

B30183

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

ANNUAL FINANCIAL REPORT

2006

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA



FILED
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TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	3
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	4-5
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	6-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	8
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds.....	9
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	10
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds	11
Notes to Financial Statements	12-28
Required Supplementary Information:	
Schedules of Funding Progress.....	29
Schedules of Contributions From the Employer and Other Contributing Entities	30
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds – Nonmajor Funds by Fund Type	31
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds – Special Revenue Funds.....	32-35
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds – Debt Service Funds	36
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds – Capital Project Funds	37
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Internal Service Funds	38
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Pension Trust Funds.....	39
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Agency Funds.....	40
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Discrete Component Unit	41
Schedule of Capital Assets.....	42
Schedule of Long-Term Debt.....	43
Other Reports.....	44

TABLE OF CONTENTS
(Continued)

<u>Description</u>	<u>Page</u>
Audit Results and Comments:	
Negative Cash Balances	45
Payroll Bank Account.....	45
Separate Bank Accounts	46
Fund Activity on Excel Spreadsheets	46
Approval of Computerized Forms	46-47
Computerized Receipts and Controls	47-48
Appropriations.....	48
Council Meal Per Diem	48
Credit Card Payment Documentation	49
Form 100R Incomplete	49
Employee's Service Record Deficiencies	50
Overpayment of Contract.....	50
Contractual Employees – City Provided Health Insurance	50
Redevelopment District Tax Increment Revenue Bonds of 1999, Series A	51
Internal Controls – Building Department.....	51
Police Pension Fund	52
Redevelopment Department General Ledger	52
Coroner's Continuing Education Fees	53
Receipt Issuance – Animal Control.....	53
Animal Control Fees	53
Crime Policy – Employee Dishonesty	54
Traffic School – City Court.....	54-55
Restitution – City Court.....	55-56
Payments According to Contract – Port Authority	56
Ineffective Internal Controls – Utilities	56-58
Utility Receipts Tax	58-59
Accrual Records – Utilities.....	59
Customer Deposit Refunds.....	59
Late Fees or Penalties – Utilities	60
Deposits Not Intact – Utilities	60
Sewer Rates Billed	60
Billing Adjustments	61
Delinquent Accounts.....	61-62
Cash Overage and Shortage Policy – Utilities	62
Bad Debts and Allowance for Doubtful Accounts	62
Controls over Cash Change	62
Lease Rental.....	63
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	66-67
Schedule of Expenditures of Federal Awards.....	68-69
Notes to Schedule of Expenditures of Federal Awards	70
Schedule of Findings and Questioned Costs.....	71-75
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	76
Corrective Action Plan.....	77-80
Exit Conference.....	81
Official Response	82-87

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Charles Pacurar	01-01-06 to 12-31-07
Mayor	George Pabey	12-29-04 to 12-31-07
President of the Board of Public Works	Charles Pacurar	01-01-06 to 12-31-07
President of the Common Council	Richard Medina	01-01-06 to 12-31-07
Utilities Director	Adolfo Velez	01-01-06 to 12-31-07
Superintendent of Water Utility	Frank Ramirez Maria Dedinsky (Interim)	01-01-06 to 12-31-06 01-01-07 to 12-31-07
Director of Solid Waste Operations	Lidia Corsbie	01-01-06 to 12-31-07
Director of Wastewater Operations	Peter Branyia	01-01-06 to 12-31-07
Director of the Port Authority	Richard Novak	01-01-06 to 12-31-07



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Chicago (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The computerized accounting system used by the City posts receipts through batch reports. The batch reports, as well as the receipts, are numbered by the computerized accounting system in sequential order. Not all batch reports and receipts could be accounted for by the City. In addition, controls over the receipting, disbursing, recording and accounting for the financial activities for the Water Utility and Sanitary District were determined to be ineffective.

In our opinion, except for the effects, if any, described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated June 21, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress, and Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

June 21, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

We have audited the financial statements of the City of East Chicago (City), as of and for the year ended December 31, 2006, and have issued our report thereon dated June 21, 2007. The opinion to the financial statements was qualified due to the lack of accountability over receipts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that were discussed with management of the City on June 21, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider items 2006-1 and 2006-2 to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the City on June 21, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 21, 2007

CITY OF EAST CHICAGO
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Port Authority
Primary government:								
Governmental activities:								
General government	\$ 32,749,890	\$ 488,638	\$ 1,161,501	\$ 115,799	\$ (30,983,952)	\$ -	\$ (30,983,952)	\$ -
Public safety	22,063,279	85,122	133,390	7,748	(21,837,019)	-	(21,837,019)	-
Highways and streets	1,912,188	-	1,240,048	1,312,604	640,464	-	640,464	-
Sanitation	349,469	-	-	-	(349,469)	-	(349,469)	-
Health and welfare	3,084,175	59,215	403,039	-	(2,621,921)	-	(2,621,921)	-
Economic development	4,366,386	-	1,719,708	-	(2,646,678)	-	(2,646,678)	-
Culture and recreation	4,861,787	510,634	57,012	-	(4,294,141)	-	(4,294,141)	-
Urban redevelopment and housing	1,928,345	-	839,291	-	(1,089,054)	-	(1,089,054)	-
Principal and interest on long-term debt	41,765,574	-	-	-	(41,765,574)	-	(41,765,574)	-
Total governmental activities	113,081,093	1,143,609	5,553,989	1,436,151	(104,947,344)	-	(104,947,344)	-
Business-type activities:								
Water	4,470,538	4,529,961	-	-	-	59,423	59,423	-
Sanitary District	17,045,632	4,317,496	290,625	13,683	-	(12,423,828)	(12,423,828)	-
Total business-type activities	21,516,170	8,847,457	290,625	13,683	-	(12,364,405)	(12,364,405)	-
Total primary government	\$ 134,597,263	\$ 9,991,066	\$ 5,844,614	\$ 1,449,834	(104,947,344)	(12,364,405)	(117,311,749)	-
Component unit:								
Port Authority	\$ 1,627,022	\$ 1,499,470	\$ 111,240	\$ -	-	-	-	(16,312)
General receipts:								
Property taxes					46,822,055	11,295,042	58,117,097	-
Gaming taxes					22,189,780	-	22,189,780	-
Other local sources					783,308	122,698	906,006	-
Loan proceeds					26,000,000	16,600,000	42,600,000	-
Grants and contributions not restricted to specific programs					356,854	-	356,854	-
Unrestricted investment earnings					1,021,032	486,979	1,508,011	-
Transfers					279,668	(279,668)	-	-
Total general receipts and transfers					97,452,697	28,225,051	125,677,748	-
Change in net assets					(7,494,647)	15,860,646	8,365,999	(16,312)
Net assets - beginning					14,784,236	7,646,787	22,431,023	159,687
Net assets - ending					\$ 7,289,589	\$ 23,507,433	\$ 30,797,022	\$ 143,375
Assets								
Cash and investments					\$ 1,805,935	\$ 917,584	\$ 2,723,519	\$ 143,375
Restricted assets:								
Cash and cash investments					5,483,654	22,589,849	28,073,503	-
Total assets					\$ 7,289,589	\$ 23,507,433	\$ 30,797,022	\$ 143,375
Net Assets								
Restricted for:								
Debt service					\$ 411,162	\$ 752,447	\$ 1,163,609	\$ -
Capital projects					1,604,838	-	1,604,838	-
Other purposes					3,467,654	21,837,402	25,305,056	-
Unrestricted					1,805,935	917,584	2,723,519	143,375
Total net assets					\$ 7,289,589	\$ 23,507,433	\$ 30,797,022	\$ 143,375

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

	General	Gaming Special Revenue	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 38,991,526	\$ -	\$ 7,830,529	\$ 46,822,055
Licenses and permits	193,757	-	4,040	197,797
Intergovernmental	831,338	22,189,780	5,770,223	28,791,341
Charges for services	174,194	-	637,486	811,680
Fines and forfeits	93,880	-	-	93,880
Other	<u>1,053,888</u>	<u>39,644</u>	<u>1,474,886</u>	<u>2,568,418</u>
Total receipts	<u>41,338,583</u>	<u>22,229,424</u>	<u>15,717,164</u>	<u>79,285,171</u>
Disbursements:				
General government	13,911,396	14,598,837	2,021,266	30,531,499
Public safety	19,764,168	2,056,645	242,466	22,063,279
Highways and streets	-	334,365	1,577,823	1,912,188
Sanitation	-	69,801	279,668	349,469
Health and welfare	2,644,497	-	439,678	3,084,175
Economic development	-	3,509,610	856,776	4,366,386
Culture and recreation	-	1,627,095	3,234,692	4,861,787
Urban redevelopment and housing	-	46,000	1,882,345	1,928,345
Debt service:				
Principal	14,897	796,587	2,029,221	2,840,705
Interest and fiscal charges	4,662	26,246	1,693,961	1,724,869
Capital outlay	<u>-</u>	<u>-</u>	<u>26,037</u>	<u>26,037</u>
Total disbursements	<u>36,339,620</u>	<u>23,065,186</u>	<u>14,283,933</u>	<u>73,688,739</u>
Excess (deficiency) of receipts over (under) disbursements	<u>4,998,963</u>	<u>(835,762)</u>	<u>1,433,231</u>	<u>5,596,432</u>
Other financing sources (uses)				
Tax anticipation warrants received	24,500,000	-	1,500,000	26,000,000
Tax anticipation warrants repaid	(34,500,000)	-	(2,700,000)	(37,200,000)
Transfers in	6,209,381	-	1,742,534	7,951,915
Transfers out	<u>-</u>	<u>(7,158,086)</u>	<u>(514,161)</u>	<u>(7,672,247)</u>
Total other financing sources (uses)	<u>(3,790,619)</u>	<u>(7,158,086)</u>	<u>28,373</u>	<u>(10,920,332)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>1,208,344</u>	<u>(7,993,848)</u>	<u>1,461,604</u>	<u>(5,323,900)</u>
Cash and investment fund balance - beginning	<u>(4,157,511)</u>	<u>16,396,373</u>	<u>2,911,915</u>	<u>15,150,777</u>
Cash and investment fund balance - ending	<u>\$ (2,949,167)</u>	<u>\$ 8,402,525</u>	<u>\$ 4,373,519</u>	<u>9,826,877</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.				<u>(2,537,288)</u>
Net assets of governmental activities				<u>\$ 7,289,589</u>
Cash and Investment Assets - December 31				
Cash and investments	\$ (2,949,167)	\$ 8,402,525	\$ (1,110,135)	\$ 4,343,223
Restricted assets:				
Cash and investments	<u>-</u>	<u>-</u>	<u>5,483,654</u>	<u>5,483,654</u>
Total cash and investment assets - December 31	<u>\$ (2,949,167)</u>	<u>\$ 8,402,525</u>	<u>\$ 4,373,519</u>	<u>\$ 9,826,877</u>
Cash and Investment Fund Balance - December 31				
Restricted for:				
Debt service	\$ -	\$ -	\$ 411,162	\$ 411,162
Capital outlay	-	-	1,604,838	1,604,838
Other purposes	-	-	3,467,654	3,467,654
Unrestricted	<u>(2,949,167)</u>	<u>8,402,525</u>	<u>(1,110,135)</u>	<u>4,343,223</u>
Total cash and investment fund balance - December 31	<u>\$ (2,949,167)</u>	<u>\$ 8,402,525</u>	<u>\$ 4,373,519</u>	<u>\$ 9,826,877</u>

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2006

	Water Utility	Sanitary District	Total	Internal Service Funds
Operating receipts:				
Residential sales	\$ 1,190,841	\$ 1,299,279	\$ 2,490,120	\$ -
Commercial sales	355,275	617,307	972,582	-
Industrial sales	1,848,507	904,572	2,753,079	-
Public sales	397,680	1,466,849	1,864,529	-
Local tax distributions	-	11,295,042	11,295,042	-
Fire protection	275,808	-	275,808	-
Charges for services - internal	-	-	-	10,678,922
Charges for services - other	-	-	-	147,050
Other	461,850	333,797	795,647	2,657
	<u>4,529,961</u>	<u>15,916,846</u>	<u>20,446,807</u>	<u>10,828,629</u>
Total operating receipts				
Operating disbursements:				
Municipal waste disposal	-	1,961,387	1,961,387	-
Sanitary building maintenance	-	1,384,252	1,384,252	-
Trash and bulk collection	-	1,241,386	1,241,386	-
Street sweeping	-	257,129	257,129	-
Garbage collection	-	1,388,486	1,388,486	-
Sewer repair and service	-	1,234,704	1,234,704	-
Pump stations	-	20,627	20,627	-
Recycling	-	669,441	669,441	-
Officers and employees salaries and wages	1,744,849	2,284,057	4,028,906	-
Employee pensions and benefits	593,856	710,196	1,304,052	-
Sludge removal	-	208,311	208,311	-
Purchased power	365,611	965,596	1,331,207	-
Chemicals	167,650	56,280	223,930	-
Materials and supplies	160,935	488,641	649,576	-
Contractual services	337,213	1,117,774	1,454,987	-
Rents	24,261	34,288	58,549	-
Transportation	1,324	122,924	124,248	-
Miscellaneous expenses	126,521	396,163	522,684	-
Plant equipment	95,878	486,853	582,731	-
Structures and improvements	471,167	-	471,167	-
Refunds	984	-	984	-
Other disbursements	124,043	265,537	389,580	-
Administration and general	-	713,759	713,759	181,661
Cost of sales and services	-	-	-	1,999,713
Insurance claims and premiums	-	-	-	10,839,609
	<u>4,214,292</u>	<u>16,007,791</u>	<u>20,222,083</u>	<u>13,020,983</u>
Total operating disbursements				
Excess (deficiency) of receipts over (under) disbursements	<u>315,669</u>	<u>(90,945)</u>	<u>224,724</u>	<u>(2,192,354)</u>
Nonoperating receipts (disbursements):				
Interest and investment receipts	486,979	-	486,979	21,607
Debt service of principal	(80,000)	(770,000)	(850,000)	-
Debt service of interest and fiscal charges	(176,246)	(267,841)	(444,087)	-
Loan proceeds	16,600,000	-	16,600,000	-
Miscellaneous receipts	25,744	96,954	122,698	-
	<u>16,856,477</u>	<u>(940,887)</u>	<u>15,915,590</u>	<u>21,607</u>
Total nonoperating receipts (disbursements)				
Excess (deficiency) of receipts over (under) disbursements and nonoperating receipts (disbursements)	17,172,146	(1,031,832)	16,140,314	(2,170,747)
Transfers out	-	(279,668)	(279,668)	-
Excess (deficiency) of receipts over (under) disbursements and transfers out	17,172,146	(1,311,500)	15,860,646	(2,170,747)
Cash and investment fund balance - beginning	<u>989,854</u>	<u>6,656,933</u>	<u>7,646,787</u>	<u>(366,541)</u>
Cash and investment fund balance - ending	<u>\$ 18,162,000</u>	<u>\$ 5,345,433</u>	<u>\$ 23,507,433</u>	<u>\$ (2,537,288)</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ (220,743)	\$ 1,138,327	\$ 917,584	\$ (2,537,288)
Restricted assets:				
Cash and investments	<u>18,382,743</u>	<u>4,207,106</u>	<u>22,589,849</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 18,162,000</u>	<u>\$ 5,345,433</u>	<u>\$ 23,507,433</u>	<u>\$ (2,537,288)</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 700,675	\$ 51,772	\$ 752,447	\$ -
Other purposes	17,682,068	4,155,334	21,837,402	-
Unrestricted	<u>(220,743)</u>	<u>1,138,327</u>	<u>917,584</u>	<u>(2,537,288)</u>
Total cash and investment fund balance - December 31	<u>\$ 18,162,000</u>	<u>\$ 5,345,433</u>	<u>\$ 23,507,433</u>	<u>\$ (2,537,288)</u>

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

CITY OF EAST CHICAGO
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2006

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 4,885,491	\$ -
State	4,081,665	-
Plan members	<u>2,133</u>	<u>-</u>
Total contributions	<u>8,969,289</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>27,459,707</u>
Total additions	<u>8,969,289</u>	<u>27,459,707</u>
Deductions:		
Benefits	7,818,019	-
Administrative and general	27,253	-
Circuit breaker payment	47,860	-
Agency fund deductions	<u>-</u>	<u>26,842,731</u>
Total deductions	<u>7,893,132</u>	<u>26,842,731</u>
Excess of total additions over total deductions	<u>1,076,157</u>	<u>616,976</u>
Other financing sources (uses)		
Tax anticipation warrants received	2,800,000	-
Tax anticipation warrants repaid	<u>(3,861,395)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,061,395)</u>	<u>-</u>
Excess of additions and other financing sources over disbursements and other financing uses	14,762	616,976
Cash and investments - beginning	<u>(287,529)</u>	<u>1,543,545</u>
Cash and investments - ending	<u>\$ (272,767)</u>	<u>\$ 2,160,521</u>

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

Primary Government:	City of East Chicago
Discretely Presented Component Unit:	East Chicago Port Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>
East Chicago Port Authority	The East Chicago Port Authority is a significant discretely presented component unit of the City. The primary government appoints a voting majority of the East Chicago Port Authority's board and a financial benefit/burden relationship exists between the City and the East Chicago Port Authority.

Joint Venture

The City is a participant with several other governmental entities in Lake, Porter and LaPorte Counties in a joint venture to operate the Northwestern Indiana Regional Planning Commission (NIRPC) which was created as a multipurpose area wide planning agency. NIRPC assists with planning economic development, transportation, environmental protection, and comprehensive planning. NIRPC enabling legislation, Indiana Code 36-7-7, provides that participating counties must provide an annual appropriation at a minimum level of \$0.30 per capita. NIRPC applies for federal transportation grant funds, which are passed on to the City. Complete financial statements for NIRPC can be obtained from the Northwestern Indiana Regional Planning Commission office at 6100 Southport Road, Portage, IN 46368.

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City appoints the board members of the East Chicago Waterway Management District, the East Chicago Housing Authority, and the School City of East Chicago.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The gaming special revenue fund is special revenue fund. It accounts for all financial resources received from the State of Indiana as gambling admissions and resources received directly from the gambling boat based upon an agreement between the government and the gambling boat. The resources, which are locally appropriated, may be used for debt retirement, infrastructure and improvements, economic development, and general government.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The sanitary district fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

Additionally, the City reports the following fund types:

The internal service funds account for government services cooperative, telephone communication and data processing system, employees medical, life, and workman's compensation insurance, gasoline usage, and utilities administration costs provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for federal, state, and other local governmental entities, as well as some private entities.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Water Utility and the Sanitary District. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2006, disbursements exceeded budgeted appropriations in the following fund by the amount below:

Fund	2006
Parks and Recreation	<u>\$ 221,931</u>

These disbursements were funded by tax anticipation warrant proceeds and excess cash balances of other funds.

C. Cash and Investment Balance Deficits

At December 31, 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2006
General Fund	\$ 2,949,167
Special revenue funds:	
Parks and Recreation	985,919
Public Transportation	1,454
State Grants	77,840
Summer Youth Training Program	321,768
Internal service funds:	
Communication Revolving	104,047
Health, Life and Workers Compensation	2,375,793
Gasoline Revolving	57,448
Pension trust fund:	
1925 Police Pension	410,823
Agency fund:	
Northwest Indiana Health Department Cooperative	87,835

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements, and the delay by Lake County in billing, collecting, and distributing property taxes; these deficits are to be repaid from future receipts.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The 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.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the City had the following investments:

Investment Type	Market Value
U.S. Treasuries and securities	\$ 17,278,498
Repurchase agreements	<u>12,887,607</u>
Total	<u>\$ 30,166,105</u>

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

Investment Type	Investment Maturities (in Years)	
	Less Than 1	1-2
U.S. Treasuries and securities	\$ 700,675	\$ 16,577,823
Repurchase agreements	12,887,607	-
Totals	\$ 13,588,282	\$ 16,577,823

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investments are primarily in U.S. Treasuries and Securities. The sweep account is invested in repurchase agreements that can be invested in U. S. Treasuries and Securities, federal agency securities, municipal securities, investment grade corporate bonds, and trust preferred securities. The credit rating is not available for the repurchase agreement.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, were as follows:

Transfer From	Transfer To	2006
Gaming Special Revenue	General Fund	\$ 6,209,381
	Other governmental	948,705
Other governmental	Other governmental	514,161
Sanitary District	Other governmental	279,668
Total		\$ 7,951,915

The City typically uses transfers for cash flow purposes as provided by various statutory provisions, and to transfer a portion of state-shared gaming revenues to fund ongoing operating subsidies and debt service requirements.

IV. Other Information

A. Risk Management

The City 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; and natural disaster 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.

Job Related Illnesses or Injuries to Employees; Medical Benefits to Employees, Retirees, and Dependents (excluding postemployment benefits)

The City has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees and medical benefits to employees, retirees, and dependents (excluding post-employment benefits). The risk financing fund is accounted for in the Health, Life, and Workman's Compensation Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$175,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Construction Commitments

Construction work in progress is composed of two projects, the Tod Park Renovation Project and the Water Filtration Plant. The Tod Park renovation will include basketball courts, playgrounds, a new pavilion, soccer fields, softball fields, lighting, and fencing and is funded with gaming revenue. The Water Filtration Plant is a new filtration plant and is funded with a \$16,600,000 State Revolving fund loan and the future issuance of \$34,700,000 Special Taxing District Bonds.

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2006</u>	<u>Required Future Funding</u>
Tod Park renovation project	\$ 2,578,163	\$ 1,607,162	\$ 971,001
Water Filtration Plant	<u>51,300,000</u>	<u>471,167</u>	<u>50,828,833</u>
Totals	<u>\$ 53,878,163</u>	<u>\$ 2,078,329</u>	<u>\$ 51,799,834</u>

C. Holding Corporation

The City has entered into a capital lease with the City of East Chicago Municipal Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$2,312,500.

D. Subsequent Events

Special Taxing District Bonds

The City approved Ordinance No. 06-0053 on January 9, 2007, to irrevocably pledge a maximum of \$3,000,000 annually of Gaming revenue for the payment of debt service requirements for the Special Taxing District Bonds. The Special Taxing District Bonds will be issued at an amount not to exceed \$34,700,000 to fund the construction of the new Water Filtration Plant. These bonds will be paid using Gaming revenue, unless such revenue is insufficient for that purpose. If Gaming revenue is insufficient, the Water Department would cause a levy of a special benefit tax upon all property of the waterworks district in the amount necessary to meet and pay the principal and interest of the Special Taxing District Bonds as they mature.

The Special Taxing District Bond proceeds will be used, in addition to the State Revolving Fund loan proceeds in the amount of \$16,600,000, to finance the new Water Filtration Plant. The estimated cost of the Water Filtration Plant is estimated at \$51,300,000.

Property Taxes

Property tax rates and levies for 2006 taxes payable in 2007 were not established by February 15, as required by state statute due to the delay in the completion of the reassessment of Lake County. Currently, tax bills have not been mailed for the spring installment, normally due May 10.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Contingent Liabilities

The lawsuit, State ex rel. Carter, et al v. Pastrick, et al, was filed by the State of Indiana in the federal court of the Northern District of Indiana, South Bend Division, in an effort to recoup millions of public dollars the City of East Chicago officials used to pay for concrete work on private property. The lawsuit arises from civil federal and state Racketeer Influenced and Corrupt Organization (RICO) charges. The lawsuit maintains that public officials and contractors corrupted East Chicago City government as an enterprise for personal gain. Charges have been filed against 27 individuals and contractors, including former East Chicago Mayor, Robert Pastrick, in an effort to repay \$3.1 million to the City of East Chicago.

The City is named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages cannot be determined. The City has been ordered to pay approximately \$850,000 in back vacation wages to firemen. In addition, the City's liability for attorney fees in multiple cases is \$1,792,317 at December 31, 2006.

F. Property Taxes

Property tax rates and levies for 2004 taxes payable in 2005, and 2005 taxes payable in 2006, were not established by February 15, as required by state statute due to the delay in the completion of the reassessment of Lake County. The final settlement of the 2004 taxes payable in 2005, was distributed to the City on March 31, 2006.

The 2005 payable 2006 property tax bills were mailed on August 1, 2006, with the spring distribution to the City on October 13, 2006. The City received an advance of the fall installment on December 29, 2006. Final distribution of the 2005 taxes payable 2006 was distributed on January 4, 2007.

On September 28, 2006, the City passed Ordinance 06-0042 for property tax relief. The ordinance allows homeowners in the City of East Chicago with homestead exemptions to receive a reduction on their property tax bills for 2005 payable 2006. The credit was for 50% of their tax bill, up to a maximum of \$500. The City approved \$2,200,000 of Gaming revenue to fund the property tax relief credits.

Additionally, the City is making payments on the State's Circuit Breaker Program. The Circuit Breaker Program reduced homeowner's 2002 property tax bills if the reassessed taxes exceeded 2% of the gross assessed value of the property. The City started repayment of the five year Circuit Breaker loan in 2005 with Gaming revenue. In 2006, the City paid \$217,640 in principal and \$26,246 in interest on the loan.

G. Gaming Tax Distribution Reduction

Indiana Code 6-3.1-20-7 requires the Auditor of State's Office to deduct from the Supplemental Riverboat Admissions Tax Distributions to the City one-sixth of one-third of the total income tax credits given to Lake County income taxpayers under Indiana Code 6-3.1-20-7 for the years 2001 through 2003. Credits reported in those years were not being deducted. In 2006, \$1,077,742 was deducted for repayment of these credits. In 2007, the deduction will also be \$1,077,742.

H. Conduit Debt Obligation

From time to time, the City has issued Pollution Control, Solid Waste Disposal, and Economic Development Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying notes to the financial statements.

As of December 31, 2006, there were eleven series of Pollution Control, Solid Waste Disposal, and Economic Development Revenue Bonds outstanding. The aggregate principal amount payable for the eleven series could not be determined; however, their original issue amounts totaled \$141,376,000.

I. Postemployment Benefits

Police and Firefighters

In addition to the pension benefits described below, the City provides postemployment health care benefits, as authorized by Indiana Code 5-10-8, to all police and firefighters who retire from the City on or after attaining age requirements and years of service set forth in the various union agreements. Currently, 152 retirees meet these eligibility requirements. The retirees under age 65, pay \$100 and \$200 per month for single and family coverage, respectively. The retirees over age 65, pay \$75 and \$150 per month for single and family coverage, respectively. Disbursements for the City's portion of those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, disbursements of \$800,064 for insurance premiums were recognized for postemployment benefits.

City Employees

In addition to the pension benefits described below, the City provides postemployment health care benefits, as authorized by Indiana Code 5-10-8, to all employees, except Teamster Union Members, who retire from the City on or after attaining age 50 with at least 15 years of service. Currently, 77 retirees meet these eligibility requirements. The retirees pay anywhere from \$69.22 to \$200 per month for single and family coverage. Disbursements for the City's share of those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, disbursements of \$430,870 for insurance premiums were recognized for postemployment benefits.

J. Loans Receivable – Indiana Department of Commerce

The City redevelopment and economic development departments loan money to local businesses and individuals. The funding for these loans comes from grants from the U.S. Department of Housing and Urban Development and the U.S. Department of Commerce. The loans are accounted for in the Community Development, SSED Revolving Loan, and the East Chicago, Gary, Hammond Revolving Loan Consortium Special Revenue Funds.

At December 31, 2006, outstanding loans were as follows:

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Balance Receivable
Special revenue funds:	
Community Development	\$ 2,300,955
SSED Revolving Loan	33,537
East Chicago, Gary, Hammond Revolving Loan Consortium	105,056
Total loans receivable	\$ 2,439,548

K. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on November 8, 2006.

Wastewater Utility

The current rate structure was approved by the Board of Sanitary District Commissioners on February 27, 1997.

L. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City 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. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City 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. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF City, Sanitary District and Port Authority	PERF Water Utility	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 1,110,701	\$ 81,884	\$ 4,035,300	\$ 3,024,500
Interest on net pension obligation	(42,795)	(8,047)	1,443,100	934,700
Adjustment to annual required contribution	48,768	9,171	(1,573,200)	(1,018,900)
Annual pension cost	1,116,674	83,008	3,905,200	2,940,300
Contributions made	1,015,571	117,463	4,262,925	3,397,285
Increase (decrease) in net pension obligation	101,103	(34,455)	(357,725)	(456,985)
Net pension obligation, beginning of year	(590,272)	(110,998)	21,379,973	13,847,046
Net pension obligation, end of year	<u>\$ (489,169)</u>	<u>\$ (145,453)</u>	<u>\$ 21,022,248</u>	<u>\$ 13,390,061</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5%	1,482%	1,666%
Water Utility	7.25%	N/A	N/A
Plan members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-05	01-01-05
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-06	01-01-06
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

N/A = Not available

Actuarial Assumptions

Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

*2.75% converted members; 4% nonconverted members

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF (City and Sanitary District)	06-30-04	\$ 751,719	132%	\$ (663,109)
	06-30-05	1,101,908	93%	(590,272)
	06-30-06	1,116,674	92%	(489,169)
PERF (Water Utility)	06-30-04	93,711	139%	(84,253)
	06-30-05	105,454	125%	(110,998)
	06-30-06	83,008	111%	(145,453)
1925 Police Officers' Pension Plan	12-31-03	5,928,700	39%	17,117,835
	12-31-04	5,931,400	39%	21,379,973
	12-31-05	3,905,200	109%	21,022,248
1937 Firefighters' Pension Plan	12-31-03	4,643,600	66%	11,115,702
	12-31-04	4,579,900	40%	13,847,046
	12-31-05	2,940,300	116%	13,390,061

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	162	120
Current active employees	-	2

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 City 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 City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$1,852,430, \$1,811,539, and \$1,742,274, respectively, equal to the required contributions for each year.

CITY OF EAST CHICAGO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund (City, Sanitary District, and Port Authority)

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)
07-01-04	\$ 18,718,661	\$ 20,410,796	\$ (1,692,135)	92%	\$ 21,852,904	(8%)
07-01-05	19,537,719	21,672,115	(2,134,396)	90%	20,299,090	(11%)
07-01-06	20,108,983	22,303,865	(2,194,882)	90%	21,652,291	(10%)

Public Employees' Retirement Fund (Water Utility)

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)
07-01-04	\$ 1,382,916	\$ 1,847,072	\$ (464,156)	75%	\$ 1,569,992	(30%)
07-01-05	1,490,299	1,650,335	(160,036)	90%	1,574,850	(10%)
07-01-06	1,453,280	1,960,001	(506,721)	74%	1,657,806	(31%)

1925 Police 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)
01-01-01	\$ 200,336	\$ 60,204,000	\$ (60,003,664)	0%	\$ 495,400	(12,112%)
01-01-02	3,524,214	59,087,100	(55,562,886)	6%	480,200	(11,571%)
01-01-03	3,314,661	57,321,400	(54,006,739)	6%	672,300	(8,033%)
01-01-04	(143,499)	58,601,300	(58,744,799)	(0%)	524,100	(11,209%)
01-01-05	(920,540)	56,107,700	(57,028,240)	(2%)	408,300	(13,967%)
01-01-06	(213,956)	55,579,000	(55,792,956)	(0%)	272,200	(20,497%)

1937 Fire 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)
01-01-01	\$ 336,382	\$ 43,131,800	\$ (42,795,418)	1%	\$ 381,100	(11,229%)
01-01-02	2,754,924	44,694,300	(41,939,376)	6%	280,100	(14,973%)
01-01-03	2,671,516	43,253,700	(40,582,184)	6%	462,300	(8,778%)
01-01-04	(259,778)	44,531,100	(44,790,878)	(1%)	218,400	(20,509%)
01-01-05	(801,631)	42,794,200	(43,595,831)	(2%)	181,500	(24,020%)
01-01-06	(73,573)	41,973,800	(42,047,373)	(0%)	181,500	(23,167%)

CITY OF EAST CHICAGO
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-00	\$ 6,299,500	35%	33%
	12-31-01	6,180,600	28%	62%
	12-31-02	6,287,500	19%	38%
	12-31-03	6,568,600	2%	33%
	12-31-04	6,827,700	2%	31%
	12-31-05	4,035,300	56%	50%
1937 Firefighters' Pension Plan	12-31-00	4,537,200	41%	36%
	12-31-01	4,422,100	30%	67%
	12-31-02	4,731,400	21%	40%
	12-31-03	5,032,500	7%	35%
	12-31-04	5,140,400	1%	34%
	12-31-05	3,024,500	58%	55%

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - NONMAJOR FUNDS BY FUND TYPE
 For The Year Ended December 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Funds
Receipts:				
Taxes	\$ 4,698,773	\$ 3,023,925	\$ 107,831	\$ 7,830,529
Licenses and permits	4,040	-	-	4,040
Intergovernmental	4,836,711	44,628	888,884	5,770,223
Charges for services	637,486	-	-	637,486
Other	1,466,188	-	8,698	1,474,886
	<u>11,643,198</u>	<u>3,068,553</u>	<u>1,005,413</u>	<u>15,717,164</u>
Disbursements:				
General government	2,021,266	-	-	2,021,266
Public safety	242,466	-	-	242,466
Highways and streets	1,577,823	-	-	1,577,823
Sanitation	279,668	-	-	279,668
Health and welfare	439,678	-	-	439,678
Economic development	856,776	-	-	856,776
Culture and recreation	3,234,692	-	-	3,234,692
Urban redevelopment and housing	1,882,345	-	-	1,882,345
Debt service:				
Principal	685,964	1,343,257	-	2,029,221
Interest and fiscal charges	63,504	1,630,457	-	1,693,961
Capital outlay	-	-	26,037	26,037
	<u>11,284,182</u>	<u>2,973,714</u>	<u>26,037</u>	<u>14,283,933</u>
Excess of receipts over disbursements	<u>359,016</u>	<u>94,839</u>	<u>979,376</u>	<u>1,433,231</u>
Other financing sources (uses):				
Tax anticipation warrants received	1,500,000	-	-	1,500,000
Tax anticipation warrants repaid	(2,200,000)	(500,000)	-	(2,700,000)
Transfers in	1,142,534	600,000	-	1,742,534
Transfers out	(514,161)	-	-	(514,161)
	<u>(71,627)</u>	<u>100,000</u>	<u>-</u>	<u>28,373</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	287,389	194,839	979,376	1,461,604
Cash and investment fund balance - beginning	<u>2,070,130</u>	<u>216,323</u>	<u>625,462</u>	<u>2,911,915</u>
Cash and investment fund balance - ending	<u>\$ 2,357,519</u>	<u>\$ 411,162</u>	<u>\$ 1,604,838</u>	<u>\$ 4,373,519</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ (1,110,135)	\$ -	\$ -	\$ (1,110,135)
Restricted assets:				
Cash and investments	<u>3,467,654</u>	<u>411,162</u>	<u>1,604,838</u>	<u>5,483,654</u>
Total cash and investment assets - December 31	<u>\$ 2,357,519</u>	<u>\$ 411,162</u>	<u>\$ 1,604,838</u>	<u>\$ 4,373,519</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ -	\$ 411,162	\$ -	\$ 411,162
Capital projects	-	-	1,604,838	1,604,838
Other purposes	3,467,654	-	-	3,467,654
Unrestricted	<u>(1,110,135)</u>	<u>-</u>	<u>-</u>	<u>(1,110,135)</u>
Total cash and investment fund balance - December 31	<u>\$ 2,357,519</u>	<u>\$ 411,162</u>	<u>\$ 1,604,838</u>	<u>\$ 4,373,519</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2006

	Motor Vehicle Highway	Local Road and Street	Parks and Recreation	Health Maintenance	General Adult Probation	Economic Development Commission	Public Transportation
Receipts:							
Taxes	\$ 18,262	\$ -	\$ 3,336,168	\$ -	\$ -	\$ 201,883	\$ 1,142,460
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	1,215,466	319,433	47,126	61,891	-	-	600,596
Charges for services	-	-	499,834	-	18,580	-	-
Other	-	-	3,576	5,634	-	-	6,402
Total receipts	1,233,728	319,433	3,886,704	67,525	18,580	201,883	1,749,458
Disbursements:							
General government	-	-	-	-	6,804	-	1,372,342
Public safety	-	-	-	-	-	-	-
Highways and streets	812,412	553,428	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	-	44,384	-	-	-
Economic development	-	-	-	-	-	856,776	-
Culture and recreation	-	-	3,177,127	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total disbursements	812,412	553,428	3,177,127	44,384	6,804	856,776	1,372,342
Excess (deficiency) of receipts over disbursements	421,316	(233,995)	709,577	23,141	11,776	(654,893)	377,116
Other financing sources (uses):							
Tax anticipation warrants received	-	-	1,500,000	-	-	-	-
Tax anticipation warrants repaid	-	-	(2,200,000)	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	(700,000)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	421,316	(233,995)	9,577	23,141	11,776	(654,893)	377,116
Cash and investment fund balance - beginning	928,979	447,420	(995,496)	60,521	43,386	857,370	(378,570)
Cash and investment fund balance - ending	<u>\$ 1,350,295</u>	<u>\$ 213,425</u>	<u>\$ (985,919)</u>	<u>\$ 83,662</u>	<u>\$ 55,162</u>	<u>\$ 202,477</u>	<u>\$ (1,454)</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ (985,919)	\$ -	\$ -	\$ -	\$ (1,454)
Restricted assets:							
Cash and investments	1,350,295	213,425	-	83,662	55,162	202,477	-
Total cash and investment assets - December 31	<u>\$ 1,350,295</u>	<u>\$ 213,425</u>	<u>\$ (985,919)</u>	<u>\$ 83,662</u>	<u>\$ 55,162</u>	<u>\$ 202,477</u>	<u>\$ (1,454)</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Other purposes	\$ 1,350,295	\$ 213,425	\$ -	\$ 83,662	\$ 55,162	\$ 202,477	\$ -
Unrestricted	-	-	(985,919)	-	-	-	(1,454)
Total cash and investment fund balance - December 31	<u>\$ 1,350,295</u>	<u>\$ 213,425</u>	<u>\$ (985,919)</u>	<u>\$ 83,662</u>	<u>\$ 55,162</u>	<u>\$ 202,477</u>	<u>\$ (1,454)</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Federal Grants	Community Development	Law Enforcement Continuing Education	Unsafe Building	State Grants	Summer Youth Training Program	Grants
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	4,040	-	-	-	-
Intergovernmental	118,061	1,426,305	-	-	294,778	243,375	222,869
Charges for services	-	-	26,082	7,150	-	-	30,655
Other	-	524,382	4,650	8,145	75	-	62,191
Total receipts	118,061	1,950,687	34,772	15,295	294,853	243,375	315,715
Disbursements:							
General government	27,640	-	-	-	17,000	504,084	93,396
Public safety	113,610	-	4,650	28,645	-	-	33,495
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	324,236	-	41,627
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	57,565
Urban redevelopment and housing	-	1,537,436	-	-	-	-	1,175
Debt service:							
Principal	-	685,964	-	-	-	-	-
Interest and fiscal charges	-	63,504	-	-	-	-	-
Total disbursements	141,250	2,286,904	4,650	28,645	341,236	504,084	227,258
Excess (deficiency) of receipts over disbursements	(23,189)	(336,217)	30,122	(13,350)	(46,383)	(260,709)	88,457
Other financing sources (uses):							
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants repaid	-	-	-	-	-	-	-
Transfers in	10,086	459,305	-	-	31,355	307,264	-
Transfers out	-	-	-	-	-	-	(54,856)
Total other financing sources (uses)	10,086	459,305	-	-	31,355	307,264	(54,856)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(13,103)	123,088	30,122	(13,350)	(15,028)	46,555	33,601
Cash and investment fund balance - beginning	55,924	791,642	32,523	23,010	(62,812)	(368,323)	25,799
Cash and investment fund balance - ending	\$ 42,821	\$ 914,730	\$ 62,645	\$ 9,660	\$ (77,840)	\$ (321,768)	\$ 59,400
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ (77,840)	\$ (321,768)	\$ 59,400
Restricted assets:							
Cash and investments	42,821	914,730	62,645	9,660	-	-	-
Total cash and investment assets - December 31	\$ 42,821	\$ 914,730	\$ 62,645	\$ 9,660	\$ (77,840)	\$ (321,768)	\$ 59,400
Cash and Investment Fund Balance - December 31							
Restricted for:							
Other purposes	\$ 42,821	\$ 914,730	\$ 62,645	\$ 9,660	\$ -	\$ -	\$ -
Unrestricted	-	-	-	-	(77,840)	(321,768)	59,400
Total cash and investment fund balance - December 31	\$ 42,821	\$ 914,730	\$ 62,645	\$ 9,660	\$ (77,840)	\$ (321,768)	\$ 59,400

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Local Law Enforcement Block Grant	Property Improvement	Police Federal Forfeitures	Damage to City Property	Railroad Relocation	Redevelopment Rehabilitation Escrow
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	39,453	-	247,358	-
Charges for services	-	-	-	-	-	-
Other	35	-	6,733	2,975	-	807,189
	<u>35</u>	<u>-</u>	<u>6,733</u>	<u>2,975</u>	<u>-</u>	<u>807,189</u>
Total receipts	<u>35</u>	<u>-</u>	<u>46,186</u>	<u>2,975</u>	<u>247,358</u>	<u>807,189</u>
Disbursements:						
General government	-	-	-	-	-	-
Public safety	1,546	-	60,520	-	-	-
Highways and streets	-	-	-	-	211,983	-
Sanitation	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	343,734
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>1,546</u>	<u>-</u>	<u>60,520</u>	<u>-</u>	<u>211,983</u>	<u>343,734</u>
Excess (deficiency) of receipts over disbursements	<u>(1,511)</u>	<u>-</u>	<u>(14,334)</u>	<u>2,975</u>	<u>35,375</u>	<u>463,455</u>
Other financing sources (uses):						
Tax anticipation warrants received	-	-	-	-	-	-
Tax anticipation warrants repaid	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(459,305)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(459,305)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(459,305)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(1,511)</u>	<u>-</u>	<u>(14,334)</u>	<u>2,975</u>	<u>35,375</u>	<u>4,150</u>
Cash and investment fund balance - beginning	<u>1,511</u>	<u>6,000</u>	<u>61,861</u>	<u>61,754</u>	<u>51,738</u>	<u>3,277</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 47,527</u>	<u>\$ 64,729</u>	<u>\$ 87,113</u>	<u>\$ 7,427</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ 6,000	\$ -	\$ 64,729	\$ 87,113	\$ 7,427
Restricted assets:						
Cash and investments	-	-	47,527	-	-	-
Total cash and investment assets - December 31	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 47,527</u>	<u>\$ 64,729</u>	<u>\$ 87,113</u>	<u>\$ 7,427</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Other purposes	\$ -	\$ -	\$ 47,527	\$ -	\$ -	\$ -
Unrestricted	-	6,000	-	64,729	87,113	7,427
Total cash and investment fund balance - December 31	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 47,527</u>	<u>\$ 64,729</u>	<u>\$ 87,113</u>	<u>\$ 7,427</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Vital Statistics	City Court Program	SSED Revolving Loan	East Chicago, Gary, Hammond Revolving Loan Consortium	Storm Water Management	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,698,773
Licenses and permits	-	-	-	-	-	4,040
Intergovernmental	-	-	-	-	-	4,836,711
Charges for services	46,135	9,050	-	-	-	637,486
Other	35	-	18,376	15,790	-	1,466,188
Total receipts	46,170	9,050	18,376	15,790	-	11,643,198
Disbursements:						
General government	-	-	-	-	-	2,021,266
Public safety	-	-	-	-	-	242,466
Highways and streets	-	-	-	-	-	1,577,823
Sanitation	-	-	-	-	279,668	279,668
Health and welfare	29,431	-	-	-	-	439,678
Economic development	-	-	-	-	-	856,776
Culture and recreation	-	-	-	-	-	3,234,692
Urban redevelopment and housing	-	-	-	-	-	1,882,345
Debt service:						
Principal	-	-	-	-	-	685,964
Interest and fiscal charges	-	-	-	-	-	63,504
Total disbursements	29,431	-	-	-	279,668	11,284,182
Excess (deficiency) of receipts over disbursements	16,739	9,050	18,376	15,790	(279,668)	359,016
Other financing sources (uses):						
Tax anticipation warrants received	-	-	-	-	-	1,500,000
Tax anticipation warrants repaid	-	-	-	-	-	(2,200,000)
Transfers in	-	54,856	-	-	279,668	1,142,534
Transfers out	-	-	-	-	-	(514,161)
Total other financing sources (uses)	-	54,856	-	-	279,668	(71,627)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	16,739	63,906	18,376	15,790	-	287,389
Cash and investment fund balance - beginning	35,438	-	250,302	136,876	-	2,070,130
Cash and investment fund balance - ending	\$ 52,177	\$ 63,906	\$ 268,678	\$ 152,666	\$ -	\$ 2,357,519
Cash and Investment Assets - December 31						
Cash and investments	\$ 52,177	\$ -	\$ -	\$ -	\$ -	\$ (1,110,135)
Restricted assets:						
Cash and investments	-	63,906	268,678	152,666	-	3,467,654
Total cash and investment assets - December 31	\$ 52,177	\$ 63,906	\$ 268,678	\$ 152,666	\$ -	\$ 2,357,519
Cash and Investment Fund Balance - December 31						
Restricted for:						
Other purposes	\$ -	\$ 63,906	\$ 268,678	\$ 152,666	\$ -	\$ 3,467,654
Unrestricted	52,177	-	-	-	-	(1,110,135)
Total cash and investment fund balance - December 31	\$ 52,177	\$ 63,906	\$ 268,678	\$ 152,666	\$ -	\$ 2,357,519

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS
 For The Year Ended December 31, 2006

	Lease Rental Payment	Park Bond and Interest 1999	Totals
Receipts:			
Taxes	\$ 2,820,872	\$ 203,053	\$ 3,023,925
Intergovernmental	40,296	4,332	44,628
 Total receipts	 <u>2,861,168</u>	 <u>207,385</u>	 <u>3,068,553</u>
Disbursements:			
Debt service:			
Principal	818,257	525,000	1,343,257
Interest and fiscal charges	1,523,962	106,495	1,630,457
 Total disbursements	 <u>2,342,219</u>	 <u>631,495</u>	 <u>2,973,714</u>
Excess (deficiency) of receipts over disbursements	 <u>518,949</u>	 <u>(424,110)</u>	 <u>94,839</u>
Other financing sources (uses):			
Tax anticipation warrants repaid	(500,000)	-	(500,000)
Transfers in	-	600,000	600,000
 Total other financing sources (uses)	 <u>(500,000)</u>	 <u>600,000</u>	 <u>100,000</u>
Excess of receipts and other financing sources over disbursements and other financing uses	 18,949	 175,890	 194,839
Cash and investment fund balance - beginning	<u>58,481</u>	<u>157,842</u>	<u>216,323</u>
Cash and investment fund balance - ending	<u>\$ 77,430</u>	<u>\$ 333,732</u>	<u>\$ 411,162</u>
<u>Cash and Investment Assets - December 31</u>			
Restricted assets:			
Cash and investments	<u>\$ 77,430</u>	<u>\$ 333,732</u>	<u>\$ 411,162</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	<u>\$ 77,430</u>	<u>\$ 333,732</u>	<u>\$ 411,162</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS
 For The Year Ended December 31, 2006

	Cumulative Capital Improvement	Cumulative Capital Development	Fire Equipment	Construction	Park District Bonds 1999	Local Major Moves Construction	Totals
Receipts:							
Taxes	\$ -	\$ 107,831	\$ -	\$ -	\$ -	\$ -	\$ 107,831
Intergovernmental	115,799	2,301	-	-	-	770,784	888,884
Other	-	950	7,748	-	-	-	8,698
	<u>115,799</u>	<u>111,082</u>	<u>7,748</u>	<u>-</u>	<u>-</u>	<u>770,784</u>	<u>1,005,413</u>
Total receipts							
Disbursements:							
Capital outlay	-	4	-	26,033	-	-	26,037
	<u>-</u>	<u>4</u>	<u>-</u>	<u>26,033</u>	<u>-</u>	<u>-</u>	<u>26,037</u>
Excess (deficiency) of receipts over disbursements	<u>115,799</u>	<u>111,078</u>	<u>7,748</u>	<u>(26,033)</u>	<u>-</u>	<u>770,784</u>	<u>979,376</u>
Cash and investment fund balance - beginning	<u>152,028</u>	<u>(36,756)</u>	<u>14,214</u>	<u>189,439</u>	<u>306,537</u>	<u>-</u>	<u>625,462</u>
Cash and investment fund balance - ending	<u>\$ 267,827</u>	<u>\$ 74,322</u>	<u>\$ 21,962</u>	<u>\$ 163,406</u>	<u>\$ 306,537</u>	<u>\$ 770,784</u>	<u>\$ 1,604,838</u>
<u>Cash and Investment Assets - December 31</u>							
Restricted assets:							
Cash and investments	<u>\$ 267,827</u>	<u>\$ 74,322</u>	<u>\$ 21,962</u>	<u>\$ 163,406</u>	<u>\$ 306,537</u>	<u>\$ 770,784</u>	<u>\$ 1,604,838</u>
<u>Cash Investment Fund Balance - December 31</u>							
Restricted for:							
Capital projects	<u>\$ 267,827</u>	<u>\$ 74,322</u>	<u>\$ 21,962</u>	<u>\$ 163,406</u>	<u>\$ 306,537</u>	<u>\$ 770,784</u>	<u>\$ 1,604,838</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS

As of and for the Year Ended December 31, 2006

	Government Services Cooperative	Communication Revolving	Health, Life and Workers Compensation	Gasoline Revolving	Utilities Administration Revolving	Total
Operating receipts:						
Charges for services - internal	\$ -	\$ 405,406	\$ 8,464,564	\$ 1,231,307	\$ 577,645	\$ 10,678,922
Charges for services - other	-	-	147,050	-	-	147,050
Other	-	2,657	-	-	-	2,657
Total operating receipts	-	408,063	8,611,614	1,231,307	577,645	10,828,629
Operating disbursements:						
Administrative and general	-	-	181,661	-	-	181,661
Costs of sales and services	-	419,377	-	1,002,691	577,645	1,999,713
Insurance claims and premiums	481	-	10,839,128	-	-	10,839,609
Total operating disbursements	481	419,377	11,020,789	1,002,691	577,645	13,020,983
Excess (deficiency) of receipts over disbursements	(481)	(11,314)	(2,409,175)	228,616	-	(2,192,354)
Nonoperating receipts:						
Interest and investment receipts	-	-	21,607	-	-	21,607
Excess (deficiency) of receipts over disbursements and nonoperating receipts	(481)	(11,314)	(2,387,568)	228,616	-	(2,170,747)
Cash and investment fund balance - beginning	481	(92,733)	11,775	(286,064)	-	(366,541)
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ (104,047)</u>	<u>\$ (2,375,793)</u>	<u>\$ (57,448)</u>	<u>\$ -</u>	<u>\$ (2,537,288)</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and Investments	<u>\$ -</u>	<u>\$ (104,047)</u>	<u>\$ (2,375,793)</u>	<u>\$ (57,448)</u>	<u>\$ -</u>	<u>\$ (2,537,288)</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Unrestricted	<u>\$ -</u>	<u>\$ (104,047)</u>	<u>\$ (2,375,793)</u>	<u>\$ (57,448)</u>	<u>\$ -</u>	<u>\$ (2,537,288)</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2006

	1925 Police Pension	1937 Firefighters' Pension	Total
Additions:			
Contributions:			
Employer	\$ 2,577,633	\$ 2,307,858	\$ 4,885,491
State	2,288,439	1,793,226	4,081,665
Plan members	<u>2,133</u>	<u>-</u>	<u>2,133</u>
Total contributions	<u>4,868,205</u>	<u>4,101,084</u>	<u>8,969,289</u>
Deductions:			
Benefits	4,458,106	3,359,913	7,818,019
Administrative and general	16,189	11,064	27,253
Circuit breaker payment	<u>25,179</u>	<u>22,681</u>	<u>47,860</u>
Total deductions	<u>4,499,474</u>	<u>3,393,658</u>	<u>7,893,132</u>
Excess of total additions over total deductions	<u>368,731</u>	<u>707,426</u>	<u>1,076,157</u>
Other financing sources (uses):			
Tax anticipation warrants received	1,800,000	1,000,000	2,800,000
Tax anticipation warrants repaid	<u>(2,365,598)</u>	<u>(1,495,797)</u>	<u>(3,861,395)</u>
Total other financing sources (uses)	<u>(565,598)</u>	<u>(495,797)</u>	<u>(1,061,395)</u>
Excess (deficiency) of additions and other financing sources over disbursements and other financing uses	(196,867)	211,629	14,762
Cash and investments - beginning	<u>(213,956)</u>	<u>(73,573)</u>	<u>(287,529)</u>
Cash and investments - ending	<u>\$ (410,823)</u>	<u>\$ 138,056</u>	<u>\$ (272,767)</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2006

	PERF	Payroll Withholdings	Miscellaneous Employees Insurance	Northwest Indiana Health Department Cooperative	Waterway Management District	Court Costs Due County	City Clerk	Total
Additions:								
Agency fund additions	\$ 4,353,442	\$ 20,541,055	\$ 39,358	\$ 1,077,664	\$ 162,499	\$ 27,384	\$ 1,258,305	\$ 27,459,707
Deductions:								
Agency fund deductions	4,281,249	20,239,587	37,819	1,071,100	116,523	25,421	1,071,032	26,842,731
Excess of total additions over total deductions	72,193	301,468	1,539	6,564	45,976	1,963	187,273	616,976
Cash and investments - beginning	1,058,921	209,934	44,832	(94,399)	52,747	-	271,510	1,543,545
Cash and investments - ending	<u>\$ 1,131,114</u>	<u>\$ 511,402</u>	<u>\$ 46,371</u>	<u>\$ (87,835)</u>	<u>\$ 98,723</u>	<u>\$ 1,963</u>	<u>\$ 458,783</u>	<u>\$ 2,160,521</u>

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCE - CASH AND INVESTMENT BASIS
DISCRETE COMPONENT UNIT
As of and for the Year Ended December 31, 2006

	Port Authority
Operating receipts:	
Slip rentals	\$ 620,725
Boat storage	300,616
Rentals	40,326
Marina fees	40,730
Services	13,875
Gas and oil	307,723
Grant	111,240
Restaurant	86,588
Other	88,887
Total operating receipts	1,610,710
Operating disbursements:	
Operation and maintenance	182,362
Officers and employees salaries and wages	488,606
Employee pensions and benefits	138,239
Utilities	67,045
Contractual services	281,511
Gasoline and oil	264,980
Administration and general	64,471
Restaurant salaries, wages, and benefits	64,287
Restaurant operating expenses	75,521
Total operating disbursements	1,627,022
Deficiency of receipts and contributions over disbursements	(16,312)
Cash and investment fund balance - beginning	159,687
Cash and investment fund balance - ending	\$ 143,375
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 143,375
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted fund balance - December 31	\$ 143,375

CITY OF EAST CHICAGO
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>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 4,555,969
Rights of Way	1,724,781
Construction in progress	1,607,162
Capital assets, being depreciated (net of depreciation)	
Infrastructure	26,261,459
Buildings	33,129,522
Improvements other than buildings	2,152,235
Machinery and equipment	<u>4,815,854</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 74,246,982</u>
	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 249,859
Construction in progress	471,167
Capital assets, being depreciated (net of depreciation):	
Buildings	975,154
Improvements and lines	2,062,903
Machinery and equipment	<u>75,231</u>
Total Water Utility capital assets	<u>3,834,314</u>
Sanitary District:	
Capital assets, not being depreciated:	
Land	885,268
Capital assets, being depreciated (net of depreciation):	
Buildings	18,361,482
Improvements and lines	3,483,454
Machinery and equipment	<u>2,519,569</u>
Total Sanitary District capital assets	<u>25,249,773</u>
Total business-type activities capital assets	<u>\$ 29,084,087</u>
<u>Discretely Presented Component Unit</u>	
Port Authority:	
Capital assets, not being depreciated:	
Land	\$ 1,020,000
Capital assets, being depreciated (net of depreciation):	
Buildings	8,085,644
Improvements other than buildings	47,500
Machinery and equipment	<u>77,488</u>
Total discretely presented component unit capital assets	<u>\$ 9,230,632</u>

CITY OF EAST CHICAGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Public Safety Facility	\$ 25,498,372	\$ 937,604
Police department copiers	98,320	22,004
Notes and loans payable:		
2001 Rainy day loan	2,605,264	578,947
Community development loan	659,106	586,474
Circuit breaker loan	753,177	224,132
Bonds payable:		
General obligation bonds:		
Park district bonds, 1999	1,765,000	560,000
Revenue bonds:		
Redevelopment tax increment financing bonds, 1999	<u>7,818,242</u>	<u>748,000</u>
Total governmental activities long-term debt	<u><u>\$ 39,197,481</u></u>	<u><u>\$ 3,657,161</u></u>
Business-type Activities:		
Water Utility:		
Notes and loans payable:		
2002 State revolving loan	\$ 1,690,000	\$ 85,000
2006 State revolving loan	<u>16,600,000</u>	<u>525,000</u>
Total Water Utility	<u>18,290,000</u>	<u>610,000</u>
Wastewater Utility:		
Notes and loans payable:		
2001 Rainy day loan	900,000	200,000
1996 State revolving loan	<u>9,134,600</u>	<u>590,000</u>
Total Wastewater Utility	<u>10,034,600</u>	<u>790,000</u>
Total business-type activities long-term debt	<u><u>\$ 28,324,600</u></u>	<u><u>\$ 1,400,000</u></u>

CITY OF EAST CHICAGO
OTHER REPORTS

The annual report presented herein was prepared in addition to the official report prepared for the individual City offices listed below:

City Controller
City Police Department

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

NEGATIVE CASH BALANCES

Several funds had negative cash balances at December 31, 2006.

Fund	2006
General	\$ 2,949,167
Special revenue funds:	
Parks and Recreation	985,919
Public Transportation	1,454
State Grants	77,840
Summer Youth Training Program	321,768
Internal service funds:	
Communication Revolving	104,047
Health, Life and Workers Compensation	2,375,793
Gasoline Revolving	57,448
Pension trust fund:	
1925 Police Pension	410,823
Agency fund:	
Northwest Indiana Health Department Cooperative	87,835

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL BANK ACCOUNT

The bank activity representing the net payroll activity is not reflected in the records of the City. The cash necessary for the net payroll checks (required payroll) is transferred from the appropriate funds to a separate payroll bank account. Individual net payroll checks and employee direct debits are written on this bank account. Approximately \$3,000,000 in net wages is transferred to this bank account each month. After all payroll checks have cleared, this bank account should have a zero balance. However, this bank account activity is not reflected in a Payroll Fund of the City on the General Ledger. As of December 31, 2006, \$4,010 in bank charges (that the bank will not reverse) have not been recorded in the City's records or deposited into the bank account to bring the balance up to zero.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

SEPARATE BANK ACCOUNTS

As stated in the prior reports, funds of the East Chicago Sanitary District, East Chicago Water Utility, East Chicago Port Authority, the Northwest Indiana Health Department Cooperative and the East Chicago Waterway Management District were accounted for in the same general bank account of the City of East Chicago in 2006. The Controller had opened new bank accounts in 2006. However, the activity of the separate entities was not processed in the separate bank accounts.

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for other funds if required by ordinance or regulation. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

FUND ACTIVITY ON EXCEL SPREADSHEETS

The detail activity for several funds, including the Community Development Fund, the Health, Life and Workers Compensation Insurance Fund, and the Water State Revolving Construction Fund, is maintained on Excel spreadsheets. Officials use the spreadsheets in place of the prescribed City and Town Form 208, Ledger of Receipts, Disbursements, and Balances. Activity for these funds is then entered into the MUNIS (Municipal Information System) computer system by journal entries. Journal entries increase the potential for errors by not being an integral part of the system of original entry. Currently officials are in the process of changing their system to accommodate entering all original transactions into MUNIS, rather than using Excel spreadsheets.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROVAL OF COMPUTERIZED FORMS

In November 2003, the City of East Chicago began using new software from the vendor MUNIS, a division of Tyler Technologies in Falmouth, Maine. All the City's financial reports are produced using this new software. Computerized forms are being used that have not been approved for use in lieu of prescribed forms; however, the receipts generated by the City have wording indicating they were approved. This comment was included in the prior report.

The water bill approved for use included previous balances due, current charges, and amounts "now" due; however, this information was subsequently removed from the bill. Current bills only show the current charges billed. This comment was included in the prior report.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPUTERIZED RECEIPTS AND CONTROLS

The City uses a computerized accounting system for all departments, including the Utilities. The computer system automatically assigns the receipt number in sequential order. Receipts are then summarized by the system on batch reports. The batches, which are primarily by department, are assigned a sequential number by the system. Each batch also identifies the clerk who entered those receipts.

No one at the City is responsible for assuring that all batches are accounted for within the system. We observed 41 batches out of 252 for February 2007, which could not be accounted for by the City. Upon inquiry of officials regarding these missing batch numbers, the software vendor was contacted. The software vendor stated that these batches were considered dead by the system, and cannot be printed or brought up by the system. Officials indicated that once a batch is open, that batch number cannot be deleted from the system. The system, however, will not print a batch that does not have any type of transaction (receipt) associated with it. It was also noted that the same batch number could be accessed twice and by two different clerks either on the same day or the following day.

No one at the City is responsible for assuring that all receipts are accounted for within the system. When the receipts were accumulated in numerical order, many were not documented on any type of batch or other report. Through system inquiries, some of the receipts were found to have been used by the system during the billing phase in applying credit balances to the amounts being billed, and the majority of the remaining receipts were the equivalent of a voided receipt. The receipts used to apply the credit balances were identified to batch "0." For the voided receipts, clerks explained that if an error is noted on a receipt prior to posting that receipt, they can "cancel" the receipt. When the receipt is viewed through the system, the receipt may or may not be identified with a batch, and the words "Receipt Not Finished" appear on the receipt. There is nothing else to indicate what the error was with the receipt.

The system allows the clerk entering the receipt to determine the "Effective Date" of the receipt. By allowing the clerk to enter the effective date of the receipt, the clerk can, for example, enter receipts in August for money received in January. The system also allows the clerk to work on more than one batch at a time. Even after a batch has been closed by a clerk, it can still be reopened by the deputy controller. It isn't until the batch is posted by the deputy controller that the batch is truly closed. Currently, there is not a policy in place setting up time limit constraints on holding batches open.

These deficiencies were noted in the prior three reports. Officials indicated that the software vendor is still working on the programming issues involved.

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

Records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>2006</u>
Special revenue fund:	
Parks and Recreation	\$ <u>221,931</u>

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

COUNCIL MEAL PER DIEM

The City reimburses council members, the city judge, and city clerk, \$100 meal per diem according to Ordinance 0-99-0024. The City reimbursed a council member \$500 (for 5 meals) for a trip to Orlando, Florida, in November 2006. No restaurant receipts were attached to the claim. The City's per diem rate is well above the federal allowable rate for this city and date (IRS allowed \$49 per day for meals, see IRS Publication 1542). Federal guidelines allow taxpayers to be reimbursed the allowable federal rate for meals and entertainment without receipts up to the allowable federal per diem rate. Reimbursement in excess of the allowable federal rate is taxable income to the employee and is to be included on Form W-2. Officials did not include the additional reimbursement on the employees W-2 or 1099 Miscellaneous.

IRS Revenue Ruling 2006-56 tells employers that if they routinely pay per diem allowances in excess of the federal per diem rates, but do not track the allowances and do not require the employees either to actually substantiate all the expenses or pay back the excess amounts, and do not include the excess amounts in the employee's income and wages, then the entire amount of the expense allowance is subject to income tax and employment tax.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARD PAYMENT DOCUMENTATION

The Mayor's credit card was used to purchase business meals at local restaurants. Detailed receipts were not presented for audit to document the type of food and beverage consumed. Total restaurant charges were \$367.14.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FORM 100R INCOMPLETE

The City filed State Form 100R, Certified Report of Names, Addresses, Duties, and Compensation, on January 20, 2007. This form was incomplete. Several departments, including the City Clerk, Fire Department, Water Utility, Recreation Department, Marina Restaurant, and Economic Development, were not listed on the Form 100R. Officials researched the problem and it was determined that the computer system did not pick up all location codes in preparing this report. Officials corrected this error and resubmitted a corrected Form 100R on April 30, 2007.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

EMPLOYEE'S SERVICE RECORD DEFICIENCIES

The City uses the prescribed Form 99A, Employee's Service Record, to record vacation, and sick time earned and used. Deficiencies were noted as follows:

1. Overall, 48% of the service records tested were not completed properly.
2. Cumulative balances for vacation and sick leave were not maintained on the Employee's Service Record for 32% of those tested.
3. Compensatory time earned, used and the corresponding balance was not recorded on the service record for 13% of those tested.
4. The Police Department uses an "Employee Data Calendar" and does not use the approved form. Cumulative leave balances are not noted on the calendar.
5. 3% of those employees tested did not present for audit the "Employee's Service Record."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERPAYMENT OF CONTRACT

The City paid Jewell Harris, Jr., \$5,665.69 for legal services in excess of the approved contract amount. In addition, Mr. Harris was paid \$1,214.19 for travel expenses not specified in the contract. Total overpayment for 2006 was \$6,879.88.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONTRACTUAL EMPLOYEES - CITY PROVIDED HEALTH INSURANCE

The City provides health insurance benefits for four contractual "employees." The health insurance monthly premium for 2006 was \$343 for single coverage and \$796 for family coverage. These contractual "employees" reimbursed the city for the "employee" portion \$138.46 per month. The remaining "employer's" portion of the monthly premium was not included on the Federal Form 1099 Miscellaneous as nonemployee compensation. Compensation for the contractual employees not reported ranged from \$2,454.48 to \$7,890.48.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

REDEVELOPMENT DISTRICT TAX INCREMENT REVENUE BONDS OF 1999, SERIES A

The City collects TIF (Tax Incremental Financing) tax distributions and then remits the TIF funds to the appropriate financial institution to be used in paying the principal and interest on the underlying bonds. In 2005, the City received \$856,561 in TIF distributions, which were not remitted to the financial institution (National City Bank) until 2006. Furthermore, in 2006, the City received \$201,883 in TIF distributions, which have not been remitted as of December 31, 2006. Because of tax reassessment delays in Lake County, TIF distributions have also been delayed. Consequently, the City has not made timely payments of principal and interest on the 1999 TIF Revenue Bonds. An updated amortization schedule, reflecting the current principal balance on the bonds was not available, but should be obtained by the City. The reported principal balance was obtained by applying payments to principal first.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS - BUILDING DEPARTMENT

The Building Department issues plumbing, electrical, HVAC, building, and contractor permits. However, the Building Department is not issuing receipts for the collection of permit fees at the time payment is received.

When the applicant is paying for the permit with cash, the permit is issued, and then the applicant is asked to go to the Controller's office to make payment and receive the receipt. The permit should not be issued prior to payment.

The Building Department also collects checks for the payment of permits but they do not issue a receipt to the applicant at the time of payment. The Building Department forwards the check to the Controller's office and the Controller's office sends the applicant a receipt.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

POLICE PENSION FUND

The Police Pension Board minutes for the 2006 audit year did not document the death or retirement of a police retiree or the death of a retiree spouse.

Memoranda (minutes) of the meeting shall include the following items:

1. Date, time, and place of the meeting;
2. Members present and absent;
3. The general substance of all matters proposed, discussed or decided; and
4. A record of all votes taken, by individual members if there is a roll call.

The memoranda should be available to the public within a reasonable period of time after the meeting.
[IC 5-14-1.5-4]

REDEVELOPMENT DEPARTMENT GENERAL LEDGER

As of May 1, 2007, the Department of Redevelopment had not completed the posting of all entries to the 2006 ledger. The City maintains fund 231, Redevelopment Department, on the City's computerized accounting system by inputting information from the Redevelopment Department's check register that is provided by the Redevelopment Department. The City reconciles the Redevelopment Department's bank account to the City's fund 231. Since the Redevelopment Department has not completed the posting of its own ledger for this fund, the fund could not be reconciled to the City's records. Internal controls would be strengthened by the timely reconciliation of the Redevelopment Department's ledger to the City's ledger.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CORONER'S CONTINUING EDUCATION FEES

A \$1 fee for the Coroner's Continuing Education Fund is included in the charge for death certificates at the Health Department. Payments were remitted to the County Auditor from one to five months after being received.

Indiana Code 16-37-1-9 states in part: "(a) A local health department may make a charge under IC 16-20-1-27 for each certificate of birth, death, or stillbirth registration. (b) If the local department of health makes a charge for a certificate of death under subsection (a), a one dollar (\$1) coroner's continuing education fee must be added to the rate established under IC 16-20-1-27. The local department of health shall deposit any coroner's continuing education fees with the county auditor within thirty (30) days after collection."

RECEIPT ISSUANCE – ANIMAL CONTROL

Prescribed General Form 352, General Receipt, is not used to record the fees received at the Animal Control Department. Collections are recorded on one of the department's forms, "Animal Control Investigation Form" or "Animal Claim/Adoption Record Form" depending on the service provided. These forms are not prenumbered and not considered official receipts. The collections are later remitted to the Controller's office, who then issues a receipt.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANIMAL CONTROL FEES

In 2006, Animal Control did not collect adoption fees in accordance with its fee schedule. Pets were given away for free to the elderly, handicapped and indigent, without collecting an adoption fee ranging from \$25 to \$50.

Per the Animal Control fee schedule, Indiana University is to be charged by the pound for animals to be disposed of per agreement. Whiting and Highland are to be charged by the number of animals per agreement. According to the unit's records, animal control disposed of 231 pounds for Indiana University and 79 animals for Whiting. Per inquiry of employees and review of the unit's records, no payments were received from Indiana University and Whiting for the disposal of the animals. Agreements were not available to support the policy of disposing of other units animals.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CRIME POLICY – EMPLOYEE DISHONESTY

The City does not have employee dishonesty insurance coverage for employees that handle money in several departments. For example, the City's insurance policies do not cover employees that handle money in the following departments: Police, Water Utility, Health, Park, Animal Control, and Transit. Officials indicated that in years past the City had official bonds for numerous employees. However, in the past two years, the list was shortened substantially and the positions mentioned in this comment were omitted. A blanket bond or a crime insurance policy covering all employees was not purchased.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, . . . officers and employees shall file an individual surety bond: (1) City judges, controllers, clerks, and clerk-treasurers. . . . (5) Those employees directed to file an individual bond by the fiscal body of a city, town or county.

(b) The fiscal body of a city, . . . may by ordinance, authorize the purchase of a blanket bond or a crime insurance policy. . . to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit including those officers described in subsection (a).

(c) The fiscal bodies of the respective units shall fix the amounts of the bond of city controllers, city clerk- treasurers, . . . Barrett Law fund custodians, . . . as follows:

- (1) The amount must be equal fifteen thousand dollars (\$15,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than fifteen thousand dollars (\$15,000) nor more than three hundred thousand dollars (\$300,000). . . . The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than eight thousand five hundred dollars (\$8,500) . . ."

Indiana Code 5-4-1-19 states:

"The bonds prescribed by IC 5-4-1-18 cover the faithful performance of the duties of the officer or employee, including the duty to comply with IC 35-44-1-2 and the duty to account properly for all monies and property received by virtue of his position or employment."

NOTE: All employees who handle cash should be covered by some type of bond or crime insurance policy. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TRAFFIC SCHOOL – CITY COURT

Defendants convicted of various moving violations can be sentenced to attend traffic school. The traffic school used is called Highway Control Driving School, and it is run by Robert Nesse & Associates, Inc. A fee in the amount of \$70, payable only by money order, is charged and collected by the traffic school, with one-half of the fees being returned to the City if enrollment exceeds 36 students. As noted in the prior audit report, the City is depositing the traffic school fees into the Grant Fund. Such defendants, as long as they complete the course, do not pay any court costs or deferral fees. In 2007, the City Court began charging court costs.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-6-3 (c) states: "An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with IC 34-28-5."

Indiana Code 34-28-5-5 (a) A defendant against whom a judgment is entered is liable for costs. Costs are part of the judgment and may not be suspended except under IC 9-30-3-12.

Indiana Code 9-30-3-12 (d) states:

"Notwithstanding IC 33-37-4-2, any court may suspend one-half (1/2) of each applicable court cost for which a person is liable due to a traffic violation if the person enrolls in and completes a defensive driving school or a similar school conducted by an agency of the state or local government."

Indiana Code 9-30-3-16 states in part:

"(a) If a person has been found to have committed a traffic offense, the court may do the following:

- (1) Require the person to attend and satisfactorily complete a driver improvement course that has been approved by the court and the bureau or by the bureau. . . ."

General Fund - The General Fund is the chief operating fund of the municipality. Tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 2)

RESTITUTION – CITY COURT

The City Court handles cases in which restitution is ordered for an injured party. In such cases, the defendant makes payment to the City Court in the form of a money order made payable to the injured party. A receipt is then issued to the defendant by the City Court, which is not a prescribed or approved form. Subsequently, the injured party is telephoned and notified of the payment received. At that point, the injured party is asked to pick up the money order. At the time of pick up, a second receipt is issued and must be signed by the injured party as proof of the receipt of funds.

A trust fund and checking account have not been established for the receipt and distribution of restitution remittances. Therefore, these payments are never deposited or posted. The money orders are simply stapled to the case files where they remain until they are picked up by the injured party. We observed cases in which restitution was picked up on the same day it was collected, but we also observed restitution payments being held 37 days after the date of the money order. We also observed a money order still in the file seven months after the date it was received.

This record (Register of Trust Funds General Form 102) is commonly referred to as the "trust fund register." It is a register wherein money received for the benefit of all persons or parties is entered in detail. The posting to this record is made from the duplicate receipts and checks and from the trust column of the court cash book. Items entered in other columns of the cash book must not be posted in the trust fund register. The total of all unpaid items as shown by the trust fund register must agree with the balance in trust as shown by the court cash book. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

All funds collected by a city or town court shall be deposited not later than the business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town. [IC 5-13-6-1(d)]

All funds should be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

Each city and town court is required to use official records and forms that are designated by the legislature or prescribed or approved by the State Board of Accounts or the State Court Administration office of the Supreme Court. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

PAYMENTS ACCORDING TO CONTRACT – PORT AUTHORITY

Three officials renting wet slips at the marina are not in compliance with the terms of the contract. The first installment was due by January 15, 2006, and the final installment by March 15, 2006. Two officials made two installments and both were late. The third official made one payment on March 30, 2006. Payments were received after installment due dates. A similar audit result and comment appeared in prior audit reports.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INEFFECTIVE INTERNAL CONTROLS – UTILITIES

The Utility employees at the Water Utility handle both Water Utility and Sanitary District financial activities. Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient and ineffective at the Water Utility and Sanitary District. These internal controls cover four areas: receipts, billing, customer meter deposits, and written policies approved by the governing board. The lack of effective internal controls over these four areas affects the reasonable assurance regarding the reliability of the financial records, effectiveness of operations, and safeguarding of assets.

The Utility collections for the year are approximately \$4,500,000 for the Water Utility and \$4,500,000 for the Sanitary District. These are material amounts for the proprietary funds and are material to the City as a whole.

The Utility employees are responsible for the Utility billing for both the Water Utility and the Sanitary District. These employees handle the billing, customer meter deposits, meter reading, final bills, and collection of utility bills. The employees are not aware of the reports that the computer system is able to generate. They have not set up internal controls to monitor input and output of the system. The system is "live," so if a report is not generated at year end, the report will not be available. No reports were printed as of year end for accounts receivable or customer meter deposits payable. An aging report of account receivable for delinquent customers was also not printed.

A. The following deficiencies exist in the receipts area:

1. For each batch of receipts, the cash and check designation should agree to the cash and checks that are listed on the utility bill stubs, proof of payment summary printout, and bank deposit ticket. We found instances where the designation of cash and check was

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

not recorded on the bank deposit ticket. We also found instances where the designation of cash and check did not agree from the proof of payment summary printout to the bank deposit ticket and the bill stubs. Therefore, we could not determine if deposits were made intact.

2. The officials were not able to explain the correlation between the posting of the batch of receipts and the proof of payment summary. Therefore, we were unable to prove that all money collected was properly posted to the ledger. Thus, amounts could be deposited to the wrong funds or accounts and the financial records may be inaccurate.

B. The following deficiencies exist in the billing area:

1. No written policy on customer billing adjustments.
2. Documentation is not always maintained to support customer billing adjustments.
3. The bill audit report does not always list an adequate explanation for the billing adjustment.
4. Test of billing of the Sanitary District rates revealed that 30% were not billed at the approved rate.
5. Test of billing of the Sanitary District rates revealed that some customers were not billed for Sanitary District charges.
6. The penalty on late payment of water charges, as approved in the rate schedule, was not assessed. So amounts due the Water Utility are not being collected.
7. Instances occurred where a water meter was not read for months.
8. Billing for industrial accounts is eight months behind.

C. The following deficiencies exist in the customer meter deposits area:

1. A detail listing of customer meter deposits as of December 31, 2006 (printed on May 17, 2007) has a total of \$291,210.40. The separate bank account balance (control) for customer meter deposits was \$742,434.00. The detail and control should agree. A monthly reconciliation should be performed.
2. The Water Utility officials did not present for audit a listing of all the customer meter deposits received in 2006.
3. A Water Utility meter contract and receipt card is completed for each new customer meter deposit. Fifteen customer meter deposits were tested to determine if they were posted to the detail listing of customer meter deposits. Four or 27% of these deposits could not be located in the deposit register detail.
4. The Water Utility officials did not present for audit a check register of all the customer meter deposits refunded during 2006. The official reconciling the bank account had an excel file on check numbers and amounts, but this was not an approved form.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

5. The amount of customer meter deposits applied to the final bills in 2006 was not disbursed from the customer deposits bank account to the operating bank account.
6. Customer meter deposits refunded during 2006 did not have board approval. The refund checks were not listed on the Accounts Payable Voucher Register approved by the Waterworks Board at meetings.
7. Final bills are generated but not printed. The final bills could be used as documentation to support the customer meter deposit refund and the amount of the customer meter deposit applied to the bill.

D. Deficiencies exist because the governing board has not approved a written policy for the following areas:

1. Assessment of late payment penalties.
2. Accrued interest on customer meter deposit refunds.
3. Cash shortage and overage in utility bill collections.
4. Write-off of bad debts.
5. Collection on delinquent accounts.
6. Controls over the cash change fund to ensure that the fund is returned intact when custody is relinquished.
7. Controls to ensure that the utility receipts taxes and the sales taxes are paid to the State of Indiana in a timely manner.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY RECEIPTS TAX

The Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue during the audit period. The Utility should have remitted by electronic funds transfer a quarterly amount for utility receipts taxes. The Form URT-1, Indiana Utility Receipts Tax Return, was filed on April 16, 2007, with a payment of \$58,072. The Utility has not yet received an assessment letter explaining penalties and interest on the late payment of the 2006 utility receipts taxes. The Water Utility may be assessed a penalty for late payment of approximately \$5,807, a penalty for underpayment of quarterly amounts of approximately \$5,807, and interest of approximately \$2,500. The approximate total may be \$14,114 in penalty and interest.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Every taxpayer whose annual tax liability exceeds one thousand dollars (\$1,000) is required to file and pay the utility receipts tax on a quarterly basis. The taxpayer shall pay to the Department twenty-five percent (25%) of the annual estimated tax or the exact amount of utility receipts tax that is due for the quarter. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A taxpayer that uses a taxable year that ends on December 31 shall file the taxpayer's estimated utility receipts tax return and pay the tax due on or before April 20, June 20, September 20, and December 20 of the taxable year. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ACCRUAL RECORDS – UTILITIES

The Water Utility and Wastewater Utility are Class A Utilities, with annual operating revenues of \$1,000,000 or more. The Water Utility and Sanitary District officials did not maintain accrual records in 2006, as noted in prior audits.

Water and Wastewater Utilities are divided into three classes, A, B, and C, depending on the amount of annual operating revenues. The Uniform System of Accounts pertaining to any particular class may be obtained by writing to the National Association of Regulatory Utility Commissioners, P.O. Box 684, Washington, D.C., 20044.

Classes A and B must use the double-entry accrual accounting system prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CUSTOMER DEPOSIT REFUNDS

The Water Utility had, in the past, paid accrued interest on customer deposit refunds. However, in March 2002, the Water Utility quit paying interest on refunds. A resolution was not presented for audit addressing the payment or nonpayment of accrued interest on customer deposit refunds. A similar audit result and comment appeared in prior audit reports.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

LATE FEES OR PENALTIES – UTILITIES

As stated in the prior audit report, the Water Department Rate Ordinance currently sets the late payment fee at three percent (3%) of the outstanding amount. The ordinance for the Sanitary District sewage billings does not address a late penalty. Through inquiry of officials and review of billings, it was determined that late fees or penalties are not being assessed.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-9-23-31 states as follows:

"If fees assessed against real property under this chapter or any statute repealed by IC 19-2-5-30 are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees. The amount of the fee, the penalty, and a reasonable attorney's fee may be recovered by the board in a civil action in the name of the municipality."

DEPOSITS NOT INTACT – UTILITIES

Utility bill payments remitted to the Water Utility were not deposited in the same form in which they were received. We reviewed customer remittance copies (the utility bill stubs used as receipts when payment is remitted), Proof of Payment Summary Reports (daily reports that provide details on the form of payment received, usage, and amounts applied to the different parts of the bill), deposit slips, and the City Controller's Ledger. For the three batches (receipts for a particular period of time at one location) of customer receipts reviewed, all (100%) were not deposited in the form indicated. The Water Utility's bank deposit slip did not agree with designation of cash and checks listed on the Proof of Payment Summary or with the reported methods of payment listed on the utility bill stubs from the collection point.

Indiana Code 5-13-6-1(d) states in part: "Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact." (Accounting and Uniform Compliance Guideline Manual for Cities and Towns, Chapter 7)

SEWER RATES BILLED

The sewage rates were set by Sanitary District Resolution 1997-05. Six out of twenty (30%) customers tested were not billed properly by the Water Utility for the sewage rates. Four of the tested customers were under billed and two customers were over billed. Additional testing revealed some customers were not billed at all. There is an unwritten policy to not pursue old balances and the assessment of late payment fees.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

BILLING ADJUSTMENTS

The Water Utility and Sanitary District do not have a written policy establishing authority for adjustments to customer accounts or receipt reversals. A total of 24 billing adjustments were tested. Three or 12% did not have supporting documentation. The computer system has a space to list the reason for the billing adjustment. Twelve or 50% of the reasons listed were unclear. "Admin" or "Clerk" does not give an adequate explanation. A similar audit result and comment appeared in the prior report.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT ACCOUNTS

The unofficial shut-off policy is that nonpayment of a water bill will result in the water being shut off. This policy is not enforced and it has not been addressed in writing by the Waterworks Board.

Many customers are delinquent in paying their water and sanitary district bills, some of whom are employees of the City. None of the delinquent sanitary bills have been certified to the County for payment enforcement.

A similar audit result and comment appeared in the prior report.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-9-23-32 states:

"(a) Fees assessed against real property under this chapter or under any statute repealed by IC 19-2-5-30 constitute a lien against the property assessed. The lien is superior to all other liens except tax liens. Except as provided in subsections (b) and (c), the lien attaches when notice of the lien is filed in the county recorder's office under section 33 [36-9-23-33] of this chapter.

(b) A fee is not enforceable as a lien against a subsequent owner of property unless the lien for the fee was recorded with the county recorder before the conveyance to the subsequent owner. If the property is conveyed before the lien can be filed, the municipality shall notify the person who owned the property at the time the fee became payable. The notice must inform the person that payment, including penalty fees for delinquencies, is due not less than fifteen (15) days after the date of the notice. If payment is not received within one hundred eighty (180) days after the date of the notice, the amount due may be expensed as a bad debt loss.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

(c) A lien attaches against real property occupied by someone other than the owner only if the utility notified the owner within twenty (20) days after the time the utility fees became sixty (60) days delinquent. However, the utility is required to give notice to the owner only if the owner has given the general office of the utility written notice of the address to which his notice is to be sent.

(d) The municipality shall release: (1) Liens filed with the county recorder after the recorded date of conveyance of the property; and (2) Delinquent fees incurred by the seller; upon receipt of a verified demand in writing from the purchaser. The demand must state that the delinquent fees were not incurred by the purchaser as a user, lessee, or previous owner, and that the purchaser has not been paid by the seller for the delinquent fees."

CASH OVERAGE AND SHORTAGE POLICY – UTILITIES

As stated in previous audit reports, no written policy addressing cash overages or shortages was provided for audit.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BAD DEBTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Water Utility does not have a written policy concerning bad debts. An allowance for doubtful accounts has been established based upon inactive accounts at year end. A similar audit result and comment appeared in prior reports.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONTROLS OVER CASH CHANGE

The Water Utility has a Cash Change Fund used to make change for customers paying their water bills. When counted on May 16, 2007, the Cash Change Fund was missing \$224.36. Custody of the Cash Change Fund changed three times during 2006. Each time custody changed, no documentation was prepared showing the amount of the Cash Change Fund, who received the money, or the date. The controls over the accounting for the Cash Change Fund were insufficient to determine who was responsible for the missing cash change amount.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

LEASE RENTAL

The Water Utility leased property to the Foundations of East Chicago (a not-for-profit entity). The lease agreement, dated September 28, 2000, required a monthly payment of \$2,205 for 12 months after which the payment increased by 20% to \$2,646. Rent due for the space for 2005 and prior years totaled \$46,305. No payments were received in 2006. The lease was terminated as of May 31, 2005. A similar audit result and comment appeared in prior reports.

On May 17, 2007, the Water Utility received \$33,075 from the Foundations of East Chicago for lease rental prior to 2005. The balance still due the Water Utility is \$13,230.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF EAST CHICAGO, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of East Chicago (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 21, 2007

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	FY 05-06 FY 06-07	\$ 244,386 <u>66,441</u>
Total for program			<u>310,827</u>
Pass-Through Indiana Department of Natural Resources Urban and Community Forestry Program	10.675	C7002042	<u>17,000</u>
Total for federal grantor agency			<u>327,827</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Award			
Community Development Block Grants/Entitlement Grants	14.218	B-04-MC-180004 B-05-MC-180004	76,477 <u>1,156,744</u>
Total for program			<u>1,233,221</u>
HOME Investment Partnerships Program	14.239	M-04-MC-18210 M-05-MC-18210	152,986 <u>40,098</u>
Total for program			<u>193,084</u>
Pass-Through Empowerment Zone Empowerment Zones Program	14.244	EZ-99IN0004	<u>113,000</u>
Total for federal grantor agency			<u>1,539,305</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Award			
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Registration of Manufacturers, Distributors, and Dispensers of Controlled Substances Gang Response Investigative Team	16.220	FY 06	<u>10,716</u>
Edward Byrne Memorial Formula Grant Program Federal Forfeitures	16.579	FY 00 FY 06	21,068 <u>39,452</u>
Total for program			<u>60,520</u>
Local Law Enforcement Block Grant Program	16.592	2004LBBX1582	<u>947</u>
Bulletproof Vest Partnership Program	16.607	FY 04	<u>6,375</u>
Total for federal grantor agency			<u>78,558</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit - Formula Grants	20.507	IN-90-X467-00FY06	<u>331,319</u>
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety Operation Pullover	20.600	PT-06-04-07-26	<u>9,184</u>
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants Seat Belt Enforcement	20.601	PT-07-04-01-32	<u>3,619</u>
Total for cluster			<u>12,803</u>
Total for federal grantor agency			<u>344,122</u>
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Award Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	FY 06	<u>15,250</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Drinking Water State Revolving Fund	66.468	DW19911001 DW19911002	1,252 <u>235,007</u>
Total for federal grantor agency			<u>236,259</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Department of Health Public Health and Social Services Emergency Fund Bioterrorism Hospital Preparedness Program	93.003	4U3RMC00015-03	<u>2,500</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance Public Health Preparedness and Response for Bioterrorism	93.283	U90/CCU517024-05-06 U90/CCU517024-06-07	38,426 <u>10,975</u>
Total for program			<u>49,401</u>
Total for federal grantor agency			<u>51,901</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Award Assistance to Firefighters Grant	97.044	EMW-2005-FG-12247	<u>90,774</u>
Total federal awards expended			<u>\$ 2,683,996</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF EAST CHICAGO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of East Chicago (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

II. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2006:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2006</u>
Community Development Block Grants/ Entitlement Grants	14.218	<u>\$ 40,480</u>

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
14.218	Community Development Block Grants/ Entitlement Grants
66.468	Federal Transit Cluster Capitalization Grants for Drinking Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1, COMPUTERIZED RECEIPTS AND CONTROLS

The City uses a computerized accounting system for all departments, including the Utilities. The computer system automatically assigns the receipt number in sequential order. Receipts are then summarized by the system on batch reports. The batches, which are by primarily by department, are assigned a sequential number by the system. Each batch also identifies the clerk who entered those receipts.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

No one at the City is responsible for assuring that all batches are accounted for within the system. We observed 41 batches out of 252 for February 2007, which could not be accounted for by the City. Upon inquiry of officials regarding these missing batch numbers, the software vendor was contacted. The software vendor stated that these batches were considered dead by the system, and cannot be printed or brought up by the system. Officials indicated that once a batch is open, that batch number cannot be deleted from the system. The system, however, will not print a batch that does not have any type of transaction (receipt) associated with it. It was also noted that the same batch number could be accessed twice and by two different clerks either on the same day or the following day.

No one at the City is responsible for assuring that all receipts are accounted for within the system. When the receipts were accumulated in numerical order, many were not documented on any type of batch or other report. Through system inquiries, some of the receipts were found to have been used by the system during the billing phase in applying credit balances to the amounts being billed, and the majority of the remaining receipts were the equivalent of a voided receipt. The receipts used to apply the credit balances were identified to batch "0." For the voided receipts, clerks explained that if an error is noted on a receipt prior to posting that receipt, they can "cancel" the receipt. When the receipt is viewed through the system, the receipt may or may not be identified with a batch, and the words, "Receipt Not Finished" appear on the receipt. There is nothing else to indicate what the error was with the receipt.

The system allows the clerk entering the receipt to determine the "Effective Date" of the receipt. By allowing the clerk to enter the effective date of the receipt, the clerk can, for example, enter receipts in August for money received in January. The system also allows the clerk to work on more than one batch at a time. Even after a batch has been closed by a clerk, it can still be reopened by the deputy controller. It isn't until the batch is posted by the deputy controller that the batch is truly closed. Currently, there is not a policy in place setting up time limit constraints on holding batches open.

These deficiencies were noted in the prior three audits. Officials indicated that the software vendor is still working on the programming issues involved.

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the City begin accounting for all of the receipt numbers, as well as the batch numbers. Missing receipt numbers and batch numbers should be documented and investigated. Policies should be written, authorized, and implemented to eliminate maintaining open batches, and to ensure timely posting of all transactions.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2006-2, INEFFECTIVE INTERNAL CONTROLS

The Utility employees at the Water Utility handle both Water Utility and Sanitary District financial activities. Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient and ineffective at the Water Utility and Sanitary District. These internal controls cover four areas: receipts, billing, customer meter deposits, and written policies approved by the governing board. The lack of effective internal controls over these four areas affects the reasonable assurance regarding the reliability of the financial records, effectiveness of operations, and safeguarding of assets.

The Utility collections for the year are approximately \$4,500,000 for the Water Utility and \$4,500,000 for the Sanitary District. These are material amounts for the proprietary funds and are material to the City as a whole.

The Utility employees are responsible for the utility billing for both the Water Utility and the Sanitary District. These employees handle the billing, customer meter deposits, meter reading, final bills, and collection of utility bills. The employees are not aware of the reports that the computer system is able to generate. They have not set up internal controls to monitor input and output of the system. The system is "live," so if a report is not generated at year end, the report will not be available. No reports were printed as of year end for accounts receivable or customer meter deposits payable. An aging report of account receivable for delinquent customers was also not printed.

A. The following deficiencies exist in the receipts area:

1. For each batch of receipts, the cash and check designation should agree to the cash and checks that are listed on the utility bill stubs, proof of payment summary printout, and bank deposit ticket. We found instances where the designation of cash and check was not recorded on the bank deposit ticket. We also found instances where the designation of cash and check did not agree from the proof of payment summary printout to the bank deposit ticket and the bill stubs. Therefore, we could not determine if deposits were made intact.
2. The officials were not able to explain the correlation between the posting of the batch of receipts and the proof of payment summary. Therefore, we were unable to prove that all money collected was properly posted to the ledger. Thus, amounts could be deposited to the wrong funds or accounts and the financial records may be inaccurate.

B. The following deficiencies exist in the billing area:

1. No written policy on customer billing adjustments.
2. Documentation is not always maintained to support customer billing adjustments.
3. The bill audit report does not always list an adequate explanation for the billing adjustment.
4. Test of billing of the Sanitary District rates revealed that 30% were not billed at the approved rate.
5. Test of billing of the Sanitary District rates revealed that some customers were not billed for Sanitary District charges.
6. The penalty on late payment of water charges, as approved in the rate schedule, was not assessed. So amounts due the Water Utility are not being collected.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

7. Instances occurred where a water meter was not read for months.
 8. Billing for industrial accounts is eight months behind.
- C. The following deficiencies exist in the customer meter deposits area:
1. A detail listing of customer meter deposits as of December 31, 2006 (printed on May 17, 2007) has a total of \$291,210.40. The separate bank account balance (control) for customer meter deposits was \$742,434. The detail and control should agree. A monthly reconciliation should be performed.
 2. The Water Utility officials did not present for audit a listing of all the customer meter deposits received in 2006.
 3. A Water Utility meter contract and receipt card is completed for each new customer meter deposit. Fifteen customer meter deposits were tested to determine if they were posted to the detail listing of customer meter deposits. Four or 27% of these deposits could not be located in the deposit register detail.
 4. The Water Utility officials did not present for audit a check register of all the customer meter deposits refunded during 2006. The official reconciling the bank account had an excel file on check numbers and amounts, but this was not an approved form.
 5. The amount of customer meter deposits applied to the final bills in 2006 was not disbursed from the customer deposits bank account to the operating bank account.
 6. Customer meter deposits refunded during 2006 did not have board approval. The refund checks were not listed on the Accounts Payable Voucher Register approved by the Waterworks Board at meetings.
 7. Final bills are generated but not printed. The final bills could be used as documentation to support the customer meter deposit refund and the amount of the customer meter deposit applied to the bill.
- D. Deficiencies exist because the governing board has not approved a written policy for the following areas:
1. Assessment of late payment penalties.
 2. Accrued interest on customer meter deposit refunds.
 3. Cash shortage and overage in utility bill collections.
 4. Write-off of bad debts.
 5. Collection on delinquent accounts.
 6. Controls over the cash change fund to ensure that the fund is returned intact when custody is relinquished.
 7. Controls to ensure that the utility receipts taxes and the sales taxes are paid to the State of Indiana in a timely manner.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the Water Utility and Sanitary District implement effective internal controls over the four areas of receipts, billing, customer meter deposits, and written policies approved by the governing board. Effective controls will give reasonable assurance regarding the reliability of the financial records, effectiveness of operations, and safeguarding of assets.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF EAST CHICAGO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. • East Chicago, Indiana 46312

George Pabe
Mayor

Charles Pacurar
City Controller
(219) 391-8220

**City of East Chicago
Schedule of Findings
Corrective Action Plan
For the Year Ended December 31, 2006**

FINDING NO. 2006-1 COMPUTERIZED RECEIPTS AND CONTROLS

Corrective Action:

The City of East Chicago has contacted its software vendor to request a program modification that will ensure that its cash receipts program will account for receipts and batches in the manner prescribed by the State Board of Accounts.

The City of East Chicago will put in place a written policy that requires batches to be entered, proofed, and posted on a daily basis.

Charles Pacurar
City Controller

June 18, 2007



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. • East Chicago, Indiana 46312

George Pabey
Mayor

Charles Pacurar
City Controller
(219) 391-8220

**City of East Chicago
Schedule of Findings
Corrective Action Plan
For the Year Ended December 31, 2006**

FINDING NO. 2006-2 INEFFECTIVE INTERNAL CONTROLS

Comments to the City of East Chicago Water Utility and Sanitary District SBOA Audit Results and Comments:

The current administration inherited both Utilities with ineffective control environments. Neither of the Utilities has any record of or any recollection of documented policies and procedures related to daily, weekly, monthly, etc. periodic financial activities. Moreover, due to high employee turnover rates and the implementation of a new city-wide computer system, current management is challenged to learn the system and its various reports without any benefit of formalized training or previous oral or written on-the-job training.

Currently, the main source of information regarding system operations is from the software manufacturer's helpline which can be inefficient and problematic at best. The administration's and management's priority is to effectively manage the day-to-day operations while gaining a thorough understanding and use of the computer system with respect to utility receipts and billings, accounts receivable and payable and the general ledger. There are a myriad of reports and report parameters that must be defined in an appropriate manner to ensure accurate and valid information is extracted from the system. Management is currently working with LWG and the software provider to ensure the correct parameters are set and which reports to utilize for financial and operational reporting. As this information is defined, a system of internal controls can be developed and memorialized for ultimate approval by the appropriate authoritative boards. The anticipated timeline for written policies to be presented to the appropriate boards for their initial perusal and comments is August 31, 2007 with the final written policies and procedures receiving approval by September 30, 2007.

Corrective Action:

Receipt area deficiencies:

- 1) Changes will be made to the actual procedures currently being followed such that this inability to track cash and checks within a particular batch of receipts is eliminated. The total policy will be memorialized in a written procedure. The physical change is anticipated to be completed by the end of July 2007 with the written policy to be incorporated with the other required written policies and procedures.
- 2) The Utility officials could not explain the correlation between the posting of the batch of receipts and the proof of payment summary due to the fact that they have not been assigned responsibilities over the posting of receipts or the general ledger for the Utilities. Given the employment of a Utility Accountant beginning in 2007, the Utility Accountant will have the understanding in question but will not have the responsibilities of posting and GL account maintenance; those will remain with the Controller's Office.

Billing area deficiencies:

- 1) Refer to introductory comments.
- 2) A procedure has been instituted beginning in 2007 pertaining to the steps to be followed and the necessary documentation for all billing inquiries and adjustments. Also included is the maintenance and storage of such documentation after the individual issue has been resolved.
- 3) Information imparted to the exit conference group indicated that appropriate utility personnel can edit the current computer billing inquiry/adjustment reason code descriptions that here to fore were believed to be programmed and not capable of change.
- 4 & 5) Prior to the exit conference, a 100% review of all billing cycles and customer bills for July 2007 was planned. This is to occur during the week beginning June 25, 2007.
- 6) Research with the assistance from the software helpline has been completed and it is now known that we can re-institute the penalty fee on late payments on a prospective basis only. Thus, a resolution reinstating the penalty fees on late payments is being prepared for water utility and sanitary district board approvals. The goal is to send out notice in either the July or August 2007 customer billings alerting customers that the late payment penalty fees will begin with the following months billing.
- 7) It should be noted that estimating meter readings during winter months is an accepted practice by all water utilities for meters that are located in meter pits. Industrial meters are not read when the meter readers cannot gain access to the area where the meters are located. The Utility is in the process of gathering each and every industrial customers contact information so that the billing office can contact that industrial customer when the meter readers alert the billing office that access to the meter is blocked. A policy is being developed

for the calculation of an estimated reading when the meter is not accessible and for a penalty when accessibility is denied. After proper approval is received the respective utility boards and the Indiana Utility Regulatory Board, the industrial customers will be properly notified of these policies and procedures and will be put into full force and effect.

- 8) The Utility is aware that they have been 4 months in arrears when it comes to industrial billings specifically billing for November 2006 usage at the end of February 2007. However, they are not aware that they have ever been 8 months in arrears for the billing of industrial customers.

Customer Meter Deposit Area Deficiencies:

Prior to the exit conference a specific time frame had been determined to address the reconciliation of the customer meter deposit fund. This issue is scheduled to be dealt with during the week of June 25, 2007.

Governing Board Written Policy Area Deficiencies:

As mentioned in the opening statement to these responses, the timeline is that the written policies and procedures for area deficiencies will be submitted to the appropriate boards by August 31, 2007 with anticipated final approval by September 30, 2007.



Charles Pacurar
City Controller

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on June 21, 2007, George Pabey, Mayor; Charles Pacurar, City Controller; Richard Medina, Common Council President; Kim Anderson, Deputy Controller; Alicia Aceves, Senior Accountant; and James Bennett, Financial Advisor. The official response has been made a part of this report and may be found on pages 82 through 87.

**City of East Chicago
Audit Responses
For the Year Ended December 31, 2006**

Negative Cash Balances

Most of the overdrawn cash positions were either the result of the shortfall in property tax collections or grants that are funded on a reimbursement basis.

Payroll Bank Account

The City has begun to process the gross payroll out of one payroll fund and will reconcile its payroll bank account to this fund on a monthly basis.

Separate Bank Accounts

Separate Bank Accounts have since been opened for the East Chicago Sanitary District, East Chicago Water Utility and the East Chicago Port Authority. As of July 1, 2007 the City has begun to use these accounts.

The City will open separate bank accounts for the East Chicago Waterway Management District and the Northwest Indiana Health Department Cooperative.

Fund Activity on Excel Spreadsheets

The City is in the process of changing its system to accommodate entering all original transactions into MUNIS.

Approval of Computerized Forms

All computerized forms will be submitted or resubmitted for approval.

Computerized Receipts and Controls

The City has contacted the software vendor regarding the necessary changes for the accounting of receipts and batches. The software company has indicated that any system modification required by the State will be accommodated.

The City will approve a written policy regarding batch entry, batch proofing, and batch posting.

Credit Card Payment Documentation

The mayor has since closed his credit card account and in the future will present detailed receipts for reimbursement.

Form 100R Incomplete

The City corrected this error and resubmitted a corrected Form 100R on April 30, 2007.

Employee's Service Record Deficiencies

The City will work with the various departments to ensure that employee service records are completed correctly in the future.

Post Employment Benefits

The City is currently in the process of drafting a revised personnel handbook that will address post employment benefits. All other discrepancies will be corrected in an effort to abide by the appropriate ordinance.

Redevelopment District Tax Increment Revenue Bonds of 1999, Series A

The City has made numerous attempts, without success, to contact National City Bank to arrange payments and/or obtain current amortization schedules. The delay in the payments of the TIF distribution is a direct result of National City Bank's unresponsiveness. As of this date National City Bank is in the process of resigning as the trustee of these bonds and the City is working with the new trustee, Wells Fargo, to obtain the necessary information.

Internal Controls – Building Department

The Building Department has since begun to issue receipts at the time payment is received.

Police Pension Fund

The Police Pension Board will begin documenting the death or retirement of a police officer.

Coroner's Continuing Education Fees

In the future the Health Department will submit fees collected in a timely manner.

Receipt Issuance – Animal Control

Animal Control will begin using prescribed receipt forms.

Crime Policy – Employee Dishonesty

The City will contact its insurance carrier to discuss purchasing a crime insurance policy.

Payments According to Contract – Port Authority

The Port Authority is in the process of inserting language into their contracts that will address late payments.

Ineffective Internal Controls – Utilities

The current administration inherited both Utilities with ineffective control environments. Neither of the Utilities has any record of or any recollection of documented policies and procedures related to daily, weekly, monthly, etc. periodic financial activities. Moreover, due to high employee turnover rates and the implementation of a new city-wide computer system, current management is challenged to learn the system and its various reports without any benefit of formalized training or previous oral or written on-the-job training.

Currently, the main source of information regarding system operations is from the software manufacturer's helpline which can be inefficient and problematic at best. The administration's and management's priority is to effectively manage the day-to-day

operations while gaining a thorough understanding and use of the computer system with respect to utility receipts and billings, accounts receivable and payable and the general ledger. There are a myriad of reports and report parameters that must be defined in an appropriate manner to ensure accurate and valid information is extracted from the system. Management is currently working with LWG and the software provider to ensure the correct parameters are set and which reports to utilize for financial and operational reporting. As this information is defined, a system of internal controls can be developed and memorialized for ultimate approval by the appropriate authoritative boards. The anticipated timeline for written policies to be presented to the appropriate boards for their initial perusal and comments is August 31, 2007 with the final written policies and procedures receiving approval by September 30, 2007.

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As mentioned in the opening statement to these responses, the timeline is that the written policies and procedures for area deficiencies will be submitted to the appropriate boards by August 31, 2007 with anticipated final approval by September 30, 2007.

Utility Receipts Tax

In the future the Water Utility will remit their taxes in a timely manner.

Accrual Records

The City has engaged the services of a consulting firm to assist with the accrual accounting needs of the Water Utility and the Wastewater Utility.

Customer Deposit Refunds

The Water Utility will address a resolution regarding the nonpayment of interest on customer deposits.

Fees

The City will instruct the Water Utility to resume the assessment of late fees.

Delinquent Accounts

The Water Utility will approve a written policy addressing delinquent accounts and shut off policies.

The Wastewater Utility will be instructed to certify to the County the delinquent Sanitary Bills.

Cash Overage/Shortage Policy

The Water Utility will approve a written policy addressing cash overages or shortages.

Allowance for Doubtful Accounts and Bad Debts

The Water Utility will approve a written policy addressing bad debts.

Lease Rental

The City will submit a letter to the Foundations of East Chicago requesting payment of the past due rent.

**City Court
City of East Chicago
Audit Results and Comments**

OFFICIAL RESPONSE

We, the East Chicago City Court are submitting our official response to the results and comments concerning the annual audit by the State Board of Account. This audit covered January 1, 2006 to December 31, 2006

RESTITUTION

Effective April 2007, the City Court stopped accepting restitution payments from the defendant for an injured party. The payment and disbursement of restitution amounts were handed over to the East Chicago City Clerk's Office. Since that time, the defendant has been instructed to make all payments in the Clerk's Office then return to the City Court Probation Officer so that a copy of the payment receipt is made and placed in the probation record. Upon receipt of the full amount as ordered by the City Court, the East Chicago City Clerk's Office will then disperse a check for said amount to the injured party. A copy of that transaction is also placed in the probation record.