

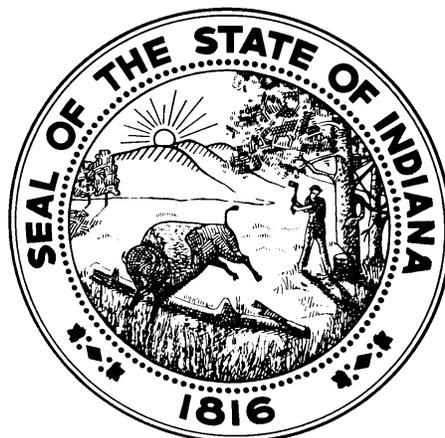
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2007

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA



FILED
09/30/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Charles Pacurar	01-01-07 to 12-31-08
Mayor	George Pabey	12-29-04 to 12-31-11
President of the Board of Public Works	Charles Pacurar	01-01-07 to 12-31-08
President of the Common Council	Richard Medina	01-01-07 to 12-31-08
Utilities Director	Adolfo Velez	01-01-07 to 12-31-08
Director Departmental (Water Utility)	Maria Dedinsky (Interim) Brian Marciniak	01-01-07 to 08-31-07 09-01-07 to 12-31-08
Director of Solid Waste Operations	Lidia Corsbie	01-01-07 to 12-31-08
Director of Wastewater Operations	Peter Branyia	01-01-07 to 12-31-08
Director of the Port Authority	Richard Novak	01-01-07 to 12-31-08



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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, 2007, 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 controls over receipting, disbursing, recording and accounting for the financial activities for the Water Utility and Sanitary District were also determined to be ineffective.

In our opinion, except for the effects, if any, described in the previous 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, 2007, 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 July 28, 2008, 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, 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

July 28, 2008



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS 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 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 28, 2008. The opinions to the financial statements were qualified due to ineffective controls over the receipting, disbursing, recording and accounting for financial activities for the Water Utility, and the Sanitary District. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiency described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

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 grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2007-1.

The City's response to the finding identified in our audit is described in the accompanying sections of the report entitled Corrective Action Plan and Official Response. We did not audit the City's response and accordingly, we express no opinion on it.

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

July 28, 2008

CITY OF EAST CHICAGO
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

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	Totals	Port Authority
Primary government:								
Governmental activities:								
General government	\$ 29,026,797	\$ 1,042,848	\$ 919,409	\$ 1,902,485	\$ (25,162,055)	\$ -	\$ (25,162,055)	\$ -
Public safety	22,656,314	103,884	70,352	-	(22,482,078)	-	(22,482,078)	-
Highways and streets	2,356,265	-	1,735,904	545,982	(74,379)	-	(74,379)	-
Sanitation	351,827	-	-	-	(351,827)	-	(351,827)	-
Health and welfare	3,128,728	55,462	463,239	-	(2,610,027)	-	(2,610,027)	-
Economic development	5,219,741	-	2,337,888	-	(2,881,853)	-	(2,881,853)	-
Culture and recreation	5,461,927	501,858	-	-	(4,960,069)	-	(4,960,069)	-
Urban redevelopment and housing	2,610,411	-	354,855	-	(2,255,556)	-	(2,255,556)	-
Interest on long-term debt	1,462,528	-	-	-	(1,462,528)	-	(1,462,528)	-
Total governmental activities	<u>72,274,538</u>	<u>1,704,052</u>	<u>5,881,647</u>	<u>2,448,467</u>	<u>(62,240,372)</u>	<u>-</u>	<u>(62,240,372)</u>	<u>-</u>
Business-type activities:								
Water	7,790,483	4,292,820	-	-	-	(3,497,663)	(3,497,663)	-
Sanitary District	17,268,889	3,873,260	-	-	-	(13,395,629)	(13,395,629)	-
Total business-type activities	<u>25,059,372</u>	<u>8,166,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,893,292)</u>	<u>(16,893,292)</u>	<u>-</u>
Total primary government	<u>\$ 97,333,910</u>	<u>\$ 9,870,132</u>	<u>\$ 5,881,647</u>	<u>\$ 2,448,467</u>	<u>(62,240,372)</u>	<u>(16,893,292)</u>	<u>(79,133,664)</u>	<u>-</u>
Component unit:								
Port Authority	<u>\$ 1,929,899</u>	<u>\$ 1,628,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(301,768)</u>
General receipts:								
Property taxes					17,273,494	9,207,921	26,481,415	-
Gaming taxes					20,391,816	-	20,391,816	-
Excise taxes					1,101,649	-	1,101,649	-
ABC gallonage taxes					86,975	-	86,975	-
Financial institution taxes					62,792	-	62,792	-
Cigarette taxes					31,050	-	31,050	-
Other local sources					2,367,059	216,021	2,583,080	-
Loan proceeds					26,000,000	-	26,000,000	-
Unrestricted investment earnings					572,991	786,629	1,359,620	-
Intergovernmental loans					(1,750,000)	1,500,000	(250,000)	250,000
Transfers					271,319	(271,319)	-	-
Total general receipts, loans, and transfers					<u>66,409,145</u>	<u>11,439,252</u>	<u>77,848,397</u>	<u>250,000</u>
Change in net assets					4,168,773	(5,454,040)	(1,285,267)	(51,768)
Net assets - beginning					<u>7,289,589</u>	<u>23,507,433</u>	<u>30,797,022</u>	<u>143,375</u>
Net assets - ending					<u>\$ 11,458,362</u>	<u>\$ 18,053,393</u>	<u>\$ 29,511,755</u>	<u>\$ 91,607</u>
Assets								
Cash and investments					\$ 3,074,142	\$ (1,753,533)	\$ 1,320,609	\$ 91,607
Restricted assets:								
Cash and cash investments					<u>8,384,220</u>	<u>19,806,926</u>	<u>28,191,146</u>	<u>-</u>
Total assets					<u>\$ 11,458,362</u>	<u>\$ 18,053,393</u>	<u>\$ 29,511,755</u>	<u>\$ 91,607</u>
Net Assets								
Restricted for:								
Debt service					\$ 922	\$ 1,621,883	\$ 1,622,805	\$ -
Capital projects					2,346,551	-	2,346,551	-
Other purposes					6,036,747	18,185,043	24,221,790	-
Unrestricted					<u>3,074,142</u>	<u>(1,753,533)</u>	<u>1,320,609</u>	<u>91,607</u>
Total net assets					<u>\$ 11,458,362</u>	<u>\$ 18,053,393</u>	<u>\$ 29,511,755</u>	<u>\$ 91,607</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
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Gaming Special Revenue	Economic Development Commission	Cumulative Capital Improvement	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 11,781,526	\$ 166	\$ -	\$ 3,259,132	\$ -	\$ 2,232,670	\$ 17,273,494
Licenses and permits	163,244	-	-	-	-	1,060	164,304
Intergovernmental	1,205,994	1,192,198	20,641,816	-	984,485	4,044,493	28,068,986
Charges for services	29,030	-	-	-	-	578,187	607,217
Fines and forfeits	86,571	-	-	-	-	-	86,571
Other	1,556,980	894	12,897	-	918,000	1,481,150	3,969,921
Total receipts	14,823,345	1,193,258	20,654,713	3,259,132	1,902,485	8,337,560	50,170,493
Disbursements:							
General government	14,080,176	-	10,039,879	-	-	2,099,288	26,219,343
Public safety	20,413,087	-	1,130,012	-	-	175,611	21,718,710
Highways and streets	-	777,408	-	-	-	422,275	1,199,683
Sanitation	-	-	80,508	-	-	271,319	351,827
Health and welfare	2,680,596	-	-	-	-	448,132	3,128,728
Economic development	-	-	4,119,368	959,648	-	-	5,079,016
Culture and recreation	-	-	1,091,376	-	-	3,810,551	4,901,927
Urban redevelopment and housing	-	-	-	-	-	1,951,305	1,951,305
Debt service:							
Principal	22,004	-	803,079	140,725	-	2,156,710	3,122,518
Interest and fiscal charges	5,685	-	19,754	61,158	-	1,375,931	1,462,528
Capital outlay	-	-	-	-	385,798	775,193	1,160,991
Total disbursements	37,201,548	777,408	17,283,976	1,161,531	385,798	13,486,315	70,296,576
Excess of receipts over disbursements	(22,378,203)	415,850	3,370,737	2,097,601	1,516,687	(5,148,755)	(20,126,083)
Other financing sources (uses):							
Tax anticipation warrants received	26,000,000	-	-	-	-	-	26,000,000
Interfund loans	-	-	(1,750,000)	-	-	-	(1,750,000)
Transfers in	3,500,000	-	-	-	-	1,966,271	5,466,271
Transfers out	(2,236)	-	(4,573,888)	(2,784)	-	(616,044)	(5,194,952)
Total other financing sources (uses)	29,497,764	-	(6,323,888)	(2,784)	-	1,350,227	24,521,319
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,119,561	415,850	(2,953,151)	2,094,817	1,516,687	(3,798,528)	4,395,236
Cash and investment fund balance - beginning	(2,949,167)	1,350,295	8,402,525	202,477	267,827	2,552,920	9,826,877
Cash and investment fund balance - ending	\$ 4,170,394	\$ 1,766,145	\$ 5,449,374	\$ 2,297,294	\$ 1,784,514	\$ (1,245,608)	14,222,113
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.							
							(2,763,751)
Net assets of governmental activities							\$ 11,458,362
Cash and Investment Assets - December 31							
Cash and investments	\$ 4,170,394	\$ -	\$ 5,449,374	\$ -	\$ -	\$ (3,781,875)	\$ 5,837,893
Restricted assets:							
Cash and investments	-	1,766,145	-	2,297,294	1,784,514	2,536,267	8,384,220
Total cash and investment assets - December 31	\$ 4,170,394	\$ 1,766,145	\$ 5,449,374	\$ 2,297,294	\$ 1,784,514	\$ (1,245,608)	\$ 14,222,113
Cash and Investment Fund Balance - December 31							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 922	\$ 922
Capital outlay	-	-	-	-	1,784,514	562,037	2,346,551
Other purposes	-	1,766,145	-	2,297,294	-	1,973,308	6,036,747
Unrestricted	4,170,394	-	5,449,374	-	-	(3,781,875)	5,837,893
Total cash and investment fund balance - December 31	\$ 4,170,394	\$ 1,766,145	\$ 5,449,374	\$ 2,297,294	\$ 1,784,514	\$ (1,245,608)	\$ 14,222,113

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, 2007

	Water Utility	Sanitary District	Totals	Internal Service Funds
Operating receipts:				
Residential sales	\$ 1,062,947	\$ 1,383,146	\$ 2,446,093	\$ -
Commercial sales	498,960	184,611	683,571	-
Industrial sales	2,076,465	932,046	3,008,511	-
Public sales	46,150	1,013,372	1,059,522	-
Local tax distributions	-	9,207,921	9,207,921	-
Fire protection	428,130	-	428,130	-
Charges for services - internal	-	-	-	11,952,110
Charges for services - other	-	-	-	584,736
Insurance/Medicare refunds	-	-	-	1,166,763
Other	180,168	360,085	540,253	-
	<u>4,292,820</u>	<u>13,081,181</u>	<u>17,374,001</u>	<u>13,703,609</u>
Total operating receipts				
Operating disbursements:				
Municipal waste disposal	-	1,238,624	1,238,624	-
Sanitary building maintenance	-	1,621,147	1,621,147	-
Trash and bulk collection	-	1,115,523	1,115,523	-
Street sweeping	-	271,577	271,577	-
Garbage collection	-	1,303,936	1,303,936	-
Sewer repair and service	-	1,272,544	1,272,544	-
Pump stations	-	3,278	3,278	-
Recycling	-	730,789	730,789	-
Officers and employees salaries and wages	1,817,268	2,081,237	3,898,505	-
Employee pensions and benefits	659,918	672,088	1,332,006	-
Sludge removal	-	161,496	161,496	-
Purchased power	281,683	643,937	925,620	-
Chemicals	157,015	45,904	202,919	-
Materials and supplies	175,993	535,503	711,496	-
Contractual services	161,436	966,696	1,128,132	-
Rents	21,187	37,410	58,597	-
Transportation	2,189	26,612	28,801	-
Miscellaneous expenses	159,444	1,029,288	1,188,732	-
Plant equipment	39,404	1,786,023	1,825,427	-
Structures and improvements	3,331,544	-	3,331,544	-
Other disbursements	116,192	286,496	402,688	-
Administration and general	-	392,276	392,276	204,843
Cost of sales and services	-	-	-	2,147,430
Insurance claims and premiums	-	-	-	11,577,799
	<u>6,923,273</u>	<u>16,222,384</u>	<u>23,145,657</u>	<u>13,930,072</u>
Total operating disbursements				
Deficiency of receipts over disbursements				
	<u>(2,630,453)</u>	<u>(3,141,203)</u>	<u>(5,771,656)</u>	<u>(226,463)</u>
Nonoperating receipts (disbursements):				
Interest and investment receipts	750,114	36,515	786,629	-
Debt service of principal	(80,000)	(790,000)	(870,000)	-
Debt service of interest and fiscal charges	(787,210)	(256,505)	(1,043,715)	-
Loan proceeds form governmental funds	-	1,500,000	1,500,000	-
Miscellaneous receipts	46,268	169,753	216,021	-
	<u>(70,828)</u>	<u>659,763</u>	<u>588,935</u>	<u>-</u>
Total nonoperating receipts (disbursements)				

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, 2007
(Continued)

	<u>Water Utility</u>	<u>Sanitary District</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Nonoperating receipts (disbursements) (continued):				
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(2,701,281)	(2,481,440)	(5,182,721)	(226,463)
Other Financing sources (uses):				
Transfers out	-	(271,319)	(271,319)	-
Total other financing sources (uses)	-	(271,319)	(271,319)	-
Deficiency of receipts and other financing sources under disbursements and other financing uses	(2,701,281)	(2,752,759)	(5,454,040)	(226,463)
Cash and investment fund balance - beginning	<u>18,162,000</u>	<u>5,345,433</u>	<u>23,507,433</u>	<u>(2,537,288)</u>
Cash and investment fund balance - ending	<u>\$ 15,460,719</u>	<u>\$ 2,592,674</u>	<u>\$ 18,053,393</u>	<u>\$ (2,763,751)</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ (1,422,675)	\$ (330,858)	\$ (1,753,533)	\$ (2,763,751)
Restricted assets:				
Cash and investments	<u>16,883,394</u>	<u>2,923,532</u>	<u>19,806,926</u>	-
Total cash and investment assets - December 31	<u>\$ 15,460,719</u>	<u>\$ 2,592,674</u>	<u>\$ 18,053,393</u>	<u>\$ (2,763,751)</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 1,621,883	\$ -	\$ 1,621,883	\$ -
Other purposes	15,261,511	2,923,532	18,185,043	-
Unrestricted	<u>(1,422,675)</u>	<u>(330,858)</u>	<u>(1,753,533)</u>	<u>(2,763,751)</u>
Total cash and investment fund balance - December 31	<u>\$ 15,460,719</u>	<u>\$ 2,592,674</u>	<u>\$ 18,053,393</u>	<u>\$ (2,763,751)</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, 2007

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 1,683,134	\$ -
State	4,064,757	-
Plan members	<u>10,286</u>	<u>-</u>
Total contributions	<u>5,758,177</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>18,848,654</u>
Total additions	<u>5,758,177</u>	<u>18,848,654</u>
Deductions:		
Benefits	7,156,735	-
Administrative and general	22,447	-
Agency fund deductions	<u>-</u>	<u>18,981,745</u>
Total deductions	<u>7,179,182</u>	<u>18,981,745</u>
Deficiency of total additions over total deductions	<u>(1,421,005)</u>	<u>(133,091)</u>
Cash and investments - beginning	<u>(272,767)</u>	<u>2,160,521</u>
Cash and investments - ending	<u>\$ (1,693,772)</u>	<u>\$ 2,027,430</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 to 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 thirty cents per capita. NIRPC applies for federal transportation grant funds, which are passed 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 nonexchange 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 motor vehicle highway fund is a special revenue fund. It accounts for all financial resources received from the state of Indiana's Motor Vehicle Highway distributions to fund construction and maintenance of roads.

The gaming special revenue fund is a 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 economic development commission fund is a special revenue fund. It accounts for all financial resources received from property taxes attributable to the Tax Incremental Financing (TIF) district within the City to fund the payment of debt and issuance of debt to provide infrastructure for the TIF district.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The cumulative capital improvement fund is a capital projects fund. It accounts for the financial resources from the state distributions of cigarette taxes to fund capital improvements for the city.

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.

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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, the Sanitary District, the Port Authority and the City's governmental funds. 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.

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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

CITY OF EAST CHICAGO
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2007, disbursements exceeded budgeted appropriations in the following fund by the amount below:

Fund	2007
1937 Firefighters' Pension	\$ <u>89,446</u>

These disbursements were funded by excess cash balances of other funds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Cash and Investment Balance Deficits

At December 31, 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2007
Special revenue funds:	
Parks and Recreation	\$ 2,472,839
Public Transportation	407,913
Federal Grants	231,553
State Grants	9,826
Summer Youth Training Program	8,388
Debt service fund:	
Lease Rental Payment	1,167,640
Internal service funds:	
Communication Revolving	119,488
Health, Life, and Workers Compensation	2,505,088
Gasoline Revolving	139,175
Pension trust funds:	
1925 Police Pension	1,167,712
1937 Firefighters' Pension	526,060

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.

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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2007, the City had the following investments:

Investment Type	Market Value
U.S. treasuries and securities	<u>\$ 15,691,779</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 City 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.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the City'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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	More Than 2
U.S. treasuries and securities	\$ 15,691,779	\$ -	\$ -

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.

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.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, were as follows:

Transfer From	Transfer To	2007
General Fund	Other governmental funds	\$ 2,236
Gaming Special Revenue Fund	General Fund	3,500,000
	Other governmental funds	1,073,888
Economic Development Commission Fund	Other governmental funds	2,784
Sanitary District Fund	Other governmental funds	271,319
Other governmental funds	Other governmental funds	616,044
Total		<u>\$ 5,466,271</u>

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 subsidies and debt service requirements.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

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 postemployment 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 \$200,000 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.

B. Construction Commitments

Construction work in progress is composed of the following projects: Tod Park, Nunez Park, Block Stadium, Railroad Relocation Project, Broadway and Main Street Project, Time Clock System, and the Water Filtration Plant. The projects are funded primarily by gaming revenue and state revolving fund loans. Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2007	Required Future Funding
Tod Park renovation project	\$ 2,578,163	\$ 1,991,197	\$ 586,966
Nunez Park project	1,365,164	16,500	1,348,664
Block Stadium project	2,000,000	42,350	1,957,650
Railroad relocation project	9,262,893	1,143,848	8,119,045
Broadway and Main Street project	3,500,000	2,412,036	1,087,964
Time clock system	300,000	216,627	83,373
Water Filtration Plant	51,300,000	3,649,584	47,650,416
Totals	<u>\$ 70,306,220</u>	<u>\$ 9,472,142</u>	<u>\$ 60,834,078</u>

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$2,208,000.

D. Special Taxing District Bonds

The City approved Ordinance 06-0053 on January 9, 2007, to irrevocably pledge a maximum of \$3,000,000 annually of gaming revenue for the payment of principal and interest on 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.

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

E. Subsequent Events

Property Taxes

Property tax rates and levies for 2007 taxes payable 2008 were not established by February 15, as required by state statute due to the delay in the completion of reassessment of Lake County. Currently tax bills have not been mailed for the spring installment, normally due May 10.

Reduction in Workforce

On June 9, 2008, the City reduced its workforce by seventy-five employees. Twenty-five employees accepted an early retirement package, but fifty were laid off. In all cases, the positions these employees held were eliminated in an effort to cut spending due to budget constraints. Prior to the reduction in workforce, the City had nine hundred forty-five employees. Thus, the workforce was cut by 8%.

F. 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages has been estimated at \$1,984,000. The City Council is expected to approve the issuance of \$1,300,000 in Judgment Bonds to partially fund this obligation.

The City's liability for attorney fees as of December 31, 2007, for multiple cases is \$3,480,192.

G. Property Taxes

The final distribution of the 2005 taxes payable 2006 was made on January 4, 2007. The City received an advance on the second installment of the 2006 payable 2007 property tax bills in December 2007. The final distribution of the 2006 taxes payable 2007 was made in March 2008.

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 refund of their property tax payments for 2005 payable 2006 property taxes. The refund 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 refund credits. In 2007, the City refunded \$1,385,091 in property tax relief. The East Chicago Property Tax Credit Fund was established in 2007 for this purpose.

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 2007, the City paid \$224,132 in principal and \$19,754 in interest on the loan.

In November 2007, the City approved an agreement on property tax matters with Arcelormittal USA, Inc, (Mittal) formerly known as ISPAT Inland Steel, Inc. The agreement resolves a number of disputes and appeals regarding the assessed value of the real estate and personal property. The agreement provides for Mittal to receive a refund of \$16,000,000. The refund shall be paid by credits applied on property tax bills for any of its real and personal property located in Lake County. The credit is applied at a rate of \$2,000,000 per installment for tax years' 2006 pay 2007 through 2009 pay 2010. The City has the option of reducing the credit each year by the collection rate of the proceeding tax year. The collection rate to be applied to the 2006 payable 2007 tax bills is 85%. Mittal will ultimately receive the full \$16,000,000 in tax credits that were unused via the reduction adjustments of the credits on its 2010 pay 2011 taxes. The tax credit adjustments are only intended to adjust the timing of the credits granted and not the total amount of the \$16,000,000 refund. The City may also elect to refund the cash amount due to Mittal, at any earlier date than provided by the agreement, if it so desires.

H. 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 for the years 2001 through 2003. Credits reported in those years were not being deducted. In 2007, the deduction was \$1,077,742.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. 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 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, 2007, there were 10 series of Pollution Control, Solid Waste Disposal, and Economic Development Revenue Bonds outstanding. The aggregate principal amount payable for the 10 series could not be determined; however, their original issue amounts totaled \$121,376,000.

J. 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, 2007, disbursements of \$847,656 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, 84 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, 2007, disbursements of \$479,280 for insurance premiums were recognized for postemployment benefits.

K. 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

At December 31, 2007, outstanding loans were as follows:

	<u>Balance Receivable</u>
Special revenue funds:	
Community Development	\$ 3,413,619
SSED Revolving Loan	17,874
East Chicago, Gary, Hammond Revolving Loan Consortium	<u>98,330</u>
 Total loans receivable	 <u><u>\$ 3,529,823</u></u>

L. 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 Commissioners on February 27, 1997.

M. 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:

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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	\$ 1,365,568	\$ 126,964	\$ 3,847,300	\$ 3,005,400
Interest on net pension obligation	(35,465)	(10,545)	1,185,900	725,300
Adjustment to annual required contribution	40,415	12,017	(1,473,900)	(901,400)
Annual pension cost	1,370,518	128,436	3,559,300	2,829,300
Contributions made	1,101,033	112,592	3,285,209	2,462,682
Increase in net pension obligation	269,485	15,844	274,091	366,618
Net pension obligation, beginning of year	(489,169)	(145,453)	19,765,043	12,088,377
Net pension obligation, end of year	<u>\$ (219,684)</u>	<u>\$ (129,609)</u>	<u>\$ 20,039,134</u>	<u>\$ 12,454,995</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	5.5%	8168%	3187%
Water Utility	5.5%	NA	NA
Plan members	3%	6%	6%
Actuarial valuation date	07-01-07	01-01-06	01-01-06
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	01-01-05	01-01-05
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

NA = Not Applicable

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 1,101,908	93%	\$ (590,272)
	06-30-06	1,116,674	91%	(489,169)
	06-30-07	1,370,518	80%	(219,684)
PERF (Water Utility)	06-30-05	105,454	125%	(110,998)
	06-30-06	83,008	142%	(145,453)
	06-30-07	128,436	88%	(129,609)
1925 Police Officer's Pension Plan	12-31-05	3,795,700	113%	20,879,548
	12-31-06	3,728,800	130%	19,765,043
	12-31-07	3,464,200	92%	20,039,134
1937 Firefighters' Pension Plan	12-31-05	2,891,900	117%	13,346,261
	12-31-06	2,792,200	144%	12,088,377
	12-31-07	2,715,500	87%	12,454,995

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2007, was comprised of the following:

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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, 2007, 2006, and 2005, were \$1,932,301, \$1,852,430, and \$1,811,539, 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)
07-01-05	\$ 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%)
07-01-07	21,726,391	23,183,960	(1,457,569)	94%	21,219,727	(7%)

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)
07-01-05	\$ 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%)
07-01-07	1,706,470	2,383,921	(677,451)	72%	1,736,744	(39%)

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)
01-01-02	\$ 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%)
01-01-07	(410,823)	52,948,700	(53,359,523)	(1%)	47,100	(113,290%)

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)
01-01-02	\$ 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%)
01-01-07	138,056	41,130,600	(40,992,544)	0%	94,300	(43,470%)

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

1925 Police Officers' Pension Plan				
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed		
		City	State	
12-31-02	\$ 6,287,500	19%	38%	
12-31-03	6,568,600	2%	33%	
12-31-04	6,827,700	2%	32%	
12-31-05	4,033,500	56%	50%	
12-31-06	4,035,300	64%	57%	
12-31-07	3,847,300	26%	60%	

1937 Firefighters' Pension Plan				
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed		
		City	State	
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	3,072,000	58%	55%	
12-31-06	3,024,500	76%	59%	
12-31-07	3,005,400	23%	59%	

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, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Funds
Receipts:				
Taxes	\$ 1,343,116	\$ 889,335	\$ 219	\$ 2,232,670
Licenses and permits	1,060	-	-	1,060
Intergovernmental	3,968,931	75,562	-	4,044,493
Charges for services	578,187	-	-	578,187
Other	1,481,150	-	-	1,481,150
	<u>7,372,444</u>	<u>964,897</u>	<u>219</u>	<u>8,337,560</u>
Total receipts				
Disbursements:				
General government	2,099,288	-	-	2,099,288
Public safety	175,611	-	-	175,611
Highways and streets	422,275	-	-	422,275
Sanitation	271,319	-	-	271,319
Health and welfare	448,132	-	-	448,132
Culture and recreation	3,810,551	-	-	3,810,551
Urban redevelopment and housing	1,951,305	-	-	1,951,305
Debt service:				
Principal	659,106	1,497,604	-	2,156,710
Interest and fiscal charges	25,758	1,350,173	-	1,375,931
Capital outlay	-	-	775,193	775,193
	<u>9,863,345</u>	<u>2,847,777</u>	<u>775,193</u>	<u>13,486,315</u>
Total disbursements				
Deficiency of receipts over disbursements	<u>(2,490,901)</u>	<u>(1,882,880)</u>	<u>(774,974)</u>	<u>(5,148,755)</u>
Other financing sources (uses):				
Transfers in	1,661,271	305,000	-	1,966,271
Transfers out	<u>(616,044)</u>	<u>-</u>	<u>-</u>	<u>(616,044)</u>
Total other financing sources (uses)				
	<u>1,045,227</u>	<u>305,000</u>	<u>-</u>	<u>1,350,227</u>
Deficiency of receipts and other financing sources over disbursements and other financing uses	(1,445,674)	(1,577,880)	(774,974)	(3,798,528)
Cash and investment fund balance - beginning	<u>804,747</u>	<u>411,162</u>	<u>1,337,011</u>	<u>2,552,920</u>
Cash and investment fund balance - ending	<u>\$ (640,927)</u>	<u>\$ (1,166,718)</u>	<u>\$ 562,037</u>	<u>\$ (1,245,608)</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ (2,614,235)	\$ (1,167,640)	\$ -	\$ (3,781,875)
Restricted assets:				
Cash and investments	<u>1,973,308</u>	<u>922</u>	<u>562,037</u>	<u>2,536,267</u>
Total cash and investment assets - December 31	<u>\$ (640,927)</u>	<u>\$ (1,166,718)</u>	<u>\$ 562,037</u>	<u>\$ (1,245,608)</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ -	\$ 922	\$ -	\$ 922
Capital projects	-	-	562,037	562,037
Other purposes	1,973,308	-	-	1,973,308
Unrestricted	<u>(2,614,235)</u>	<u>(1,167,640)</u>	<u>-</u>	<u>(3,781,875)</u>
Total cash and investment fund balance - December 31	<u>\$ (640,927)</u>	<u>\$ (1,166,718)</u>	<u>\$ 562,037</u>	<u>\$ (1,245,608)</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, 2007

	Local Road and Street	Parks and Recreation	Health Maintenance	General Adult Probation	Public Transportation	Federal Grants
Receipts:						
Taxes	\$ -	\$ 1,084,519	\$ -	\$ -	\$ 258,597	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	325,862	93,463	110,752	-	307,278	104,327
Charges for services	-	16,218	-	28,107	378,709	-
Other	-	493,393	-	-	3,388	95
Total receipts	<u>325,862</u>	<u>1,687,593</u>	<u>110,752</u>	<u>28,107</u>	<u>947,972</u>	<u>104,422</u>
Disbursements:						
General government	-	-	-	5,133	1,354,431	320,007
Public safety	-	-	-	-	-	85,937
Highways and streets	394,006	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Health and welfare	-	-	100,843	-	-	-
Culture and recreation	-	3,174,513	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total disbursements	<u>394,006</u>	<u>3,174,513</u>	<u>100,843</u>	<u>5,133</u>	<u>1,354,431</u>	<u>405,944</u>
Excess (deficiency) of receipts over disbursements	<u>(68,144)</u>	<u>(1,486,920)</u>	<u>9,909</u>	<u>22,974</u>	<u>(406,459)</u>	<u>(301,522)</u>
Other financing sources (uses):						
Transfers in	-	-	7,225	-	-	27,148
Transfers out	-	-	(571)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>6,654</u>	<u>-</u>	<u>-</u>	<u>27,148</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(68,144)</u>	<u>(1,486,920)</u>	<u>16,563</u>	<u>22,974</u>	<u>(406,459)</u>	<u>(274,374)</u>
Cash and investment fund balance - beginning	<u>213,425</u>	<u>(985,919)</u>	<u>83,662</u>	<u>55,162</u>	<u>(1,454)</u>	<u>42,821</u>
Cash and investment fund balance - ending	<u>\$ 145,281</u>	<u>\$ (2,472,839)</u>	<u>\$ 100,225</u>	<u>\$ 78,136</u>	<u>\$ (407,913)</u>	<u>\$ (231,553)</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ (2,472,839)	\$ -	\$ -	\$ (407,913)	\$ (231,553)
Restricted assets:						
Cash and investments	<u>145,281</u>	<u>-</u>	<u>100,225</u>	<u>78,136</u>	<u>-</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 145,281</u>	<u>\$ (2,472,839)</u>	<u>\$ 100,225</u>	<u>\$ 78,136</u>	<u>\$ (407,913)</u>	<u>\$ (231,553)</u>
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Other purposes	\$ 145,281	\$ -	\$ 100,225	\$ 78,136	\$ -	\$ -
Unrestricted	<u>-</u>	<u>(2,472,839)</u>	<u>-</u>	<u>-</u>	<u>(407,913)</u>	<u>(231,553)</u>
Total cash and investment fund balance - December 31	<u>\$ 145,281</u>	<u>\$ (2,472,839)</u>	<u>\$ 100,225</u>	<u>\$ 78,136</u>	<u>\$ (407,913)</u>	<u>\$ (231,553)</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, 2007
 (Continued)

	Community Development	Law Enforcement Continuing Education	Unsafe Building	State Grants	Summer Youth Training Program	Local Grants
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	1,060	-	-	-	-
Intergovernmental	1,960,020	-	-	812,633	-	-
Charges for services	-	17,958	5,719	-	-	-
Other	399,455	-	36,022	-	-	218,364
Total receipts	2,359,475	19,018	41,741	812,633	-	218,364
Disbursements:						
General government	-	-	-	-	387,708	14,518
Public safety	-	17,923	4,009	-	-	38,049
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Health and welfare	-	-	-	303,028	-	10,926
Culture and recreation	-	-	-	480,038	-	156,000
Urban redevelopment and housing	1,664,673	-	-	-	-	-
Debt service:						
Principal	659,106	-	-	-	-	-
Interest and fiscal charges	25,758	-	-	-	-	-
Total disbursements	2,349,537	17,923	4,009	783,066	387,708	219,493
Excess (deficiency) of receipts over disbursements	9,938	1,095	37,732	29,567	(387,708)	(1,129)
Other financing sources (uses):						
Transfers in	328,603	-	-	38,447	701,088	571
Transfers out	(286,870)	-	-	-	-	-
Total other financing sources (uses)	41,733	-	-	38,447	701,088	571
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	51,671	1,095	37,732	68,014	313,380	(558)
Cash and investment fund balance - beginning	914,730	62,645	9,660	(77,840)	(321,768)	59,400
Cash and investment fund balance - ending	<u>\$ 966,401</u>	<u>\$ 63,740</u>	<u>\$ 47,392</u>	<u>\$ (9,826)</u>	<u>\$ (8,388)</u>	<u>\$ 58,842</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ (9,826)	\$ (8,388)	\$ 58,842
Restricted assets:						
Cash and investments	966,401	63,740	47,392	-	-	-
Total cash and investment assets - December 31	\$ 966,401	\$ 63,740	\$ 47,392	\$ (9,826)	\$ (8,388)	\$ 58,842
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Other purposes	\$ 966,401	\$ 63,740	\$ 47,392	\$ -	\$ -	\$ -
Unrestricted	-	-	-	(9,826)	(8,388)	58,842
Total cash and investment fund balance - December 31	\$ 966,401	\$ 63,740	\$ 47,392	\$ (9,826)	\$ (8,388)	\$ 58,842

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, 2007
 (Continued)

	Property Improvement	Police Federal Forfeitures	Damage to City Property	Railroad Relocation	Redevelopment Rehabilitation Escrow	Vital Statistics
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	21,966	-	232,630	-	-
Charges for services	-	-	-	-	-	71,050
Other	-	1,865	1,014	-	325,271	-
Total receipts	-	23,831	1,014	232,630	325,271	71,050
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	29,693	-	-	-	-
Highways and streets	-	-	-	28,269	-	-
Sanitation	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	33,335
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	286,632	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total disbursements	-	29,693	-	28,269	286,632	33,335
Excess (deficiency) of receipts over disbursements	-	(5,862)	1,014	204,361	38,639	37,715
Other financing sources (uses):						
Transfers in	-	-	-	-	286,870	-
Transfers out	-	-	-	-	(328,603)	-
Total other financing sources (uses)	-	-	-	-	(41,733)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(5,862)	1,014	204,361	(3,094)	37,715
Cash and investment fund balance - beginning	6,000	47,527	64,729	87,113	7,427	52,177
Cash and investment fund balance - ending	<u>\$ 6,000</u>	<u>\$ 41,665</u>	<u>\$ 65,743</u>	<u>\$ 291,474</u>	<u>\$ 4,333</u>	<u>\$ 89,892</u>
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ 6,000	\$ -	\$ 65,743	\$ 291,474	\$ 4,333	\$ 89,892
Restricted assets:						
Cash and investments	-	41,665	-	-	-	-
Total cash and investment assets - December 31	\$ 6,000	\$ 41,665	\$ 65,743	\$ 291,474	\$ 4,333	\$ 89,892
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Other purposes	\$ -	\$ 41,665	\$ -	\$ -	\$ -	\$ -
Unrestricted	6,000	-	65,743	291,474	4,333	89,892
Total cash and investment fund balance - December 31	\$ 6,000	\$ 41,665	\$ 65,743	\$ 291,474	\$ 4,333	\$ 89,892

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, 2007
 (Continued)

	City Court Program	SSED Revolving Loan	East Chicago, Gary, Hammond Revolving Loan Consortium	Stormwater Management	Totals
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,343,116
Licenses and permits	-	-	-	-	1,060
Intergovernmental	-	-	-	-	3,968,931
Charges for services	33,125	16,984	10,317	-	578,187
Other	-	1,535	748	-	1,481,150
Total receipts	33,125	18,519	11,065	-	7,372,444
Disbursements:					
General government	17,491	-	-	-	2,099,288
Public safety	-	-	-	-	175,611
Highways and streets	-	-	-	-	422,275
Sanitation	-	-	-	271,319	271,319
Health and welfare	-	-	-	-	448,132
Culture and recreation	-	-	-	-	3,810,551
Urban redevelopment and housing	-	-	-	-	1,951,305
Debt service:					
Principal	-	-	-	-	659,106
Interest and fiscal charges	-	-	-	-	25,758
Total disbursements	17,491	-	-	271,319	9,863,345
Excess (deficiency) of receipts over disbursements	<u>15,634</u>	<u>18,519</u>	<u>11,065</u>	<u>(271,319)</u>	<u>(2,490,901)</u>
Other financing sources (uses):					
Transfers in	-	-	-	271,319	1,661,271
Transfers out	-	-	-	-	(616,044)
Total other financing sources (uses)	-	-	-	271,319	1,045,227
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	15,634	18,519	11,065	-	(1,445,674)
Cash and investment fund balance - beginning	63,906	268,678	152,666	-	804,747
Cash and investment fund balance - ending	<u>\$ 79,540</u>	<u>\$ 287,197</u>	<u>\$ 163,731</u>	<u>\$ -</u>	<u>\$ (640,927)</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ (2,614,235)
Restricted assets:					
Cash and investments	<u>79,540</u>	<u>287,197</u>	<u>163,731</u>	<u>-</u>	<u>1,973,308</u>
Total cash and investment assets - December 31	<u>\$ 79,540</u>	<u>\$ 287,197</u>	<u>\$ 163,731</u>	<u>\$ -</u>	<u>\$ (640,927)</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Other purposes	\$ 79,540	\$ 287,197	\$ 163,731	\$ -	\$ 1,973,308
Unrestricted	-	-	-	-	(2,614,235)
Total cash and investment fund balance - December 31	<u>\$ 79,540</u>	<u>\$ 287,197</u>	<u>\$ 163,731</u>	<u>\$ -</u>	<u>\$ (640,927)</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 - DEBT SERVICE FUNDS
 For The Year Ended December 31, 2007

	Lease Rental Payment	Park Bond and Interest 1999	Totals
Receipts:			
Taxes	\$ 888,868	\$ 467	\$ 889,335
Intergovernmental	75,562	-	75,562
Total receipts	964,430	467	964,897
Disbursements:			
Debt service:			
Principal	937,604	560,000	1,497,604
Interest and fiscal charges	1,271,896	78,277	1,350,173
Total disbursements	2,209,500	638,277	2,847,777
Deficiency of receipts over disbursements	(1,245,070)	(637,810)	(1,882,880)
Other financing sources:			
Transfers in	-	305,000	305,000
Deficiency of receipts and other financing sources over disbursements and other financing uses	(1,245,070)	(332,810)	(1,577,880)
Cash and investment fund balance - beginning	77,430	333,732	411,162
Cash and investment fund balance - ending	\$ (1,167,640)	\$ 922	\$ (1,166,718)
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ (1,167,640)	\$ -	\$ (1,167,640)
Restricted assets:			
Cash and investments	-	922	922
Total cash and investment assets - December 31	\$ (1,167,640)	\$ 922	\$ (1,166,718)
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ -	\$ 922	\$ 922
Unrestricted	(1,167,640)	-	(1,167,640)
Total cash and investment fund balance - December 31	\$ (1,167,640)	\$ 922	\$ (1,166,718)

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, 2007

	Cumulative Capital Development	Fire Equipment	Construction	Park District Bonds 1999	Local Major Moves Construction	Totals
Receipts:						
Taxes	\$ 219	\$ -	\$ -	\$ -	\$ -	\$ 219
Total receipts	<u>219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219</u>
Disbursements:						
Capital outlay	<u>-</u>	<u>-</u>	<u>4,409</u>	<u>-</u>	<u>770,784</u>	<u>775,193</u>
Excess (deficiency) of receipts over disbursements	<u>219</u>	<u>-</u>	<u>(4,409)</u>	<u>-</u>	<u>(770,784)</u>	<u>(774,974)</u>
Cash and investment fund balance - beginning	<u>74,322</u>	<u>21,962</u>	<u>163,406</u>	<u>306,537</u>	<u>770,784</u>	<u>1,337,011</u>
Cash and investment fund balance - ending	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 158,997</u>	<u>\$ 306,537</u>	<u>\$ -</u>	<u>\$ 562,037</u>
<u>Cash and Investment Assets - December 31</u>						
Restricted assets:						
Cash and investments	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 158,997</u>	<u>\$ 306,537</u>	<u>\$ -</u>	<u>\$ 562,037</u>
<u>Cash Investment Fund Balance - December 31</u>						
Restricted for:						
Capital projects	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 158,997</u>	<u>\$ 306,537</u>	<u>\$ -</u>	<u>\$ 562,037</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, 2007

	Communication Revolving	Health, Life and Workers Compensation	Gasoline Revolving	Utilities Administration Revolving	Totals
Operating receipts:					
Charges for services - internal	\$ 325,448	\$ 9,901,850	\$ 1,019,370	\$ 705,442	\$ 11,952,110
Charges for services - other	-	584,736	-	-	584,736
Insurance/Medicare refunds	<u>2</u>	<u>1,166,761</u>	<u>-</u>	<u>-</u>	<u>1,166,763</u>
 Total operating receipts	 <u>325,450</u>	 <u>11,653,347</u>	 <u>1,019,370</u>	 <u>705,442</u>	 <u>13,703,609</u>
Operating disbursements:					
Administrative and general	-	204,843	-	-	204,843
Costs of sales and services	340,891	-	1,101,097	705,442	2,147,430
Insurance claims and premiums	<u>-</u>	<u>11,577,799</u>	<u>-</u>	<u>-</u>	<u>11,577,799</u>
 Total operating disbursements	 <u>340,891</u>	 <u>11,782,642</u>	 <u>1,101,097</u>	 <u>705,442</u>	 <u>13,930,072</u>
 Deficiency of receipts over disbursements	 <u>(15,441)</u>	 <u>(129,295)</u>	 <u>(81,727)</u>	 <u>-</u>	 <u>(226,463)</u>
 Cash and investment fund balance - beginning	 <u>(104,047)</u>	 <u>(2,375,793)</u>	 <u>(57,448)</u>	 <u>-</u>	 <u>(2,537,288)</u>
Cash and investment fund balance - ending	<u>\$ (119,488)</u>	<u>\$ (2,505,088)</u>	<u>\$ (139,175)</u>	<u>\$ -</u>	<u>\$ (2,763,751)</u>
 <u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ (119,488)</u>	<u>\$ (2,505,088)</u>	<u>\$ (139,175)</u>	<u>\$ -</u>	<u>\$ (2,763,751)</u>
 <u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ (119,488)</u>	<u>\$ (2,505,088)</u>	<u>\$ (139,175)</u>	<u>\$ -</u>	<u>\$ (2,763,751)</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, 2007

	1925 Police Pension	1937 Firefighters' Pension	Totals
Additions:			
Contributions:			
Employer	\$ 983,634	\$ 699,500	\$ 1,683,134
State	2,301,575	1,763,182	4,064,757
Plan members	10,286	-	10,286
Total contributions	3,295,495	2,462,682	5,758,177
Deductions:			
Benefits	4,038,015	3,118,720	7,156,735
Administrative and general	14,369	8,078	22,447
Total deductions	4,052,384	3,126,798	7,179,182
Deficiency of total additions over total deductions	(756,889)	(664,116)	(1,421,005)
Cash and investments - beginning	(410,823)	138,056	(272,767)
Cash and investments - ending	\$ (1,167,712)	\$ (526,060)	\$ (1,693,772)

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2007

	PERF	Payroll Withholdings	Miscellaneous Employees Insurance	Northwest Indiana Health Department Cooperative	Waterway Management District	East Chicago Property Tax Credit	Court Costs Due County	City Clerk	Totals
Additions:									
Agency fund additions	\$ 4,515,065	\$ 10,233,339	\$ 1,495	\$ 1,361,001	\$ 13,805	\$ 1,615,892	\$ 27,744	\$ 1,080,313	\$ 18,848,654
Deductions:									
Agency fund deductions	4,490,819	10,709,994	175	1,234,863	73,179	1,385,091	29,707	1,057,917	18,981,745
Excess (deficiency) of total additions over total deductions	24,246	(476,655)	1,320	126,138	(59,374)	230,801	(1,963)	22,396	(133,091)
Cash and investments - beginning	1,131,114	511,402	46,371	(87,835)	98,723	-	1,963	458,783	2,160,521
Cash and investments - ending	\$ 1,155,360	\$ 34,747	\$ 47,691	\$ 38,303	\$ 39,349	\$ 230,801	\$ -	\$ 481,179	\$ 2,027,430

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, 2007

	<u>Port Authority</u>
Operating receipts:	
Slip rentals	\$ 622,303
Boat storage	270,089
Rentals	40,146
Marina fees	50,805
Services	8,250
Gas and oil	345,163
Restaurant	150,202
Other	<u>141,173</u>
Total operating receipts	<u>1,628,131</u>
Operating disbursements:	
Operation and maintenance	258,323
Officers and employees salaries and wages	544,654
Employee pensions and benefits	174,160
Utilities	93,527
Contractual services	215,019
Gasoline and oil	269,163
Administration and general	92,017
Restaurant salaries, wages, and benefits	130,294
Restaurant operating expenses	<u>152,742</u>
Total operating disbursements	<u>1,929,899</u>
Deficiency of receipts over disbursements	(301,768)
Nonoperating receipts	
Interfund loan proceeds	<u>250,000</u>
Deficiency of receipts and nonoperating receipts over disbursements	(51,768)
Cash and investment fund balance - beginning	<u>143,375</u>
Cash and investment fund balance - ending	<u>\$ 91,607</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	<u>\$ 91,607</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted fund balance - December 31	<u>\$ 91,607</u>

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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	5,822,558
Capital assets, being depreciated (net of depreciation)	
Infrastructure	26,242,984
Buildings	32,417,947
Improvements other than buildings	2,116,052
Machinery and equipment	<u>5,783,882</u>
Total governmental activities, capital assets	<u>\$ 78,664,173</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 249,859
Construction in progress	3,649,584
Capital assets, being depreciated (net of depreciation)	
Buildings	861,408
Improvements and lines	1,964,049
Machinery and equipment	<u>50,145</u>
Total Water Utility capital assets	<u>6,775,045</u>
Sanitary District	
Capital assets, not being depreciated:	
Land	885,268
Capital assets, being depreciated (net of depreciation)	
Buildings	17,858,664
Improvements and lines	2,994,970
Machinery and equipment	<u>3,485,011</u>
Total Sanitary District capital assets	<u>25,223,913</u>
Total business-type activities capital assets	<u>\$ 31,998,958</u>

<u>Discretely Presented Component Unit:</u>	<u>Ending Balance</u>
Port Authority	
Capital assets, not being depreciated:	
Land	\$ 1,020,000
Capital assets, being depreciated (net of depreciation)	
Buildings	7,816,122
Improvements other than buildings	45,000
Machinery and equipment	<u>89,638</u>
Total discretely presented component unit capital assets	<u>\$ 8,970,760</u>

CITY OF EAST CHICAGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Public Safety Facility	\$ 24,560,768	\$ 985,338
Copiers (Police Department)	76,316	23,418
Notes and loans payable:		
2001 Rainy Day Loan	2,026,317	578,947
Circuit Breaker Loan	529,045	230,818
Bonds payable:		
General obligation bonds:		
Park District Bonds, 1999	1,205,000	590,000
Revenue bonds:		
Redevelopment Tax Increment Financing Bonds, 1999	<u>7,677,517</u>	<u>679,841</u>
Total governmental activities debt	<u>\$ 36,074,963</u>	<u>\$ 3,088,362</u>
Business-type Activities:		
Water Utility		
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>
Sanitary District		
Loans payable:		
2001 Rainy Day Loan	700,000	200,000
1996 State Revolving Loan	<u>8,544,600</u>	<u>605,000</u>
Total Sanitary District	<u>9,244,600</u>	<u>805,000</u>
Total business-type activities debt	<u>\$ 27,534,600</u>	<u>\$ 1,415,000</u>

CITY OF EAST CHICAGO
OTHER REPORT

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

Police Department

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

NEGATIVE CASH BALANCES

The following funds had negative cash balances at December 31, 2007.

Fund	2007
Special revenue funds:	
Parks and Recreation	\$ 2,472,839
Public Transportation	407,913
Federal Grants	231,553
State Grants	9,826
Summer Youth Training Program	8,388
Debt service fund:	
Lease Rental Payment	1,167,640
Internal service funds:	
Communication Revolving	119,488
Health, Life, and Workers Compensation	2,505,088
Gasoline Revolving	139,175
Pension trust funds:	
1925 Police Pension	1,167,712
1937 Firefighters' Pension	526,060

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)

SEPARATE BANK ACCOUNTS

As stated in the prior reports, funds of the East Chicago Sanitary District (Wastewater), East Chicago Water Utility, 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 2007. The Controller opened new bank accounts in 2006. However, minimal activity of the separate entities was processed in these 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)

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 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 reports. The City is currently in the process of obtaining approval.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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 reports.

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)

FUND ACTIVITY ON EXCEL SPREADSHEETS

The detail activity for the Community Development Commission Fund, and the Health, Life, and Workers Compensation Fund, is maintained on Excel spreadsheets. (Excel is a commercially based computer software.) Officials use these spreadsheets in place of ledgers (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. This was noted in the prior audits.

In addition, Water Utility trust bank account activity for the State Revolving Fund (SRF) Sinking Fund, the SRF Debt Service Reserve, and the SRF Construction funds is not recorded in the City's ledger. Excel spreadsheets are used to record and monitor the activity of these trust accounts. Currently officials are in the process of changing their system to accommodate entering all original transactions into MUNIS, to eliminate tracking activity through 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)

OVERDRAWN APPROPRIATIONS

The Fire Pension Fund overspent its approved budgeted appropriations by \$89,446.

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."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

MEAL PER DIEM ABOVE FEDERAL RATE

As noted in the prior report, the City reimburses Council members, the City Judge, and City Clerk, \$100 meal per diem according to Ordinance 0-99-0024. The City's per diem rate is well above the federal allowable per diem rate. 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 Misc.

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)

LEGAL SERVICES PAID, CONTRACT NOT AVAILABLE FOR AUDIT

Legal services paid to the Council's attorney (\$55,000 from the General Fund and \$32,668.13 from the Sanitary District) were not supported by a contract or detailed hourly invoices.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a municipality for goods and services.

(c) The fiscal officer of a municipality may not draw a warrant or check for payment of a claim unless:

(1) There is a fully itemized invoice or bill for the claim; . . ."

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)

DUPLICATE PAYMENT FOR SECURITY

A security guard submitted (and was paid) duplicate vendor claims covering the same time worked. He was paid twice for hours worked on July 19 and August 2, 2007. The overpayment totaled \$160. The City is attempting to recover the overpayment.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns State of Indiana, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

EMPLOYEE SERVICE RECORD DEFICIENCIES

The City, except for the Police Department, uses the prescribed Form 99A, Employee's Service Record, to record vacation, and sick time earned and used.

Employee service records from the Fire Department, Human Resources Department, the Motor Vehicle Highway Department, the City Clerk's office, and the Marina did not have cumulative balances recorded.

The Police Department uses an "Employee Data Calendar" and does not use the approved form. "Employee Data Calendar" is an electronically maintained service record, which does not report cumulative leave balances.

These deficiencies were also noted in the prior report.

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)

CONTROLS ON BUSINESS LICENSES

The City issues business licenses on prenumbered forms. However, the completed forms are filed alphabetically, rather than numerically. Therefore, we were unable to verify that all fees for licenses were collected.

In addition officials did not provide documentation that the current fee schedule regarding business licenses had been approved by the governing board.

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)

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

VERIFICATION OF COLLECTIONS FROM DEPARTMENTS AND RECEIPT ISSUANCE

Various departments of the City receive money which is subsequently remitted to the Controller for deposit and posting to the financial records of the City. The Controller's office does not verify the collections and does not issue receipts at the time the collections are remitted by the departments.

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)

CONTRACTUAL EMPLOYEES - CITY PROVIDED HEALTH INSURANCE

As noted in prior report, the City provides health insurance benefits for four contractual "employees." The health insurance monthly premium for 2007 was \$343 for single coverage and \$796 for family coverage. These contractual "employees" reimbursed the City for the "employee" portion of \$69.22 or \$138.46 per month for single or family coverage, respectively. The remaining "employer's" portion of the monthly premium was not included on the Federal Form 1099 Misc., 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)

POSTEMPLOYMENT BENEFITS

Ordinance 01-0035 and Ordinance 04-0031 offered voluntary retirement to City employees (excluding police and fire). These ordinances offered health insurance benefits at the same health insurance premium rates offered to current City employees.

Twenty-nine individuals, excluding police and fire retirees, have reached age 65 (eligible for Medicare) or above and continue to be on the City's health insurance plan in violation of the City ordinance. The City's cost for these 29 individuals is \$161,304 in premiums, in addition to the cost of medical expenses paid for these individuals which cannot be determined at this time.

Ordinance 01-0035 and 04-0031 state in part: "Continue their medical insurance, on the same terms and conditions as active employees, until they reach age 65 or until they find other employment which provides health insurance, whichever occurs first. If a person remains insured until age 65, they will continue to receive the same medical insurance as are then current City Retirees on the same terms and conditions, including the co-payment of premiums."

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 5-10-8-2.6 subsection (g) states in part: "A retired employee's eligibility to continue insurance under subsection (e) ends when the employee becomes eligible for Medicare coverage as prescribed by 42 U.S.C. 1395 et seq."

CRIME POLICY - EMPLOYEE DISHONESTY

As noted in the prior report, 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. A blanket bond or a crime insurance policy covering all employees was not purchased.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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)

REDEVELOPMENT DEPARTMENT GENERAL LEDGER

The City maintains the financial activity of the Department of Redevelopment in a separate fund entitled Redevelopment Department (Fund 231). This is considered the "official" record of financial activity, and it is the basis of the financial statements. The Department of Redevelopment's check register is the City's source for the posted disbursements. The Department of Redevelopment also maintains a ledger of the fund activity, which is used to monitor the completeness and accuracy of the posted activity of the City.

As of June 12, 2008, the Department of Redevelopment had not completed the posting of 2007 activity to their 2007 ledger; thus, they did not monitor that the City's records were complete and accurate. A similar comment was noted in prior reports.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(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)

REDEVELOPMENT DEPARTMENT RECONCILEMENT

The Redevelopment Department's ledger does not reconcile to the corresponding bank account. The Redevelopment Department's ledger is overstated by \$8,323.21 at December 31, 2007.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INEFFECTIVE INTERNAL CONTROLS AT THE WATER UTILITY AND SANITARY DISTRICT (WASTEWATER)

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient and ineffective at the Water Utility and the Sanitary District (Wastewater). These internal controls cover three areas: billing, customer meter deposits, and written policies approved by the governing board. The lack of effective internal controls over these three 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 \$4,300,000 for the Water Utility and \$3,900,000 for the Sanitary District. These are material amounts for the proprietary funds and are material to the City as a whole

The employees at the Water Utility are responsible for the Utility billing for both the Water Utility and the Sanitary District (Wastewater). These employees handle the billing, customer meter deposits, meter reading, final bills, and collection of Utility bills.

A. The following deficiencies exist in the billing area:

1. No written policy on customer billing adjustments.
2. 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.

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

1. A detail listing of customer meter deposits as of December 31, 2007, totals \$291,647.90. The separate bank account balance for customer meter deposits was \$769,684.25. The detail and the reconciled bank balance should agree.
2. The Water Utility officials did not present for audit a listing of all the customer meter deposits received in 2007.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

3. The Water Utility officials did not present for audit a check register of all the customer meter deposits refunded during 2007. The official reconciling the bank account had an excel file on check numbers and amounts, but this was not an approved form.
4. The amount of customer meter deposits applied to the final bills in 2007 was not disbursed from the customer deposits bank account to the operating bank account.
5. Customer meter deposits refunded during 2007 did not have Board approval. The refund checks were not listed on the Accounts Payable Voucher Register approved by the Waterworks Board at meetings.
6. A monthly comparison of the reconciled customer deposits bank account to the detail listing of customer meter deposits was not performed.
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.

C. 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.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

LATE FEES OR PENALTIES - UTILITIES

As stated in the prior report, the Water Department Rate Ordinance currently sets the late payment fee at 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." (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BILLING ADJUSTMENTS

The Water Utility and Sanitary District (Wastewater) do not have a written policy establishing authority for adjustments to customer accounts or receipt reversals. A similar audit result and comment appeared in the 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.

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 was not enforced during the audit period and it has not been addressed in writing by the Waterworks Board.

Many customers are delinquent in paying their Water and Sanitary District bills. None of the delinquent sanitary bills have been certified to the County for payment enforcement.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

At December 31, 2007, the Water Utility and the Sanitary District had negative operating net incomes of \$2,630,453 and \$3,141,203, respectively. Billing nonresidential accounts and collecting delinquent residential accounts continues to be problematic. In April 2008, the Utility billed 985 delinquent customer accounts for a total amount of \$581,268. Approximately 24% of these customers were shut off due to a lack of response and the remaining customers paid their balance or started a payment plan.

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 constitutes, 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.

(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."

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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 2007, as noted in prior reports.

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)

PETTY CASH BANK ACCOUNT RECONCILIATIONS – PORT AUTHORITY

The East Chicago Port Authority has two petty cash checking accounts that are not being properly reconciled to the established balances. The established balances of the restaurant and marina petty cash accounts are \$10,000 and \$1,000, respectively.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or 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 State of Indiana, Chapter 7)

INTERNAL CONTROLS - RESTAURANT AND CATERING

Not all credit card payments are being processed through the cash register. In some instances the credit card report showed a higher deposit balance than the amount from the Marina Cafe reports. In those cases credit card receipts were found in the amount that made up the difference. This indicates that not all receipts were rung through the register.

Contracts are not being used for all events scheduled through the banquet office. In all instances where a contract was used the terms of the contract were not followed. Events are to be paid in full one week prior to each event with the exception of City events which have to be invoiced after the event has taken place. In our test the earliest the final payment was made was two days prior to the event. In some instances the events were not paid for until after it had taken place. There was one City event that was not paid for until four and a half months past the invoice date (which was later than the event date).

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(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.

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)

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)

INTERNAL CONTROLS OVER FUEL – PORT AUTHORITY

The Port Authority uses cash registers for fuel sales. From the cash register, a "Z-out" tape is run at the end of the day, which shows all sales, the composition of the money collected (cash, check, credit cards, or other charges), and a cumulative total of all money collected. Also, tapes can be printed from the fuel pumps which show cumulative gallons pumped, and dollars sold. The Harbor Master is responsible for updating the per gallon cost on the pump. At the end of each day, the cashier is responsible for preparing a "Cashier Checkout Sheet." Basically, the "Cashier Checkout Sheet" documents from the pump tapes, the fuel readings, the previous day fuel readings, and computes the gallons sold for that day; and from the cash register z-out tapes the cash collections and composition of the cash collections. The cashier is to attach the z-out tapes and the pump tapes to the "Cashier Checkout Sheet."

We noted days when the "Cashier Checkout Sheets" did not have the pump tapes attached, nor could the pump tapes be located for those dates. The cash register consecutively numbers the z-out tapes for control purposes. For the month of September, 28 z-out tapes were not retained for audit. Officials indicated that if a sale was entered incorrectly, instead of performing a void on the transaction, the machine would be z-ed out, and the transactions reentered. Then the original z-out tape would be destroyed. Additionally, the z-out tapes that were attached to the "Cashier Checkout Sheet," were not always complete in that the "Grand Total" or cumulative total would not be included on the tape.

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.

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 Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

TICKET SALES – PORT AUTHORITY

The Port Authority sells tickets for various events throughout the season. The tickets are prenumbered and color-coded. The tickets are counted at the end of the event and verified to the money collected; however, the tickets are not retained for audit. Furthermore, a report of the tickets provided to the ticket seller, the tickets sold, the tickets returned, and a reconciliation of the tickets sold to the cash collected is not prepared. Therefore we could not verify the accountability for ticket sales.

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting. (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
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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, 2007. 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 of America; 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan and Official Response sections of the report. We did not audit the City's response and, accordingly, we express no opinion on them.

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

July 28, 2008

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

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 06-07 FY 07-08	\$ 205,205 <u>55,124</u>
Total for program			<u>260,329</u>
Pass-Through Indiana Department of Natural Resources Urban and Community Forestry Program	10.675	FY 2007	<u>4,020</u>
Total for federal grantor agency			<u>264,349</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grants:			
Community Development Block Grants/Entitlement Grants BC-05-MC-180004 BC-06-MC-180004	14.218		413,919 <u>1,262,039</u>
Total for program			<u>1,675,958</u>
HOME Investment Partnerships Program M-04-MC-18210 M-05-MC-18210 M-06-MC-18210	14.239		8,470 237,647 <u>37,946</u>
Total for program			<u>284,063</u>
Pass-Through Empowerment Zone Empowerment Zones Program EZ-99IN004	14.244		<u>22,984</u>
Total for federal grantor agency			<u>1,983,005</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants:			
Gang-Free Schools and Communities - Community Based Gang Intervention Gang Response Investigative Team	16.544		<u>3,137</u>
Edward Byrne Memorial Formula Grant Program	16.579	FY 2006 FY 2007	7,727 <u>21,966</u>
Total for program			<u>29,693</u>
Bulletproof Vest Partnership Program	16.607	FY 2006	<u>7,438</u>
Public Safety Partnership and Community Policing Grants COPS Technology	16.710	2006CKWX0311	<u>260,602</u>
Total for federal grantor agency			<u>300,870</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit - Formula Grants	20.507	FY 2007	<u>378,947</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, 2007
(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 (continued)</u>			
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		
Seat Belt Enforcement			<u>6,381</u>
Total for federal grantor agency			<u>385,328</u>
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant			
Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001		
		FY 2003	952
		FY 2004	6,511
		FY 2007	<u>13,759</u>
Total for program			<u>21,222</u>
Total for federal grantor agency			<u>21,222</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority	66.468		
Capitalization Grants for Drinking Water State Revolving Funds			
DW1991102			<u>1,485,130</u>
Total for federal grantor agency			<u>1,485,130</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Department of Health			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		
U90/CCU517024-05-07			38,491
U90/CCU517024-06-07			8,727
U90/CCU517024-07-07			<u>2,500</u>
Total for program			<u>49,718</u>
Total for federal grantor agency			<u>49,718</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant			
Assistance to Firefighters Grant	97.044		
EMW-2006-FG-02560			<u>67,500</u>
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		
Snow Emergency Disaster			<u>24,053</u>
Total for federal grantor agency			<u>91,553</u>
Total federal awards expended			<u>\$ 4,581,175</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, 2007:

Program Title	Federal CFDA Number	2007
Community Development Block Grants/Entitlement Grants	14.218	\$ <u>26,160</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?	no

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
14.218	Community Development Block Grants/ Entitlement Grants
14.239	HOME Investment Partnerships Program
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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 2007-1, INEFFECTIVE INTERNAL CONTROLS

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

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

The Utility collections for the year are approximately \$4,300,000 for the Water Utility and \$3,900,000 for the Sanitary District. These are material amounts for the proprietary funds and are material to the City as a whole.

The employees at the Water Utility are responsible for the Utility billing for both the Water Utility and the Sanitary District (Wastewater). These employees handle the billing, customer meter deposits, meter reading, final bills, and collection of Utility bills.

A. The following deficiencies exist in the billing area:

1. No written policy on customer billing adjustments.
2. 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.

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

1. A detail listing of customer meter deposits as of December 31, 2007, totals \$291,647.90. The separate bank account balance for customer meter deposits was \$769,684.25. The detail and reconciled bank balance should agree.
2. The Water Utility officials did not present for audit a listing of all the customer meter deposits received in 2007.
3. The Water Utility officials did not present for audit a check register of all the customer meter deposits refunded during 2007. The official reconciling the bank account had an excel file on check numbers and amounts, but this was not an approved form.
4. The amount of customer meter deposits applied to the final bills in 2007 was not disbursed from the customer deposits bank account to the operating bank account.
5. Customer meter deposits refunded during 2007 did not have board approval. The refund checks were not listed on the Accounts Payable Voucher Register approved by the Waterworks Board at meetings.
6. A monthly comparison of the reconciled customer deposits bank account to the detail listing of customer meter deposits was not performed.
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.

C. 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.

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

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.

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 (Wastewater) implement effective internal controls over the areas of 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 Pabey
Mayor

Charles Pacurar
City Controller
(219) 391-8220

CORRECTIVE ACTION PLAN

Section II – Financial Statement Findings

FINDING NO. 2007-1, INEFFECTIVE INTERNAL CONTROLS AT THE WATER UTILITY

Federal Agency: N/A
Federal Program: N/A
CFDA Number: N/A
Federal Award No: N/A
Pass-Through Entity: N/A
Auditee Contact Person: Charles Pacurar
Title of Contact Person: City Controller
Phone Number: (219) 391-8220

The employees at the Water Utility billing office are only responsible for the wastewater billing portion of the Sanitary District. They have no responsibility for the solid waste fees/revenue portion of the Sanitary District.

Billing Area:

Billing Adjustments – No written Policy

It was not known here to fore that a written policy was required. As a result of this finding the current process has been reduced to writing including additional control measures. This written policy is attached with the additional log in sheet for the adjustments.

No late payment penalty as approved in the rate schedules is being assessed.

The assessment of the approved late payment penalty ceased as a result of the computer conversion in August 2005 due to the inability to issue bills in a timely manner. As a result no customer of East Chicago's Utilities received invoices for water and sewer for two months. Also, no provisional/estimated bills were provided to the customers and customers did not on their own volition make payments to the utility given that they were aware that they had consumed the services but had not been billed for the services. Given that the issue was not the fault of the individual customers it was determined that penalties for late payment should be halted. As a result of this issue the majority of customers of the utilities fell behind and many have never brought their accounts back to a current status.

In months previous to May 2008, Utility management has been diligently pursuing those customers with delinquent accounts with the intent to reach the majority prior to assessing penalties and shutting off service for non payment. In doing this, the Utility believes that it has made sufficient notification of the impending reinstatement of the late penalty on unpaid bills. This reinstatement occurred in May 2008 and will be charged in all subsequent billing periods.

An additional audit comment pertaining to late payment penalties was made indicating that a written policy for the assessment of late payment penalties has not been approved by the governing board. The Water Utility is under the jurisdiction of the Indiana Utility Regulatory Commission and as such no rates or charges can be assessed to the rate paying public without first receiving approval from the Commission which then becomes the written policy for the rates and charges included therein. In order to receive such approval the appropriate filing must be made at the Commission and the review process must be followed. The Commission will not and cannot approve rates and charges unless that appropriate governing body of the Utility has first given its approval for the Utility to file its Petition requesting Commission approval for the specific rates and charges. The Water Utility has the official file stamped approved Water Utility Tariff Sheet available for review at its office and thus has a properly approved written policy pertaining to late payment penalties.

The Wastewater Utility does not currently charge penalties for late payment until that time that they file a lien with the County to collect the outstanding Wastewater bill. It has been decided that the Wastewater area of the Sanitary District will ask for approval by its governing board to change its process and be allowed to charge the same late penalty percentage as the Water Utility and under the same circumstances since they are billed on the same billing. It is targeted that this amendment will be taken to the Sanitary District Board along with other amendments to mirror current policies of the Water and Wastewater Utilities prior to the close of the current fiscal year. There are other written policy deficiencies that need to be addressed and it is deemed more efficient that they be addressed all at one time to each respective Governing Board, thus necessitating the additional time needed in order to implement the corrective measures.

Customer Meter Deposits:

The Utility has been working on this issue since the 2006 audit comment was received. When a plan had been finalized as to the best method to use to determine the true and correct population of Customer Deposits and the method of handling refunds through the computer billing system in the future, attempts were made on at least six different occasions to contact the State Board Auditor for the City of East Chicago prior to the 2007 audit in order to discuss the proposed plan and to ascertain if the State Board believed that the plan fulfilled the audit requirements. Phone tag was the result and thus no direct discussions were held and no decision was solidified. Since that time additional research into the computer records for Customer Deposits was performed and it has now been determined that the information pertaining to the account population is accurate and can be relied on.

Given that the system population and purported dollar amount is now believed to be an accurate representation of the asset and liability value, the Utility can now link the funds in the customer deposit account to the Computer system and the entire process of customer deposits can be handled through the computer system on a going forward basis. In the past the only portions of the process that were handled through the computer were the entry of a new customer and the manual adjustment of applying the deposit amount to the final customer bill in order to arrive at the final amount owed to the utility upon that customer's departure.

As a result of having an accurate balance for Customer Deposits, the Utility will transfer the excess funds which exist at a date certain into the operating funds for both the Water and the Wastewater (a 50 – 50 split). The determination as to what had caused the over funding of the deposits was brought to the attention of the Field Examiners during the 2006 audit by the Utility and we agree as we did then that if a customer deposit was applied as payment to a final bill amount that portion that paid the final bill was never then transferred to the appropriate operating funds as should have been.

With the activity of the deposit account being handled electronically in the future, when a customer departs the system and application of the deposit to their final bill results in a refund situation, this refund will be electronically processed through the accounts payable module and automatically included in the AP warrant filing which the governing board approves prior to checks being issued. However, the application of the customer deposit to the final bill that results in an amount owed to the Utility will not result in the governing board receiving notification and effectively approving the application of the customer deposit to the outstanding bill.

The finding regarding the reconciliation of the bank account not being performed will be taken care of by accounting for the activity electronically and thus the reconciliation will be completed when the other funds are reconciled.

Officials of the Water Utility are concerned as to the finding statements that a listing of all customer meter deposits received in 2007 and the check register of all customer meter deposits refunded during 2007 were not presented for audit. They believe that they did provide this information to the Field Examiner when it was requested and also provided the detailed back up documentation for each final bill regardless of whether it was a charge or a refund. This back up documentation is maintained in bound monthly journals. The electronic system does not by default print a copy of the final bill that was calculated. However, a copy can be printed if requested. In the future, a copy will be printed and included as a part of the back up documentation for the final bill and application of customer deposit.

Non Approval of Written Policies for:

Assessment of Late Payment Penalties; Accrued Interest on customer meter deposit refunds; cash shortage and overage in utility bill collections; Write off of bad debts; Collection of Delinquent Accounts; and Controls over cash change fund to ensure that the fund is returned intact when custody is relinquished:

In researching these deficiencies several conflicting existing source documents have been found. To be able to affectively propose a corrective action plan that would memorialize the policies and then take them for approval to the appropriate Governing Boards, we must first resolve the conflicts.

The assessment of late payment penalties has been reinstated and it is believed that additional approval or re-approval is not necessary. However, when all of the deficiencies are resolved a written description of this policy will again be presented to the Governing Body for re-approval. As stated previously the charging of these penalties was reinstated beginning May 2008.

Accrued interest on Customer Deposits is not mandated by the final governing body for the Water Utility, the Indiana Utility Regulatory Commission. However, we have found old documents that both indicate an interest rate should be accrued and is not to be. We must first determine the timing and validity of all documents and then determine which should be used. When a final decision is made, the written policy will be presented for approval to the Governing Board.

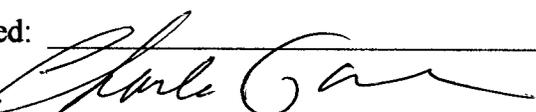
It was not here to fore known that approved written policies regarding cash shortage and overage and the write of bad debts was required. Inquiries to other municipal utilities regarding the format and language of such policies have been solicited to facilitate the creation of such written policies to be presented for approval to the appropriate Governing Boards.

The Utility's Office Manager's understanding of the cash fund that is currently being used for the provision of change to the Window Account Representatives is that this was a Petty Cash Fund. There was no official turning over of this fund to the control of the Office Manager. It was simply that the responsibility fell to the Office Manager. Thus, any purported beginning balance was not disclosed nor was any overages and/or shortages disclosed. As of June 5, 2008, this process has been changed by the Director of the Water Department but not memorialized in a written policy receiving Board approval. Two funds are now in existence currently. One for Petty Cash which is viewed as the original fund that the Office Manager received whose beginning balance is unknown but believed to be no more than \$500. The second fund is the Change Fund that began with a \$300 balance. It is believed that this level of funding for the Change Fund is appropriate given that the individual Account Representative's Cash Drawers have been raised to a \$125 balance from a \$25 balance. This policy will be reduced to writing and presented along with the other issues requiring writing and all will be presented to the appropriate governing boards for approval.

All policies noted above will be memorialized in writing and presented to the appropriate governing boards for approval prior to the end of the current fiscal year. Every attempt will be made to complete this process during the next two months. However, given that it is not known how quickly the necessary research regarding the conflicting policies will proceed it cannot be guaranteed that all can be completed within two months.

Signed:

Date:


7/28/08

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on July 28, 2008, with Charles Pacurar, Controller; George Pabey, Mayor; Kimberly Anderson, Deputy Controller; and Richard Medina, President of the Common Council. The official response has been made a part of this report and may be found on pages 77 through 82.

**City of East Chicago
Audit Responses
For the Year Ended December 31, 2007**

Separate Bank Accounts

The City has opened separate bank accounts for the East Chicago Waterway Management District and the Northwest Indiana Health Department Cooperative. The City will begin using these accounts in 2008.

The bank accounts that were opened in 2006 for the East Chicago Sanitary District (Wastewater) and the East Chicago Water Utility are currently only being used to account for Utility Billing Receipts. The City is presently working with its Utility Billing Software vendor to make the necessary changes that will allow the Utility to process all of their financial transactions through these bank accounts. The City anticipates all programming issues to be completed by the end of fiscal year 2008.

Approval of Computerized Forms

All computerized forms will be submitted or resubmitted for approval.

Fund Activity on Excel Spreadsheets

The City is in the process of changing its system to accommodate entering all original transactions into its financial system rather than using Excel spreadsheets.

Overdrawn Appropriations

During the budget process the Fire Pension Secretary submitted incomplete information regarding the Fund's required DROP payments and as a result the Fund overspent its approved appropriations.

Meal Per Diem above Federal Rate

Beginning in 2008, the City includes the per diem amounts that are above the federal per diem rate as taxable income on the employee or elected official's paycheck.

Legal Services Paid, Contract Not Available for Audit

The Sanitary District has since approved a contract for this attorney and also require detailed invoices to be submitted.

The Council President has been informed that a new contract will need to be approved for the Council's attorney.

Duplicate Payment for Security

The City has requested the reimbursement of the \$160 from the security guard and the individual has agreed to return the overpayment amount.

Employee Service Record Deficiencies

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

Controls on Business Licenses

The individuals responsible for issuing business licenses have been instructed to file the forms numerically rather than alphabetically.

The current business license fee schedule will be resubmitted to the governing board for approval.

Verification of Collections from Departments and Receipt Issuance

Controller's Office staff has been instructed to verify collections and issue receipts at the time the collections are remitted by the departments.

Contractual Employees – City Provided Health Insurance

The City will include the "employers" portion of the monthly health insurance premium as non-employee compensation on the contractual employee's 1099-Misc.

Post-Employment Benefits

Effective January 1, 2008, all retirees who reached age 65 and were eligible for Medicare were removed from the City's self insurance plan.

Crime Policy – Employee Dishonesty

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

Ineffective Internal Controls at the Water Utility and Sanitary District

It is stated that "The employees at the Water Utility are responsible for utility billing for both the Water Utility and the Sanitary District." We would like to note that the Sanitary District encompasses both the Sanitary Sewer and the Solids (trash) Removal for the City. The Water Utility only handles the billing of the Sanitary Sewer fees for the Sanitary District.

A. Billing Area

1. A written customer billing adjustment and complaint policy has been developed and is currently awaiting the Water Utility's Board approval.
2. The penalty on late payments of water charges was reinstated as of April 2008. A similar policy for a penalty on late payment of sewer charges is being prepared for approval by the Sanitary District.

B. Customer Deposit Area

1. It has now been determined that the information that was used to populate the new computer system with regards to the customer deposit detail was accurate. Thus, a beginning cash balance can be entered into the system at a date certain and all application of customer deposits to final bills and issuance of refund

checks if applicable can be accomplished through the system rather than manually.

2. Water Utility Officials presented information to the State Board Auditor and received indication that the information provided fulfilled this request. A computer report can be generated that isolates the additions to the Customer Deposit Account for any given period and will be provided in all future audits.
3. The Water Utility Officials did present what they believed was a check register to the State Board Auditor. During the exit conference the State Board Representatives indicated that in order to be deemed a check register, the information presented must contain a running total. Given that a beginning balance can now be ascertained for this account, all financial information will be processed through the computer system such that running balances and detailed information will be available upon request.
4. The fact that Customer Meter Deposits applied to final bills was not being disbursed to the proper operating funds was brought to the attention of the State Board Auditors during the 2006 Audit by water utility officials. Now that the Customer Deposit activity can be processed through the computer system given that a beginning balance can be determined, this issue will no longer exist once the change to the computer system for this account has occurred. This change will be instituted during the last quarter of 2008.
5. Board approval of deposit refunds will be gained by the complete processing of the customer deposit function through the computer system. When a deposit has been applied to a final bill which results in an amount to be refunded to the customer this will be processed through the accounts payable module and included in the payable warrants which do receive Board approval. The process of applying the deposit to the final bill which results in no refund is being researched as to what type of report can be generated that can be presented to the Board for their ultimate approval. It is anticipated that should be completed during the last quarter of 2008.
6. Given that the customer deposit fund will not be administered manually after the last quarter of 2008, the reconciliation of the bank account to the detail listing will be completed by the same individuals that are currently performing this procedure for the other utility accounts.
7. In order for the computer system to work properly, as described above, it will be necessary that final bills be printed to complete the process. However, the need to have these final bills fulfill the documentation need as suggested in this comment will not be necessary when the computer system is used to process all aspects of the customer deposit process. The full implementation should occur during the last quarter of 2008.

C. Written Policies' Deficiencies

1. The Water Utility is under the jurisdiction of the Indiana Utility Regulatory Commission and as such no rates or charges can be assessed to the rate paying public without first receiving approval from the Commission which then becomes the written policy for the rates and charges included therein. In order

to receive such approval the appropriate filing must be made at the Commission and the review process must be followed. The Commission will not and cannot approve rates and charges unless that appropriate governing body of the Utility has first given its approval for the Utility to file its Petition requesting Commission approval for the specific rates and charges. The Water Utility has the official file stamped approved Water Utility Tariff Sheet available for review at its office and thus has a properly approved written policy pertaining to late payment penalties. It is the intent of the Utility to have a similar resolution for late fees presented to the Sanitary District Board for their approval

2. Accrued interest on Customer Deposits is not mandated by the final governing body for the Water Utility, the Indiana Utility Regulatory Commission. However, we have found old documents that both indicate an interest rate should be accrued and is not to be. We must first determine the timing and validity of all documents and then determine which should be used. When a final decision is made, the written policy will be presented for approval to the Governing Board.
- 3&4. It was not here to fore known that approved written policies regarding cash shortage and overage and the write off of bad debts was required. Inquiries to other municipal utilities regarding the format and language of such policies have been solicited to facilitate the creation of such written policies to be presented for approval to the appropriate Governing Boards. It was noted in the exit conference that a policy for cash shortage and overage should contain language specifically addressing the consequences for employees having over/short cash drawers.
5. On March 25, 2008 notification was sent to Billing Department Employees and Governing Board members pertaining to the procedures being implemented for collection of delinquent accounts. This will be included in the overall document to be presented to the Governing Boards for approval so that physical sign offs will exist for this policy.
6. The Utility's Office Manager's understanding of the cash fund that is currently being used for the provision of change to the Window Account Representatives is that this was a Petty Cash Fund. There was no official turning over of this fund to the control of the Office Manager. It was simply that the responsibility fell to the Office Manager. Thus, any purported beginning balance was not disclosed nor was a policy pertaining to any overages and/or shortages of this fund disclosed. As of June 5, 2008, this process has been changed by the Director of the Water Department but not memorialized in a written policy receiving Board approval. Currently, two funds are now in existence. One for Petty Cash which is viewed as the original fund that the Office Manager received whose beginning balance is unknown but believed to be no more than \$500. The second fund is the Change Fund that began with a \$300 balance. It is believed that this level of funding for the Change Fund is appropriate given that the individual Account Representative's Cash Drawers have been raised to a \$125 balance from a \$25 balance. During a discussion following the exit conference it was determined that the Water Utility has no need for a Petty Cash Fund. Thus, this fund will cease to exist. The Change Fund will be increased to

\$500 from the current \$300 as experience indicates that at the \$300 level bank runs must still be made twice per day. This policy will be reduced to writing and presented along with the other issues requiring writing and all will be presented to the appropriate governing boards for approval.

The Water Utility is working towards memorializing the processes performed by the Billing Area. A written memo outlining the accepted Billing and Receipt of Payments Internal Control Procedures for Department Employees of the Billing Area was implemented on May 21 and 22, 2008. It is believed that this indicates the work in progress being performed by the Water Utility in providing written documentation of the Internal Controls being implemented.

All policies noted above will be memorialized in writing and presented to the appropriate governing boards for approval prior to the end of the current fiscal year. Every attempt will be made to complete this process during the next two months. However, given that it is not known how quickly the necessary research regarding conflicting policies will proceed, it cannot be guaranteed that all can be completed within two months.

It has been indicated to both Water Department Employees and Employees of the Controller's Office that even though the current computer system is capable of accrual based accounting it is not the State Board's desire that we implement this feature. By indicating that we should not implement accrual based accounting through the current computer system, it is apparent that the City and Utility erroneously assumed that accrual based accounting for the Utilities was not being required. It was indicated that this was not a correct assumption given the current Statute. Thus this type of accounting must be performed manually in future years. The Utility will endeavor to manually convert the cash based accounting system to accrual based accounting in future years. If this manual process proves problematic and overly burdensome then the City and Utility will implement accrual based accounting within the computer system for the Utilities.

It is the Water Department's goal that all of the policies that have already been implemented be reaffirmed and/or initial approved in writing by the appropriate Governing Boards within the subsequent two months. The items that have need of additional research and development will be implemented and approved during the last quarter of 2008.

Petty Cash Bank Account Reconciliations – Port Authority

The Office Manager will reconcile the two petty cash accounts to the bank statement no later than the end of the month in which said statement is received.

Internal Controls – Restaurant and Catering

Restaurant staff has been instructed to ring all credit card sales through the cash register.

Marina management and the Social Director will review and revise the contracts as necessary.

Internal Controls over Fuel

Gas Dock personnel have been instructed to void sales on the register. They have also been notified that all tapes and gas pump readings (including tapes that are voided) must be included in their batch outs sent to the office.

Ticket Sales – Port Authority

Restaurant staff has been instructed to keep a record of the first and last number of the pre-numbered tickets sold for all special events. The tickets will be counted by the restaurant staff and a report will be submitted to the Marina office for inclusion with the official receipts.