

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

EXAMINATION REPORT

OF

TOWN OF NEW CHICAGO

LAKE COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
06/03/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherry Hall Lori Reno	01-01-06 to 03-09-07 03-10-07 to 12-31-11
President of the Town Council	Kelly Vickery Roger Pelfrey	01-01-06 to 10-09-07 10-10-07 to 12-31-08
Superintendent of Utilities	Howard Heckman Alicia Gossage	01-01-06 to 08-13-07 08-14-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF NEW CHICAGO, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of the Town of New Chicago (Town), for the period of January 1, 2006 to December 31, 2007. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

April 10, 2008

TOWN OF NEW CHICAGO
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2006 And 2007

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 47,141	\$ 432,905	\$ 497,739	\$ (17,693)
Motor Vehicle Highway	25,189	79,558	60,465	44,282
Local Road and Street	25,109	26,519	21,692	29,936
Parks and Recreation	13,970	17,985	28,843	3,112
Law Enforcement Continuing Education	3,032	3,753	6,104	681
Indiana Gaming Revenue	43,182	19,419	4,136	58,465
Police Donation	2,017	400	-	2,417
Fire Donation	-	1,525	475	1,050
Deferred Prosecution	10,627	27,234	21,577	16,284
Court Costs	2,804	-	-	2,804
Sanitation	4,779	60,168	60,015	4,932
Recycling	(1,400)	20,505	17,088	2,017
Police Towing	833	2,680	2,344	1,169
Cops/UHP	1,857	36,000	34,374	3,483
Economic Development	21,551	5,500	598	26,453
Cumulative Capital Improvement	19,593	7,370	3,244	23,719
Cumulative Building and Firefighting Equipment	5,382	1,717	222	6,877
Local Major Moves Construction	-	49,057	-	49,057
Proprietary Funds:				
Water Utility - Operating	210,929	1,054,172	957,390	307,711
Water Utility - Depreciation	94,139	89,180	33,368	149,951
Water Utility - Customer Deposit	73,389	71,264	14,729	129,924
Wastewater Utility - Operating	3,485	173,613	174,461	2,637
Wastewater Utility - Depreciation	166,310	1,632	41,304	126,638
Wastewater Utility - Sinking	91,561	63,900	87,324	68,137
Fiduciary Funds:				
Park Deposits	370	680	545	505
Police Officers' Pension	14,884	-	-	14,884
Payroll	-	528,360	528,132	228
Totals	<u>\$ 880,733</u>	<u>\$ 2,775,096</u>	<u>\$ 2,596,169</u>	<u>\$ 1,059,660</u>

The accompanying notes are an integral part of the financial information.

TOWN OF NEW CHICAGO
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2006 And 2007
(Continued)

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ (17,693)	\$ 520,825	\$ 486,576	\$ 16,556
Motor Vehicle Highway	44,282	84,651	82,058	46,875
Local Road and Street	29,936	30,304	56,568	3,672
Parks and Recreation	3,112	11,586	11,630	3,068
Law Enforcement Continuing Education	681	3,766	1,089	3,358
Indiana Gaming Revenue	58,465	19,899	63,016	15,348
Police Donation	2,417	-	-	2,417
Fire Donation	1,050	-	1,050	-
Deferred Prosecution	16,284	36,159	26,808	25,635
Court Costs	2,804	-	-	2,804
Sanitation	4,932	60,171	60,214	4,889
Recycling	2,017	13,670	15,637	50
Police Towing	1,169	3,285	1,669	2,785
Cops/UHP	3,483	18,500	20,865	1,118
Economic Development	26,453	5,451	28,456	3,448
Cumulative Capital Improvement	23,719	7,246	11,947	19,018
Cumulative Building and Firefighting Equipment	6,877	-	339	6,538
Local Major Moves Construction	49,057	-	49,000	57
Proprietary Funds:				
Water Utility - Operating	307,711	1,076,610	1,071,576	312,745
Water Utility - Depreciation	149,951	57,191	91,988	115,154
Water Utility - Customer Deposit	129,924	19,873	42,562	107,235
Wastewater Utility - Operating	2,637	212,526	197,969	17,194
Wastewater Utility - Depreciation	126,638	42,823	77,834	91,627
Wastewater Utility - Sinking	68,137	106,500	86,990	87,647
Fiduciary Funds:				
Park Deposits	505	660	490	675
Police Officers' Pension	14,884	-	-	14,884
Payroll	228	519,007	516,579	2,656
Totals	<u>\$ 1,059,660</u>	<u>\$ 2,850,703</u>	<u>\$ 3,002,910</u>	<u>\$ 907,453</u>

The accompanying notes are an integral part of the financial information.

TOWN OF NEW CHICAGO
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Property taxes have not been billed or collected timely each year since 2004. The final settlement of the 2004 taxes payable in 2005 was distributed to the various governmental entities in March 2006. For the 2005 taxes payable in 2006, the tax bills were mailed to Lake County residents in August 2006. They were due in two installments on August 29, 2006 and November 14, 2006. The final settlement of the 2005 taxes payable in 2006 was distributed to the various governmental entities on January 4, 2007. For the 2006 taxes payable in 2007, the tax bills were mailed to Lake County residents in January 2008. They were due in one installment on January 31, 2008. The final settlement of the 2006 taxes payable in 2007 was distributed to the various governmental entities on March 20, 2008.

Note 5. Deposits and Investments

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

State statute (IC5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF NEW CHICAGO
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

Note 7. Long-Term Debt

The Town has entered into various debts such as the Sewage Works Refunding Revenue Bonds of 2003 (formally Sewage Works Revenue Bonds of 1990) to be paid by income derived from the acquired or constructed assets. The outstanding principal at December 31, 2007, was \$676,000.

Note 8. Circuit Breaker Agreement

In 2004, the state provided to Lake County, for the benefit of various taxing units, a circuit breaker loan. The loan was to cover tax bill amounts in excess of 2% of the property's assessed valuation, subject to the property having a homestead exemption on file. On January 11, 2005, the County entered into an agreement with the Town of New Chicago and other taxing units receiving gaming tax distributions from Lake County for repayment of the loan. The Town will have its gaming distribution reduced by \$945 quarterly for five years, beginning in April 2005, to repay its share of the loan.

TOWN OF NEW CHICAGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
Sewage Works Refunding Revenue Bonds of 2003	\$ <u>676,000</u>	\$ <u>87,505</u>

TOWN OF NEW CHICAGO
EXAMINATION RESULTS AND COMMENTS

RECEIPTS AND COLLECTIONS

As stated in the prior report, receipts generated by the Town's computer software will only allow one designation of the form of payment per receipt. Therefore, if a receipt is issued for the collection of a combination of cash and checks, the computer system will not allow a breakdown between the two amounts. As a result, the composition of monies collected could not be verified to the bank deposit.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT DEPOSITS

The Police Department collects money for VIN checks, tow releases, gun permits, and accident reports. During our receipt test, we noted that money was being remitted to the Clerk-Treasurer's office anywhere from one to four weeks after the original receipt date.

Receipts and fees collected by a police department should be remitted to the clerk-treasurer or city controller at least once each week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

INTEREST ON INVESTMENTS

In some instances, interest earned on investments was automatically added to the principal and not recorded in the records.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INFRACTION DEFERRAL PROGRAM

The Police Chief indicated that the Town of New Chicago operates a Traffic Violations Bureau in which he acts as the Violations Clerk. Only infraction deferral program fees are collected by the Traffic Violations Bureau.

Upon issuance of a ticket, the Police Chief gives the violator the option to participate in the infraction deferral program, or proceed to court. If the violator chooses to participate in the infraction deferral program, he or she signs an agreement to participate. The cost for the program is \$167 and the fee is collected at the New Chicago Police Station (money orders only). Receipts are not issued to the violator; instead, a copy of his or her signed agreement serves as the receipt. The Police Chief keeps a log of the money collected, the tickets, and the agreements signed by the violators. The money that is collected is taken to the Lake County Auditor by the Police Chief. The Lake County Auditor gives the Police Chief an interim receipt, and the Police Chief completes a claim form for the Town's portion of the fees. The County keeps \$72, and the Town of New Chicago gets a user fee of \$95. Half of the \$95 is receipted into the General Fund, and half is receipted to an Infraction Deferral Program (IDP) fund.

TOWN OF NEW CHICAGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 34-28-5-7 states: "Any court may establish a traffic violations bureau and appoint a violations clerk who shall serve under the direction and control of the court."

Indiana Code 34-28-5-8 states in part: "The violations clerk or deputy violations clerk shall:

(1) accept: . . .

(E) payments of judgments (including costs) in traffic violation cases;

(F) deferral agreements made under section 1(f) of this chapter (or IC 34-4-32-1(f) before its repeal) and deferral program fees prescribed under IC 33-37-4-2(e); and . . .

(2) issue receipts and account for any judgments (including costs) collected; and

(3) pay the judgments (including costs) collected to the appropriate unit of government as provided by law.

Indiana Code 34-28-5-1(f) states: "This subsection does not apply to an offense or violation under IC 9-24-6 involving the operation of a commercial motor vehicle. The prosecuting attorney or the attorney for a municipal corporation may establish a deferral program for deferring actions brought under this section. Actions may be deferred under this section if:

(1) the defendant in the action agrees to conditions of a deferral program offered by the prosecuting attorney or the attorney for a municipal corporation;

(2) the defendant in the action agrees to pay to the clerk of the court an initial user's fee and monthly user's fee set by the prosecuting attorney or the attorney for the municipal corporation in accordance with IC 33-37-4-2(e);

(3) the terms of the agreement are recorded in an instrument signed by the defendant and the prosecuting attorney or the attorney for the municipal corporation;

(4) the defendant in the action agrees to pay a fee of seventy dollars (\$70) to the clerk of court if the action involves a moving traffic offense (as defined in IC 9-13-2-110);

(5) the agreement is filed in the court in which the action is brought; and

(6) if the deferral program is offered by the prosecuting attorney, the prosecuting attorney electronically transmits information required by the prosecuting attorneys council concerning the withheld prosecution to the prosecuting attorneys council, in a manner and format designated by the prosecuting attorneys council.

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)

Certain ordinances may be enforced by a City or Town without proceeding in court through:

(1) an admission of violation before the violations clerk of an ordinance violations bureau under Indiana Code 33-6-3; or

TOWN OF NEW CHICAGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

(2) administrative enforcement under Indiana Code 36-1-6-9.

An ordinance defining a moving traffic violation may not be enforced under IC 33-6-3 and must be enforced in accordance with IC 34-28-5 which requires such cases to be heard in any circuit, superior, county, city, or town court or traffic violations bureau designated by these courts (IC 36-1-6-3). (Cities and Towns Bulletin and Uniform Compliance Guidelines, March, 2002, Page 1)

CUSTOMER DEPOSITS

As stated in the prior report, the Water Utility recorded the customer deposits in three books. The total customer deposits recorded in the books was \$132,189.80 and the cash and investment balance of the customer deposit fund was \$107,234.78 at December 31, 2007. The customer deposit books date back to 1954 and have not been in agreement with the fund balance since before any of the present staff began working for the Town. The clerks have tried, but have been unsuccessful at balancing the books to the ledger.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROVAL OF FORMS

The Town uses a customer deposit receipt form which has not been approved for use in lieu of prescribed forms.

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)

TOWN OF NEW CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2008, with Lori Reno, Clerk-Treasurer; Roger Pelfrey, President of the Town Council; and Danny Sebben, Police Chief.