

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, 2019 to December 31, 2019



FILED

11/06/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-4
Basic Financial Statements and Accompanying Notes:	
Statement of Net Position	6
Statement of Revenues, Expenses and Other Changes in Fund Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9-25
Required Supplementary Information:	
Schedule of Changes in Total OPEB Liability and Related Ratios	28
Schedule of the Proportionate Share of the Net Pension Liability	29
Schedule of Contributions	30
Other Reports	31

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay Megan Flores	01-01-19 to 01-19-20 01-20-20 to 12-31-20
Mayor	Thomas M. McDermott Jr.	01-01-19 to 12-31-20
President of the Board of Public Works and Safety	Heather Garay Kevin Margraf	01-01-19 to 01-19-20 01-20-20 to 12-31-20
President of the Common Council	Robert Markovich Dave Woerpel	01-01-19 to 12-31-19 01-01-20 to 12-31-20
Chief Executive Operator	Edward Krusa Mark McLaughlin	01-01-19 to 10-09-20 10-10-20 to 12-31-20
Office Manager	Deborah Van Meter	01-01-19 to 12-31-20
President of the Waterworks Board of Directors	Sharon Daniels	01-01-19 to 12-31-20



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, 2019, 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 the 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter

As discussed in Note 1.A., the financial statements of the Utility are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 2019, 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 2019, the Utility 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 the Schedule of Changes in Total OPEB Liability and Related Ratios, Schedule of 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 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. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

October 27, 2020

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, 2019

Assets and Deferred Outflows

Current assets:	<u>2019</u>
Cash and cash equivalents	\$ 564,994
Accounts receivable	1,618,648
Other receivables	520,468
Inventories	369,041
Prepaid items	<u>103,136</u>
 Total current assets	 <u>3,176,287</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Customer deposits	946,649
Capital Improvement Fund	327,113
Debt Service Reserve Cash	364,378
Depreciation	1,040,319
Bond & Int Sinking Cash	369,124
Construction account cash	<u>2,317,085</u>
 Total Restricted Cash, cash equivalents and investments	 <u>5,364,668</u>
Capital assets:	
Land, land rights, and construction in progress	7,162,222
Other capital assets (net of accumulated depreciation)	<u>34,741,242</u>
 Total capital assets	 <u>41,903,464</u>
 Total noncurrent assets	 <u>47,268,132</u>
 Total assets	 <u>50,444,419</u>
Deferred outflow of resources:	
Deferred outflow - other postemployment benefits	822,977
Deferred outflow - pension	<u>314,694</u>
 Total deferred outflow of resources	 <u>1,137,671</u>

Liabilities, Deferred Inflows and Net Position

Current liabilities:	
Accounts payable	127,486
Accrued payroll and withholding payable	162,697
Taxes payable	32,974
PERF payable	21,974
Compensated absences (new 2014)	1,854
Bonds payable (current)	395,000
Accrued interest payable	152,183
 Current liabilities payable from restricted assets:	
Customer deposits	<u>950,720</u>
 Total current liabilities	 <u>1,844,888</u>
Noncurrent liabilities:	
Bond payable (net of unamortized discounts)	6,457,434
Net pension liability	2,257,028
Other post employment benefits	8,744,694
Compensated absences	<u>183,566</u>
 Total noncurrent liabilities	 <u>17,642,722</u>
 Total liabilities	 <u>19,487,610</u>
 Deferred Inflow of Resources - deferred pension	 <u>384,778</u>
 <u>Net Position</u>	
Invested in capital assets, net of related debt	35,420,154
Restricted for customer deposits	946,649
Restricted for capital improvements	3,684,517
Restricted for Debt Service Reserve	364,378
Unrestricted	<u>(8,705,996)</u>
 Total net position	 <u>\$ 31,709,702</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, 2019

	2019
Operating revenues:	
Metered water revenue:	
Residential	\$ 1,518,966
Commercial	10,367,800
Other water revenue	392,630
Total operating revenues	12,279,396
Operating expenses:	
Water Treatment:	
Salaries and wages	1,066,783
Employee pensions and benefits	141,662
Purchased power	1,229,592
Fuel For Power Production	22,287
Chemicals	708,867
Materials and supplies	209,430
Contractual services	653,486
Insurance	367,110
Miscellaneous	24,894
Transmission and Distribution:	
Salaries and wages	1,149,860
Employee pensions and benefits	181,932
Materials and supplies	883,075
Contractual services	183,995
Transportation expense	32,674
Insurance	649,090
Miscellaneous	8,309
Customer Accounts:	
Salaries and wages	736,335
Employee pensions and benefits	103,328
Contractual services	658,507
Transportation expense	11,340
Insurance	244,695
Bad debt expense	2,938
Miscellaneous	2,006
Administrative and General:	
Salaries and wages	732,092
Employee pensions and benefits	76,555
Contractual services	97,008
Materials and supplies	182,222
Insurance	500,967
Taxes	333,497
Depreciation	2,000,195
Change in OPEB/Net Pension obligations	396,246
Miscellaneous	168,895
Total operating expenses	13,759,872
Operating loss	(1,480,476)
Nonoperating revenues (expenses):	
Interest and investment revenue	98,592
Loss on disposition of assets	(29,504)
Interest expense	(356,320)
Total nonoperating revenues (expenses)	(287,232)
Loss before contributions and transfers	(1,767,708)
Contributions and transfers:	
Capital Contributions	110,302
Transfers to City	(150,000)
Total contributions and transfers	(39,698)
Change in net position	(1,807,406)
Restated total net position - beginning	33,517,108
Total net position - ending	\$ 31,709,702

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, 2019

	2019
Cash flows from operating activities:	
Receipts from customers and users	\$ 11,946,735
Payments to suppliers and contractors	(6,809,850)
Payments to employees	(3,662,395)
Payments for employee pension and benefits	(504,216)
Receipts from other sources	392,630
Net cash provided by operating activities	1,362,904
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	(2,231,954)
Bond Principal Payments	(335,000)
Bond Interest Payments	(378,327)
Net cash provided (used) by capital and related financing activities	(2,945,281)
Cash flows from investing activities:	
Interest received	98,592
Net increase (decrease) in cash and cash equivalents	(1,633,785)
Cash and cash equivalents, January 1	7,563,447
Cash and cash equivalents, December 31	\$ 5,929,662
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,480,476)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	2,000,195
Bad debt expense	2,938
(Increase) decrease in assets:	
Accounts receivable	60,008
Inventories	44,586
Prepaid items	47,057
Due from State	(38)
(Increase) decrease in deferred outflows of resources:	
Deferred pension	39,599
Deferred other postemployment benefits	(822,977)
Increase (decrease) in liabilities:	
Accounts payable	113,522
Accrued payroll and withholding payable	13,358
PERF payable	1,380
Taxes payable	9,317
Customer deposits payable	156,930
Net pension liability	(57,719)
Other Post Employment Benefits	1,285,313
Compensated absences	(2,118)
Increase (decrease) in deferred inflows of resources:	
Deferred pension	(47,971)
Total adjustments	2,843,380
Net cash provided by operating activities	\$ 1,362,904
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 110,302
Transfer of completed construction in progress projects	412,350
Deletion of obsolete capital assets	92,408

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 Outflow/Inflow 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.

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

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

2. Inventories and Prepaid Items

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

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

3. Restricted Assets

Assets restricted on the Statement of Net Position for customer deposits totaled \$946,649 at December 31, 2019. 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 \$3,684,517 at December 31, 2019.

Assets restricted on the Statement of Net Position for Debt Service Reserve totaled \$364,378 at December 31, 2019.

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 2019 Statement of Net Position reports \$4,995,544 of restricted net position, of which \$3,628,112 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 their Other Post-Employment Benefits and Pension Plans (see Note III B and F for additional information on the Utilities' Pension Plans). 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 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.

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.

9. Accounting Pronouncements

The Utility 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 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, 2019, the Utility had deposit balances in the amount of \$5,929,662.

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, 2019, was as follows:

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

	2019			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 134,466	-	-	\$ 134,466
Construction in progress	5,335,978	2,104,128	412,350	7,027,756
Total capital assets, not being depreciated	5,470,444	2,104,128	412,350	7,162,222
Capital assets, being depreciated:				
Source and supply	7,374,449	187,211	-	7,561,660
Distribution lines	51,013,267	336,433	39,102	51,310,598
Pumping equipment	15,391,774	63,687	13,978	15,441,483
Treatment equipment	11,179,814	-	-	11,179,814
General building	737,718	17,522	3,350	751,890
General equipment	1,553,350	45,562	35,978	1,562,934
Totals	87,250,372	650,415	92,408	87,808,379
Less accumulated depreciation for:				
Source and supply	4,872,006	468,192	-	5,340,198
Distribution lines	25,601,274	835,329	39,102	26,397,501
Pumping equipment	9,403,287	515,989	11,752	9,907,524
Treatment equipment	9,258,314	115,095	-	9,373,409
General building	562,336	28,387	1,256	589,467
General equipment	1,432,691	37,203	10,855	1,459,039
Totals	51,129,908	2,000,195	62,965	53,067,138
Total capital assets, being depreciated, net	36,120,464	(1,349,780)	29,443	34,741,241
Total capital assets, net	\$ 41,590,908	\$ 754,348	\$ 441,793	\$ 41,903,463

C. Construction Commitments

Construction work in progress is composed of the following as of December 31, 2019:

Project	2019		
	Total Project Authorized	Expended to December 31,	Committed
Five Year Plan Module	\$ 25,000	\$ 24,900	\$ 100
Automatic Meter Replacement Program	69,300	69,065	235
Filtration Plant Elect Upgrades	6,413,017	5,257,866	1,155,151
Parrish & Harrison Tank Painting	1,489,427	1,476,227	13,200
165th/Indy - BP Leak	28,269	28,269	-
Chicago St Main Relocation	166,229	166,229	-
5100 Columbia Tunnel Pump Elect Upgrade	5,200	5,200	-
Totals	\$ 8,196,442	\$ 7,027,756	\$ 1,168,686

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

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>7,165,000</u>

Bonds debt service requirements to maturity are as follows:

	Principal	Interest
2020	395,000	326,872
2021	415,000	308,372
2022	425,000	289,062
2023	445,000	269,175
2024	475,000	248,246
2025-2029	2,710,000	888,463
2030-2033	<u>2,300,000</u>	<u>217,607</u>
Totals	<u>\$ 7,165,000</u>	<u>\$ 2,547,797</u>

E. Changes in Noncurrent Liabilities

Due to the implementation of GASB 75 a prior period adjustment was necessary to appropriately reflect the Other postemployment benefits (OPEB) liability associated with employee retirement.

Long-term liability activity for the year ending December 31, 2019 were as follows:

2019	Beginning Balance	Net OPEB Prior Period Adj	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:						
Bonds payable	\$ 7,500,000	\$ -	\$ -	\$ (335,000)	\$ 7,165,000	\$ 395,000
Less bond discount	(337,500)	-	-	24,933	(312,567)	-
Total bonds payable	7,162,500	-	-	(310,067)	6,852,433	395,000
Net pension liability	2,314,747	-	-	57,719	2,257,028	-
Other post employment benefits	8,269,490	810,108	1,285,313	-	8,744,695	-
Compensated absences	187,538	-	-	2,119	185,419	1,854
Total Long-term liabilities	<u>\$ 17,934,275</u>	<u>\$ 810,108</u>	<u>\$ 1,285,313</u>	<u>\$ (250,229)</u>	<u>\$ 18,039,575</u>	<u>\$ 396,854</u>

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

F. Restricted Assets

The balances of restricted asset accounts are as follows:

	2019
Customer deposits	\$ 946,649
Capital Improvement fund	327,113
Debt service reserve cash	364,378
Depreciation	1,040,319
Bond & Int Sinking Cash	369,124
Construction account cash	2,317,085
 Total restricted assets	 \$ 5,364,668

G. Transfers to the City

Interfund transfers at December 31, 2019 were as follows:

Transfer From	Transfer To	2019
Water Utility	City General Fund	\$ 150,000

H. Other Receivable

The Utility has determined that it has incurred damages on two separate occasions caused by private contractors. As such, the Utility has been involved in litigation.

Stemming from an incident that spanned from July through August 2013, the Utility sought to recoup its damages of \$691,202. The Utility settled with two of the four private contractors: namely, Walsh & Kelly, Inc. for \$61,600 and Hayward/Baker for \$48,400, for the cumulative sum of \$110,000. Two contractors remain in the case; namely Dyer Construction and Bowen Engineering and the litigation continues for the balance of damages.

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 \$9,712,797. The 2019 annual principal and interest payments and total operating revenues were \$721,872 and \$12,279,396 respectively.

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

J. Restatement of Net Position

For the fiscal year ended December 31, 2019, certain changes have been made to the financial statements to more appropriately reflect financial activity. The prior period adjustment includes 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 of Net Position:

Balance as Reported, December 31, 2018	\$	32,707,000
Restatements:		
GASB 75 Net OPEB Liability		810,108
Restated Total Net Position - Beginning	\$	33,517,108

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.

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

B. Other Postemployment Benefits

Plan Description

The Water Utility's defined benefit OPEB plan, the Hammond Water Works Group Retiree Medical Program (Plan), provides comprehensive medical, dental, vision and life insurance benefits to eligible retirees and their dependents. To be eligible, employees must attain age 60 with 15 years of service or age 65 with 10 years of service to be eligible for lifetime health insurance benefits during retirement. The Plan is a single-employer defined benefit OPEB plan administered by the City of Hammond. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the Water Utility. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. The Water Utility Retiree Healthcare Plan information may be obtained by contacting the plan administrator:

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

Benefits Provided

The Plan provides healthcare, dental, vision and life insurance benefits for retirees and their dependents. The benefits provide for pre-Medicare retirees and spouses, two health benefit options are available, all of these options are self-funded. Upon Medicare eligibility, health coverage is provided through a community-rated Medicare Supplement Plan.

There has been one substantive plan provision change since the last full valuation, which was for the fiscal year ended December 31, 2017. Teamster employees had previously received health coverage through the Plan but now receive coverage through a separate health plan. Since these individuals will not be covered by the Plan at retirement and the Water Utility will not provide a subsidy for these participants there is no liability for the Water Utility associated with this group of employees. Teamster employees have been excluded from the numbers disclosed below.

Funding Policy

The contribution requirements of plan members for the Water Utility's Healthcare Plan are established by the Water Utility's Board. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2019, the Water Utility contributed \$241,849 to the plan.

Employees covered by benefit terms

At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	28
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	34
Total	62

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

Total OPEB Liability

The Water Utility's total OPEB liability of \$8,744,695 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent	
Salary increases	2.50 percent to 4.25 percent, including inflation	
Discount rate	3.26 percent as of December 31, 2019	
	4.11 percent as of December 31, 2018	
Healthcare cost trend rates	Medical 7.5 percent for 2020, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent for 2026 and later years	
	Dental/Vision 4.5 percent for 2020, decreasing 0.5 percent per year to an ultimate rate of 3.0 percent for 2026 and later years	
Retirees' cost sharing	Retirees contribute the following amounts towards retiree health care coverage effective on January 1, 2019	
		Single Family
	General Pre - 65	\$ 70.00 \$135.00
	General Post - 65	\$ 55.00 \$105.00
Mortality	General employees and retirees: SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2019.	
	Surviving Spouses: SOA Pub-2010 Continuing Survivor Headcount Weighted Mortality Table fully generational using Scale MP-2019	

The 2019 discount rate was based on the S&P Municipal Bond 20-Year High Grade Rate Index and the 2018 discount rate was based on the Bond Buyer GO 20 Municipal Bond Index.

Changes in the Total OPEB liability

Total OPEB Liability at December 31, 2018	<u>\$ 7,459,382</u>
Changes for the year:	
Service cost	123,137
Interest	306,722
Changes of benefit terms	-
Differences between expected and actuarial experience	-
Changes in assumptions or other inputs	1,097,303
Benefit payments	<u>(241,849)</u>
Net changes	<u>1,285,313</u>
Balances at December 31, 2019	<u><u>\$ 8,744,695</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 4.11 percent in 2018 to 3.26 percent in 2019.

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

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Water Utility, as well as what the Water Utility's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current discount rate:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total OPEB liability	\$ 10,365,290	\$ 8,744,695	\$ 7,475,685

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Water Utility, as well as what the Water Utility's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0 percent decreasing to 3.5 percent) or 1-percentage-point higher (9.0 percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

	1% Decrease (varies)	Healthcare Cost Trend Rates (varies)	1% Increase (varies)
Total OPEB liability	\$ 7,438,191	\$ 8,744,695	\$ 10,423,866

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the Water Utility recognized OPEB expense of \$704,185. At December 31, 2019, the Water Utility reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 822,977	\$ -
Total	\$ 822,977	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Amount
2020	\$ 274,326
2021	274,326
2022	274,325
2023	-
2024	-
Thereafter	-
Total	\$ 822,977

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

C. Rate Structure

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

D. Agent Services

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

E. Customer Cities

The Utility sells water to eleven neighboring cities and towns. Revenues attributable to these cities and towns for 2019 are as follows:

City or Town	Metered Revenue 2019
Burnham	\$ 447,481
Calumet City	3,510,555
Chicago Heights	1,309,933
Ford Heights	52,167
Griffith	295,533
Highland	628,042
Lansing	1,729,109
Lynwood	33,275
Munster	661,548
South Holland	20,016
Whiting	157,466
Total	\$ 8,845,124

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.

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

All full-time employees are eligible to participate in the cost-sharing multiple-employer defined benefit plan. State statutes (Indiana Code 5-10.2 and 5-10.3) provide the Utility authority to contribute to the plan and govern, through the INPRS Board, most requirements of the system. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consist of member's contributions, set by state statute at three percent (3%) of compensation, plus the interest credited to the member's account. Under state statute, the employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

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

Benefits Provided

PERF provides retirement, disability, and death benefits. Retirement benefits are determined by age, years of service, average of annual compensation (Final Average Salary) based on 20 quarters, with a multiplier of 1.1 percent (.011). Employees with 10 years of PERF service are vested. An employee who leaves service may withdraw his or her Annuity Savings Account contributions, plus any accumulated interest.

Benefit terms provide for annual cost of living adjustment to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are granted by the Indiana General Assembly on an ad hoc basis.

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, 2019 was 11.2 percent of the annual covered payroll, actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the cost of benefits earned by employees during the year, with and additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Water Utility were \$504,216, for the year ended December 31, 2019.

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

At December 31, 2019, the Water Utility reported a liability of \$2,257,028 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the Utility's proportion was 0.0006829 percent, which was an increase of .0000015 from its proportion measured as of June 30, 2018.

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

For the year ended December 31, 2019. The Utility's recognized pension expense of \$504,216. At December 31, 2019, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources - Debit	Deferred Inflow of Resources - Credit
Differences Between Expected and Actual Experience	\$ 59,765	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	106,684
Change of Assumptions	502	245,356
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	6,435	32,738
Utility's contributions subsequent to the measurement date*	247,992	-
Total	\$ 314,694	\$ 384,778

* Payments made to PERF July 2018 thru December 2018*

\$247,992 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31,	Amount
2020	\$ (101,574)
2021	(175,990)
2022	(32,227)
2023	(8,285)
2024	-
Thereafter	-
Total	\$ (318,076)

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation of the Public Employees' Defined Benefit Account were adopted by the INPRS Board February 2019. 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: https://www.in.gov/inprs/files/INPRS_Funding_Policy.pdf

Changes in Actuarial Assumptions

In 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 1, 2020, we now assume that 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% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

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

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

Funding	6.75% (net of administrative and investment expenses)
Accounting/Financial Reporting	6.75% (net of investment expenses)
Inflation	2.25% per year
Cost of Living Increases	In lieu of a COLA on January 1, 2020 and January 1, 2021, members in pay were provided a 13 th check on October 1, 2019 and October 1, 2020. Thereafter, the following COLA's compounded annually, were assumed: 0.4% beginning on January 1, 2022 0.5% beginning on January 1, 2034 0.6% beginning on January 1, 2039
Future Salary Increases:	2.50 percent to 4.25 based on age
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, 2019 valuations were the same assumptions used in the 2018 valuations. As a result of the study inflation remained the same at 2.25%, future salary rates remained the same at 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.

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

The long-term rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. The target allocation and best estimates of arithmetic real rates of return as of June 30, 2017 for each major asset class are summarized in the following table.

Global Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Public Equity	4.9%	22.0%
Private Equity	7.0%	14.0%
Fixed Income - Ex inflation - Linked	2.5%	20.0%
Fixed Income - Inflation - Linked	1.3%	7.0%
Commodities	2.0%	8.0%
Real Estate	6.7%	7.0%
Absolute Return	2.9%	10.0%
Risk Parity	5.3%	12.0%

Discount Rate

The discount rate used to measure the total pension liability was 6.75%, net of investment expenses. The discount rate is equal to the expected long-term rate of return on plan investments, net of investment expense and including price inflation. There was no change in the discount rate from the prior measurement date.

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

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

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

	5.75% 1% Decrease	6.75% Current Rate	7.75% 1% Increase
Net Pension Liability	\$ 3,624,817	\$ 2,257,028	\$ 1,116,188

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

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>

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 Note

The Hammond Water Works Department entered into a contract with Cender and Company to prepare a rate study and are currently seeking a rate increase from our municipal body.

(This page intentionally left blank.)

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
Other Postemployment Benefits (OPEB) Plan
Schedule of Changes in Total OPEB Liability and Related Ratios
(in Thousands)

	2019
Total OPEB liability	
Service cost	\$ 123,137
Interest	306,722
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	1,097,303
Benefit payments	<u>(241,849)</u>
Net change in total OPEB liability	1,285,313
Total OPEB liability - beginning	<u>7,459,382</u>
Total OPEB liability - ending	<u><u>\$ 8,744,695</u></u>
Covered employee payroll	\$ 1,890,553
Total OPEB liability as a percentage of covered employee payroll	462.5%

Notes to Schedule:

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2019	3.26%
2018	4.11%
2017	3.44%

In 2019, amounts reflect a 0.5-percentage-point decrease in the healthcare cost trend rates from the prior year and adjustments to assumptions regarding spousal coverage to better reflect actual plan experience.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

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

	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset)	0.0006829	0.0006814	0.0006985	0.0007035	0.0007223	0.0006764
Proportion share of the net pension liability (asset)	\$ 2,257,028	\$ 2,314,747	\$ 3,116,388	\$ 3,192,697	\$ 2,941,857	\$ 1,777,535
Covered employee payroll*	\$ 3,557,942	\$ 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	63.5%	66.8%	89.3%	93.2%	84.80%	53.70%
Plan fiduciary net position as a percentage of total pension liability	80.1%	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.

The data provided in the schedule is based on INPRS' fiscal year as of 6/30

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 331,386	\$ 327,498	\$ 629,851	\$ 623,278	\$ 521,352
Contributions in relation to the contractually required contribution	<u>398,489</u>	<u>389,421</u>	<u>388,131</u>	<u>377,607</u>	<u>385,666</u>
Contribution deficiency (excess)	(67,103)	(61,923)	(241,720)	(245,671)	(135,686)
Covered employee payroll	\$ 3,497,036	\$ 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%	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/>.