 percent beginning on January 1, 2034 0.6 percent beginning on January 1, 2039
Future Salary Increases:	2.50 percent to 4.25 percent.
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, 2018 valuations were the same assumptions used in the 2017 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

WATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Global Asset Class	Long-Term Expected Real Rate of Return	Target 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%	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) that the current rate:

	5.75% 1% Decrease	6.75% Current Rate	7.75% 1% Increase
Net Pension Liability	\$ 3,643,783	\$ 2,314,747	\$ 1,206,475

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/2018INPRSCAFRBook.pdf>
<http://www.in.gov/inprs/files/2016PERFActuarialValuationReport.pdf>

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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.

G. Subsequent Event

In 2019, the Board of Waterworks Directors started the process to opt out of the jurisdiction of the Indiana Utility Regulatory Commission.

On March 11, 2019, the City Council passed Ordinance No. 9433, An Ordinance of the City of Hammond, Indiana Concerning Removal of the City of Hammond Water Works Department from the Jurisdiction of the Indiana Utility Regulatory Commission.

The Board of Waterworks Directors are hoping the process will be finalized in 2019.

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REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information (RSI) was prepared by management of the Utility. The RSI 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%
12-31-18	-	21,465,844	(21,465,844)	0%	3,944,131	-544%

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset)	0.0006814	0.0006985	0.0007035	0.0007223	0.0006764
Proportion share of the net pension liability (asset)	\$ 2,314,747	\$ 3,116,388	\$ 3,192,697	\$ 2,941,857	\$ 1,777,535
Covered employee payroll	\$ 3,476,976	\$ 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	66.8%	89.3%	93.2%	84.80%	53.70%
Plan fiduciary net position as a percentage of total pension liability	78.9%	72.7%	71.2%	73.30%	81.10%

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 327,498	\$ 629,851	\$ 623,278	\$ 521,352
Contributions in relation to the contractually required contribution	<u>389,421</u>	<u>388,131</u>	<u>377,607</u>	<u>385,666</u>
Contribution deficiency (excess)	(61,923)	(241,720)	(245,671)	(135,686)
Covered employee payroll	\$ 3,476,976	\$ 3,465,451	\$ 3,371,488	\$ 3,459,668
Contributions as a percentage of covered employee payroll	11.2%	11.2%	11.2%	11.2%

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

OTHER REPORTS

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