

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

EXAMINATION REPORT

OF

TOWN OF CHESTERTON

PORTER COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED

03/28/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report	3
Financial Information: Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information.....	5-8
Required Supplementary Information: Schedules of Funding Progress.....	9
Supplementary Information: Schedule of Capital Assets.....	10
Schedule of Long-Term Debt.....	11
Examination Result and Comment: Credit Cards.....	12
Exit Conference.....	13

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Gayle S. Polakowski	01-01-04 to 12-31-07
President of the Town Council	Sharon Darnell David Cincoski	01-01-06 to 12-31-06 01-01-07 to 12-31-07
President of the Utility Service Board	Lawrence Brandt	01-01-06 to 12-31-07
President of the Stormwater Management Board	Lawrence Brandt	01-01-06 to 12-31-07
Superintendent of Utilities	Steven M. Yagelski	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CHESTERTON, PORTER COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Chesterton (Town), for the period of January 1, 2006 to December 31, 2006. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedules of Funding Progress, Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 13, 2007

TOWN OF CHESTERTON
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 261,723	\$ 4,811,224	\$ 5,200,532	\$ (127,585)
Motor Vehicle Highway	7,068	888,800	822,035	73,833
Local Road and Street	82,662	130,132	149,935	62,859
Redevelopment TIF	471,293	209,415	83,305	597,403
CEDIT	463,311	1,300,903	1,260,885	503,329
Major Moves	-	1,309,810	-	1,309,810
Park Bond Proceeds	1,980,900	66,693	589,205	1,458,388
Park and Recreation	4,335	320,035	326,598	(2,228)
Park Nonreverting Operating	49,112	132,865	115,903	66,074
Park Nonreverting Land	916	-	-	916
Park Gift	54,577	9,726	9,179	55,124
Tree Gift	2,776	150	356	2,570
Police Continuing Education	5,287	9,386	6,432	8,241
Police Gift Fund	2,947	8,737	6,032	5,652
Debt Service GO 2002	4,558	103,777	117,899	(9,564)
Cumulative Capital Development	186,961	123,475	145,451	164,985
Cumulative Street and Sewer	380,462	37,761	2,014	416,209
Cumulative Capital Improvement	-	37,468	34,648	2,820
Grants	91,698	6,016	2,069	95,645
Fire Department Gift Fund	334	1,363	570	1,127
Proprietary Funds:				
Wastewater Utility - Operating	177,907	3,418,719	3,104,765	491,861
Wastewater Utility - Sinking	277,005	504,260	505,555	275,710
Wastewater Utility - Depreciation	235,520	57,400	218,689	74,231
Wastewater Utility - Plant Maintenance and Improvement	88,803	139,307	58,000	170,110
Wastewater Utility - Debt Reserve SRF	211,500	300,000	-	511,500
Wastewater Utility - Customer Deposits	69,005	23,920	21,148	71,777
Wastewater Utility - Dickenson Road Escrow	625,005	337,184	300,000	662,189
Wastewater Utility - Kat Escrow	500	5,000	3,205	2,295
Wastewater Utility - Bowen Escrow	228,937	2,509	231,446	-
Stormwater District - Project 2000	42,350	-	7,388	34,962
Stormwater District - Debt Service	215	430,461	411,888	18,788
Stormwater District - Debt Service Flood Control	785	81,945	109,984	(27,254)
Stormwater District - MS4	3,242	595,071	543,507	54,806
Health Insurance	104,563	1,632,031	1,712,103	24,491
Fiduciary Funds:				
Police Officers' Pension	453,760	45,724	65,775	433,709
Firefighters' Pension	284,754	19,155	19,582	284,327
Payroll	115,029	4,291,639	4,286,899	119,769
Totals	<u>\$ 6,969,800</u>	<u>\$ 21,392,061</u>	<u>\$ 20,472,982</u>	<u>\$ 7,888,879</u>

The accompanying notes are an integral part of the schedules.

TOWN OF CHESTERTON
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, stormwater, and urban development.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

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

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town 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.

TOWN OF CHESTERTON
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

1. Agent Multiple-Employer and Single Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

b. 1925 Police Officers' Pension Plan

Plan Description

The government contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

TOWN OF CHESTERTON
NOTES TO FINANCIAL INFORMATION
(Continued)

c. 1937 Firefighters' Pension Plan

Plan Description

The government contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

2. Cost Sharing Multiple Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the government are established by the Board of Trustees of PERF.

TOWN OF CHESTERTON
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 7. Subsequent Event

The Town did not receive the final 2005 payable December 2006 property tax distribution. This resulted in a negative cash balance in the following funds:

General Fund	\$127,585
Park and Recreation	2,228
Debt Service GO 2002	9,564
Stormwater District – Debt Service Flood Control	27,254

On January 2, 2007, the Chesterton Utility Service Board approved Resolution 2007-01 authorizing a temporary loan of \$300,000 to the Town in anticipation of receiving the December 2006 taxes.

TOWN OF CHESTERTON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

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)
07-01-03	\$ 1,285,878	\$ 1,287,355	\$ (1,477)	100%	\$ 1,442,643	(0%)
07-01-04	1,323,058	1,414,345	(91,287)	94%	1,695,027	(5%)
07-01-05	1,401,738	1,877,436	(475,698)	75%	2,002,793	(24%)

1925 Police Officers' Pension 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)
01-01-00	\$ 331,078	\$ 1,990,700	\$ (1,659,622)	17%	\$ 100,300	(1,655%)
01-01-01	418,410	2,065,100	(1,646,690)	20%	103,300	(1,594%)
01-01-02	454,833	2,141,000	(1,686,167)	21%	106,300	(1,586%)
01-01-03	498,432	2,136,100	(1,637,668)	23%	106,300	(1,541%)
01-01-04	488,691	2,380,300	(1,891,609)	21%	115,500	(1,638%)
01-01-05	471,113	2,345,900	(1,874,787)	20%	118,300	(1,585%)

1937 Firefighters' Pension 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)
01-01-00	\$ 245,443	\$ 1,170,700	\$ (925,257)	21%	\$ 67,800	(1,365%)
01-01-01	254,442	1,204,500	(950,058)	21%	69,800	(1,361%)
01-01-02	264,452	1,237,700	(973,248)	21%	71,800	(1,355%)
01-01-03	281,108	1,756,500	(1,475,392)	16%	71,800	(2,055%)
01-01-04	284,476	1,831,700	(1,547,224)	16%	74,000	(2,091%)
01-01-05	284,989	1,825,000	(1,540,011)	16%	75,800	(2,032%)

TOWN OF CHESTERTON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2006

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.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>12-31-06 Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 1,208,553
Infrastructure	18,558,570
Buildings	2,277,293
Vehicles	3,123,281
Machinery and equipment	<u>732,301</u>
 Total governmental activities, capital assets not being depreciated	 <u><u>\$ 25,899,998</u></u>
 Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 88,168
Construction in progress	27,318
Buildings	13,192,297
Improvements other than buildings	2,631,560
Lift Stations	2,241,544
Sewer Lines	9,311,043
Machinery and equipment	242,849
Transportation equipment	<u>445,598</u>
 Total Wastewater Utility capital assets	 <u><u>28,180,377</u></u>
 Stormwater District:	
Capital assets, not being depreciated:	
Storm drainage system	<u>11,344,166</u>
 Total business-type activities capital assets	 <u><u>\$ 39,524,543</u></u>

TOWN OF CHESTERTON
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
2006 dump truck	\$ 73,025	\$ 18,256
2005 dump truck	41,675	20,837
Loader	88,643	22,161
Bonds payable:		
General obligation bonds:		
2001 Street paving and sidewalk construction	661,146	114,389
2005 Park district improvements	<u>2,408,355</u>	<u>167,770</u>
Total governmental activities long-term debt	<u>\$ 3,272,844</u>	<u>\$ 343,413</u>
Business-type Activities:		
Wastewater Utility:		
Notes and loans payable:		
State revolving fund loan payable	\$ 4,813,875	\$ 507,198
Commercial loan	<u>527,285</u>	<u>28,761</u>
Total Wastewater Utility	<u>5,341,160</u>	<u>535,959</u>
Stormwater District:		
General obligation bonds:		
1998 refunding bonds	2,466,127	408,387
2000 drainage improvement	<u>495,888</u>	<u>97,738</u>
Total Stormwater District	<u>2,962,015</u>	<u>506,125</u>
Total business-type activities long-term debt	<u>\$ 8,303,175</u>	<u>\$ 1,042,084</u>

TOWN OF CHESTERTON
EXAMINATION RESULT AND COMMENT

CREDIT CARDS

Seven out of 11 or 64% of the credit card payments observed did not contain adequate supporting documentation. Payments for meals were made on the basis of a credit card statement only without the presentation of the original itemized receipts.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF CHESTERTON
EXIT CONFERENCE

The contents of this report were discussed on February 13, 2007, with Gayle S. Polakowski, Clerk-Treasurer; David Cincoski, President of the Town Council; Steven M. Yagelski, Utility Superintendent; John Schnadenberg, Street Commissioner; and Joanne Lewis, Clerk. The officials concurred with our finding.