

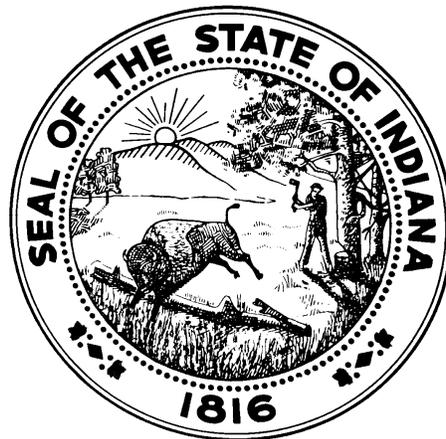
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2008

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA



FILED
10/29/2009

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SCHEDULE OF OFFICIALS

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



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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, 2008, 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.

We were unable to obtain legal representations from the City's attorney regarding any possible loss contingencies resulting from litigation that may require disclosure in the notes to the financial statements.

In our opinion, except for the effects, if any, of lack of certain legal representations, 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, 2008, 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 September 17, 2009, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 City provides postemployment health insurance benefits to eligible retirees. The City has not provided an actuarial study to determine the City's annual post employment benefit costs in accordance with GASB Statement 45.

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

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

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

STATE BOARD OF ACCOUNTS

September 17, 2009



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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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 17, 2009. The opinions to the financial statements were qualified due to lack of certain legal representations. 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 2008-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies 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 2008-1 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 2008-1.

The City's response to the finding identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. 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, the City of East Chicago Common Council, the City of East Chicago Board of Public Works and Safety, 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

September 17, 2009

CITY OF EAST CHICAGO
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2008

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	\$ 31,295,874	\$ 245,478	\$ 506,955	\$ -	\$ (30,543,441)	\$ -	\$ (30,543,441)	\$ -
Public safety	17,282,758	435,035	31,722	414,310	(16,401,691)	-	(16,401,691)	-
Highways and streets	10,528,231	-	1,256,352	299,793	(8,972,086)	-	(8,972,086)	-
Sanitation	350,363	-	-	-	(350,363)	-	(350,363)	-
Health and welfare	1,866,051	465,030	336,578	-	(1,064,443)	-	(1,064,443)	-
Economic development	4,362,690	-	-	1,575,415	(2,787,275)	-	(2,787,275)	-
Culture and recreation	3,689,937	21,786	-	-	(3,668,151)	-	(3,668,151)	-
Urban redevelopment and housing	2,344,588	-	-	-	(2,344,588)	-	(2,344,588)	-
Principal and interest on indebtedness	3,659,291	-	-	-	(3,659,291)	-	(3,659,291)	-
Total governmental activities	75,379,785	1,167,329	2,131,607	2,289,518	(69,791,331)	-	(69,791,331)	-
Business-type activities:								
Water Utility	7,582,682	5,637,720	-	-	-	(1,944,962)	(1,944,962)	-
Sanitary District	16,514,993	6,160,082	193,750	-	-	(10,161,161)	(10,161,161)	-
Total business-type activities	24,097,675	11,797,802	193,750	-	-	(12,106,123)	(12,106,123)	-
Total primary government	\$ 99,477,460	\$ 12,965,131	\$ 2,325,357	\$ 2,289,518	(69,791,331)	(12,106,123)	(81,897,454)	-
Component unit:								
Port Authority	\$ 1,760,151	\$ 1,425,457	\$ -	\$ -	-	-	-	(334,694)
General receipts:								
Property taxes					44,582,830	12,116,392	56,699,222	-
Intergovernmental					18,318,413	257,543	18,575,956	140,712
Other local sources					8,030,050	255,172	8,285,222	43,246
Net proceeds from borrowings					1,300,005	-	1,300,005	-
Grants and contributions not restricted to specific programs					350,288	-	350,288	-
Investment earnings					205,785	353,009	558,794	3,916
Net tax anticipation warrant proceeds (repayments)					(8,115,938)	-	(8,115,938)	-
Interfund loans					1,250,000	(1,500,000)	(250,000)	250,000
Total general receipts, special items, and transfers					65,921,433	11,482,116	77,403,549	437,874
Change in net assets					(3,869,898)	(624,007)	(4,493,905)	103,180
Net assets - beginning					11,458,362	18,053,393	29,511,755	91,607
Net assets - ending					\$ 7,588,464	\$ 17,429,386	\$ 25,017,850	\$ 194,787
Assets								
Cash and investments					\$ (3,084,395)	\$ (428,274)	\$ (3,512,669)	\$ 194,787
Restricted assets:								
Cash and investments					10,672,859	17,857,660	28,530,519	-
Total assets					\$ 7,588,464	\$ 17,429,386	\$ 25,017,850	\$ 194,787
Net Assets								
Restricted for:								
General government					\$ 308,278	\$ -	\$ 308,278	\$ -
Public safety					130,488	-	130,488	-
Highways and streets					1,984,042	-	1,984,042	-
Health and welfare					186,682	-	186,682	-
Economic development					4,640,631	-	4,640,631	-
Urban redevelopment and housing					993,252	-	993,252	-
Debt service					-	1,903,378	1,903,378	-
Capital outlay					2,429,486	-	2,429,486	-
Other purposes					-	15,954,282	15,954,282	-
Unrestricted					(3,084,395)	(428,274)	(3,512,669)	194,787
Total net assets					\$ 7,588,464	\$ 17,429,386	\$ 25,017,850	\$ 194,787

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, 2008

	General	Motor Vehicle Highway	Economic Development Commission	Gaming Special Revenue	Cumulative Capital Improvement	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 31,853,685	\$ -	\$ 6,172,816	\$ -	\$ -	\$ 6,556,329	\$ 44,582,830
Licenses and permits	318,616	-	-	-	-	7,300	325,916
Intergovernmental	960,632	898,803	-	17,308,139	105,412	3,740,554	23,013,540
Charges for services	434,318	-	-	-	-	607,858	1,042,176
Fines and forfeits	83,685	-	-	-	-	61,634	145,319
Interfund loans	-	-	-	2,750,000	-	-	2,750,000
Other	384,026	-	-	3,095,622	-	635,617	4,115,265
Total receipts	34,034,962	898,803	6,172,816	23,153,761	105,412	11,609,292	75,975,046
Disbursements:							
General government	11,468,565	-	-	7,859,315	-	1,827,928	21,155,807
Public safety	21,935,201	-	-	82,577	-	80,126	22,097,905
Highways and streets	3,152,060	866,615	-	3,396,818	-	1,917,742	9,333,235
Sanitation	-	-	-	178,013	-	-	178,013
Health and welfare	1,715,388	-	-	-	-	381,148	2,096,536
Economic development	-	-	4,362,690	-	-	-	4,362,690
Culture and recreation	-	-	-	960,848	-	3,321,275	4,282,123
Urban redevelopment and housing	-	-	-	-	-	2,344,588	2,344,588
Interfund loans	-	-	-	1,500,000	-	-	1,500,000
Debt service:							
Principal	-	-	-	751,423	-	1,585,534	2,336,957
Interest	-	-	-	10,439	-	1,311,895	1,322,334
Capital outlay:							
General government	20,950	-	-	296,616	-	33,031	350,597
Public safety	-	-	-	897,645	-	61,120	958,765
Highways and streets	-	-	-	1,752,443	-	63,500	1,815,943
Sanitation	-	-	-	172,350	-	-	172,350
Health and welfare	-	-	-	78,070	-	31,807	109,877
Culture and recreation	-	-	-	458,324	-	-	458,324
Total disbursements	38,292,164	866,615	4,362,690	18,394,881	-	12,959,694	74,876,044
Excess (deficiency) of receipts over disbursements	(4,257,202)	32,188	1,810,126	4,758,880	105,412	(1,350,402)	1,099,002
Other financing sources (uses):							
Net proceeds from borrowings	-	-	-	-	-	1,300,005	1,300,005
Tax anticipation warrant proceeds	26,000,000	-	-	-	-	-	26,000,000
Tax anticipation warrant repayments	(34,115,938)	-	-	-	-	-	(34,115,938)
Transfers in	3,500,000	-	-	-	-	653,386	4,153,386
Transfers out	-	-	-	(3,800,000)	-	(353,386)	(4,153,386)
Other receipts	284,752	566	-	101,086	-	534,920	921,324
Total other financing sources (uses)	(4,331,186)	566	-	(3,698,914)	-	2,134,925	(5,894,609)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,588,388)	32,754	1,810,126	1,059,966	105,412	784,523	(4,795,607)
Cash and investment fund balance - beginning	4,170,394	1,766,145	2,297,294	5,449,374	1,784,514	(1,245,608)	14,222,113
Cash and investment fund balance - ending	\$ (4,417,994)	\$ 1,798,899	\$ 4,107,420	\$ 6,509,340	\$ 1,889,926	\$ (461,085)	9,426,506

Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis 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.

(1,838,042)

Net assets of governmental activities

\$ 7,588,464

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,
(Continued)

	General	Motor Vehicle Highway	Economic Development Commission	Gaming Special Revenue	Cumulative Capital Improvement	Other Governmental Funds	Totals
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ (4,417,994)	\$ -	\$ -	\$ 6,509,340	\$ -	\$ (3,337,699)	\$ (1,246,353)
Restricted assets:							
Cash and investments	-	1,798,899	4,107,420	-	1,889,926	2,876,614	10,672,859
Total cash and investment assets - ending	<u>\$ (4,417,994)</u>	<u>\$ 1,798,899</u>	<u>\$ 4,107,420</u>	<u>\$ 6,509,340</u>	<u>\$ 1,889,926</u>	<u>\$ (461,085)</u>	<u>\$ 9,426,506</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 308,278	\$ 308,278
Public safety	-	-	-	-	-	130,488	130,488
Highways and streets	-	1,798,899	-	-	-	185,143	1,984,042
Health and welfare	-	-	-	-	-	186,682	186,682
Economic development	-	-	4,107,420	-	-	533,211	4,640,631
Urban redevelopment and housing	-	-	-	-	-	993,252	993,252
Capital outlay	-	-	-	-	1,889,926	539,560	2,429,486
Unrestricted	(4,417,994)	-	-	6,509,340	-	(3,337,699)	(1,246,353)
Total cash and investment fund balance - ending	<u>\$ (4,417,994)</u>	<u>\$ 1,798,899</u>	<u>\$ 4,107,420</u>	<u>\$ 6,509,340</u>	<u>\$ 1,889,926</u>	<u>\$ (461,085)</u>	<u>\$ 9,426,506</u>

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2008

	Water Utility	Sanitary District	Totals	Internal Service Funds
Operating receipts:				
Unmetered/flat rate	\$ 44,354	\$ 76,582	\$ 120,936	\$ -
Metered/measured	4,472,433	5,635,044	10,107,477	-
Fire protection receipts	556,325	-	556,325	-
Penalties	26,040	-	26,040	-
Charges for services	24,010	179,083	203,093	13,358,471
Interfund loan proceeds	-	1,000,000	1,000,000	-
Miscellaneous	514,558	269,373	783,931	45,455
Total operating receipts	5,637,720	7,160,082	12,797,802	13,403,926
Operating disbursements:				
Municipal waste disposal	-	784,043	784,043	-
Sanitary building maintenance	-	1,268,989	1,268,989	-
Trash and bulk collections	-	970,421	970,421	-
Street sweeping	-	186,599	186,599	-
Garbage collection	-	1,197,062	1,197,062	-
Sewer repair and service	-	1,306,805	1,306,805	-
Recycling	-	649,508	649,508	-
Salaries and wages	-	654,602	654,602	-
Employee pensions and benefits	-	221,793	221,793	-
Material and supplies	-	73,378	73,378	-
Contractual services	-	99,137	99,137	-
Insurance claims and expense	-	-	-	9,639,169
Source of supply	335,095	-	335,095	-
Water treatment	1,531,461	-	1,531,461	-
Transmission and distribution	450,170	-	450,170	-
Customer accounts	523,459	261,620	785,079	-
Administration and general	459,044	3,324,619	3,783,663	329,835
Collection system	-	129,945	129,945	-
Pumping	-	246,841	246,841	-
Treatment and disposal	-	2,466,333	2,466,333	-
Refunds	10,299	-	10,299	-
Equipment and capital improvements	2,417,660	1,653,460	4,071,120	-
Interfund loans made/repaid	-	2,500,000	2,500,000	-
Miscellaneous	472,331	165,578	637,909	-
Cost of sales and services	-	-	-	2,509,213
Total operating disbursements	6,199,519	18,160,733	24,360,252	12,478,217
Excess (deficiency) of operating receipts over operating disbursements	(561,799)	(11,000,651)	(11,562,450)	925,709
Nonoperating receipts (disbursements):				
Property taxes	-	12,116,392	12,116,392	-
Intergovernmental	-	257,543	257,543	-
Rent	-	6,000	6,000	-
Investment income	264,867	88,142	353,009	-
Refunds	-	249,172	249,172	-
Grants	-	193,750	193,750	-
Debt service of principal	(610,000)	(605,000)	(1,215,000)	-
Interest disbursements	(773,163)	(249,260)	(1,022,423)	-
Total nonoperating receipts (disbursements)	(1,118,296)	12,056,739	10,938,443	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(1,680,095)	1,056,088	(624,007)	925,709
Tax anticipation warrant proceeds	-	5,000,000	5,000,000	-
Tax anticipation warrant repayments	-	(5,000,000)	(5,000,000)	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(1,680,095)	1,056,088	(624,007)	925,709
Cash and investment fund balance - beginning	15,460,719	2,592,674	18,053,393	(2,763,751)
Cash and investment fund balance - ending	<u>\$ 13,780,624</u>	<u>\$ 3,648,762</u>	<u>\$ 17,429,386</u>	<u>\$ (1,838,042)</u>

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As Of And For The Year Ended December 31, 2008
(Continued)

	<u>Water Utility</u>	<u>Sanitary District</u>	<u>Totals</u>	<u>Internal Service Funds</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ (1,305,563)	\$ 877,289	\$ (428,274)	\$ (1,838,042)
Restricted assets:				
Cash and investments	<u>15,086,187</u>	<u>2,771,473</u>	<u>17,857,660</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 13,780,624</u>	<u>\$ 3,648,762</u>	<u>\$ 17,429,386</u>	<u>\$ (1,838,042)</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 1,903,378	\$ -	\$ 1,903,378	\$ -
Other purposes	13,182,809	2,771,473	15,954,282	-
Unrestricted	<u>(1,305,563)</u>	<u>877,289</u>	<u>(428,274)</u>	<u>(1,838,042)</u>
Total cash and investment fund balance - December 31	<u>\$ 13,780,624</u>	<u>\$ 3,648,762</u>	<u>\$ 17,429,386</u>	<u>\$ (1,838,042)</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, 2008

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Employer	\$ 3,156,275	
State	<u>4,227,972</u>	
Total additions	<u>7,384,247</u>	
Deductions:		
Benefits	7,504,721	
Administrative and general	<u>64,718</u>	
Total deductions	<u>7,569,439</u>	
Excess (deficiency) of total additions over total deductions	(185,192)	
Cash and investment fund balance - beginning	<u>(1,693,772)</u>	
Cash and investment fund balance - ending	<u>\$ (1,878,964)</u>	<u>\$ 2,272,826</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:

Component Unit	Description/Inclusion Criteria
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 Lake, Porter, and LaPorte Counties and all municipalities in the three 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.

The City is a participant with the Cities of Hammond and Gary in a joint venture to operate the Gary/Hammond/East Chicago Empowerment Zone (Empowerment Zone) which was created to provide new jobs empowering low-income persons and families to become economically self-sufficient. The Empowerment Zone uses its surplus resources to undertake special projects for the participating Cities. The Empowerment Zone's continued existence depends on the Empowerment Zone's ability to be awarded continued federal funding. The Empowerment Zone's single audit report can be obtained from their administrative offices at 839 Broadway, Gary, IN 46402.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City is a participant with the State of Indiana, Lake and Porter Counties, certain cities in Lake and Porter Counties and federal agencies in a joint venture to operate the Regional Development Authority (RDA), which was created to assist in funding and developing of all transportation services including Gary/Chicago International Airport expansion and other airport authority projects, commuter transportation districts, rail projects and services, bus projects and services, shoreline development projects and activities, and economic development projects. Complete financial statements for the RDA can be obtained from their administrative offices at 9800 Connecticut Drive, Crown Point, IN 46307.

The City is a participant with Lake and Porter Counties, and certain cities in Lake and Porter Counties in a joint venture to operate the Regional Bus Authority (RBA), which was created to enhance the quality of life in Northwest Indiana by assuring the availability of a customer responsive regional bus transportation system. Complete financial statements for the RBA can be obtained from their administrative offices at 6100 Southport Road, Portage, IN 46368.

Related Organizations

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

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, 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 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. It also accounts for the operation of the storm water collection system and for the operation of trash collection system.

Additionally, the City reports the following fund types:

The internal service funds account for telephone communication, 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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Water Utility, 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. Property Taxes

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

In accordance with state statutes, all counties were required to reassess property values prior to billings taxes in 2008. Significant delays in the reassessment process have resulted in delays in billings taxes in 2008. Lake County 2007 pay 2008 tax rates were approved on November 14, 2008. Provisional bills for 50% of 2006 pay 2007 taxes were due October 29, 2008. The City received advance draws on their 2008 taxes from the provisional billing during 2008. Lake County sent the final reconciliation bill for taxes payable in 2008 in January 2009 with payment due by February 6, 2009. The City received their final settlement on March 27, 2009.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. 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.

4. 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.

5. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

Internal activities – Amounts reported as interfund transfers or loans 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 or loans between governmental, business-type activities, and the component unit, which are reported as Interfund Loans. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2008, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2008
Lease Rental Payment (Fund 318)	\$ 24,551 *
Sanitary Debt Service (Fund 308)	<u>10,082 *</u>
 Total	 <u>\$ 34,633</u>

*For 2006 Pay 2007 Circuit Breaker Payment - This payment was not budgeted.

These disbursements were funded by excess cash balances of other funds, or were greater than anticipated when budgeted.

C. Cash and Investment Balance Deficits

At December 31, 2008, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2008
General Fund	\$ 4,417,994
Special revenue funds:	
Parks and Recreation	2,041,064
Public Transportation	363,575
State Grants	31,260
Debt service fund:	
Lease Rental Payment	1,090,242
Park Bond and Interest	205,265
Internal service funds:	
Communication Revolving	126,812
Health, Life and Workers Compensation	1,620,792
Gasoline Revolving	90,438
Proprietary funds:	
Water Utility Operating	1,306,063
Sanitary District Bond and Interest	9,980
Pension trust funds:	
1925 Police Pension	1,036,048
1937 Firefighters' Pension	842,916
Agency funds:	
Payroll Withholdings	1,182

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The final 2008 pay 2009 tax distribution would cover the cash deficits and repayment of the tax anticipation warrants.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

As of December 31, 2008, the City had the following investments:

Investment Type	Market Value
U.S. treasuries and securities	\$ 13,812,252

Statutory Authorization for Investments

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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. The City does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
U.S. treasuries and securities	\$ 13,812,252	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investments are primarily in U.S. treasuries and securities. The City does not have a formal investment policy for credit risk for investments.

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.

Foreign Currency Risk

The City does not have a formal policy in regards to foreign currency risk.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2008</u>
Gaming Special Revenue Fund	General Fund	\$ 3,500,000
	Other governmental funds	300,000
Other governmental funds	Other governmental funds	<u>353,386</u>
Total		<u>\$ 4,153,386</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.

C. Tax Anticipation Warrants

The Common Council passed two ordinances and the Sanitary District Board of Commissioners passed one resolution authorizing the issuance of tax anticipation warrants (TAW's) in 2008 for property taxes payable in 2008. Due to property taxes not being billed or collected by the County in May and November as required by state statute, the original repayment date for the TAW's of December 31, 2008, was extended and ultimately repaid April 3, 2009. Tax anticipation warrant transactions for 2008 and the balance outstanding at December 31, 2008, are detailed in the following schedule:

<u>Fund</u>	<u>Principal Outstanding January 1, 2008</u>	<u>Warrant Proceeds</u>	<u>Warrant Repayments</u>	<u>Principal Outstanding December 31, 2008</u>
Governmental activities:				
General	<u>\$ 26,000,000</u>	<u>\$ 26,000,000</u>	<u>\$ 34,115,938</u>	<u>\$ 17,884,062</u>
Business activities:				
Sanitary District:				
Solid Waste Disposal	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Temporary Interfund Loans

Temporary interfund loans for the year ended December 31, 2008, were as follows:

Loan To	Loan From	Loans Outstanding January 1, 2008	Loans	Repayments	Loans Outstanding December 31, 2008
Proprietary funds	Gaming Special Revenue	\$ 1,500,000	\$ 1,000,000	\$ 2,500,000	\$ -
Component unit	Gaming Special Revenue	250,000	500,000	250,000	500,000
Totals		<u>\$ 1,750,000</u>	<u>\$ 1,500,000</u>	<u>\$ 2,750,000</u>	<u>\$ 500,000</u>

The City typically uses interfund loans for cash flow purposes to fund ongoing operations in anticipation of current revenues.

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. Water Filtration Plant Financing

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 Special Taxing District Bonds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 \$2,230,500.

D. Subsequent Events

State Pension Relief

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

Tax Anticipation Warrants

To offset the delay in tax collections, on December 22, 2008, the Common Council approved Ordinance 08-0034 that authorized the continuance of the 2008 remaining tax anticipation warrants (TAW) balance of \$17,884,062 until the final property tax settlement was received in 2009. The City repaid the TAW balance on April 3, 2009.

In addition, on March 9, 2009, the Common Council approved Ordinance 09-0003 that authorizes the issuance of TAW to meet current expenses in 2009 for the following funds: General Fund, Parks and Recreation Fund, all debt service funds (Lease Rental Payment Fund, Park Bond and Interest Fund, and Sanitary District Bond and Interest Fund), 1937 Firefighters Pension Fund, and 1925 Police Pension Fund. On July 27, 2009, Common Council approved Ordinance 09-0017 that authorizes the sale of TAW to BMO Capital Markets GKST and pledges a portion (\$3,500,000) of gaming receipts to the punctual repayment of the warrants. On August 6, 2009, \$24,250,000 of TAW were sold which mature on April 15, 2010. State statute requires TAW repayment by December 31.

On July 2, 2009, the Board of Commissioners for the Sanitary District approved Resolution SD09-04 that authorizes the issuance of TAW to meet current expenses in 2009 for the Sanitary Solids Fund (225). On August 6, 2009, \$5,000,000 of TAW were sold which mature on December 31, 2009.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Temporary Interfund Loans

The Common Council passed various ordinances authorizing interfund loans. The outstanding balances of interfund loans as of December 31, 2008, and August 31, 2009, are detailed in the following schedule:

<u>Loan To</u>	<u>Loan From</u>	Loans Outstanding January 1, 2009	Loans	Repayments	Loans Outstanding August 31, 2009
Component unit	Gaming Special Revenue	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000

Reassessment and Property Taxes

In accordance with state statutes, all counties were required to reassess property values prior to billing taxes in 2009. Taxes are normally billed in two installments, the first is due in May, and the second in November. Significant delays in the trending of assessments process have resulted in delays in billing, collection, and distribution of tax revenues by the County for the City in 2009. The assessed valuations of Lake County were not finalized by February 1, 2009, as required. The Lake County 2008 pay 2009 property tax rates and levies, as well as related budget orders for 2009, were not established until July 31, 2009. Currently, the County is anticipating billing the 2008 pay 2009 taxes in two installments with due dates of October 29 and November 30, 2009. A similar situation occurred in 2008. This has hampered the City's ability to appropriately budget and expend funds and has forced the City to borrow extensively in anticipation of tax revenues. The result of this borrowing has been additional interest costs to the City of \$814,705 during 2008.

The final settlement for 2007 taxes payable in 2008 was received by the City on March 27, 2009.

The City received a property tax advance of \$1,000,000 on June 18, 2009, in the Economic Development Commission Fund.

Circuit Breaker Tax Credit

In 2008, the Indiana General Assembly passed House Enrolled Act 1001 (HEA 1001) which provides a property tax credit (the Circuit Breaker Tax Credit) when the taxes on any property exceed a certain percentage of the property's assessed value. The credit is phased in over two years. For taxes payable in 2009 and 2010, the applicable percentages are as follows:

	<u>2009</u>	<u>2010</u>
Homestead (owner-occupied) residential property	1.5%	1%
Other residential property	2.5%	2%
Commercial and industrial property	3.5%	3%

The Circuit Breaker Tax Credit will result in a reduction of property tax collections for each political subdivision in which the Circuit Breaker Tax Credit is applied. A political subdivision may not increase its property tax levy or borrow funds to offset the effects of the Circuit Breaker Tax Credit.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Indiana Department of Local Government Finance (IDLGF) has taken an administrative position that existing law requires taxing units to fully fund any levies for the payment of outstanding debt service or lease rental obligations regardless of any reduction in property tax collections due to the application of the Circuit Breaker Tax Credit. The IDLGF's position is that property taxes collected by a political subdivision must first be applied to pay debt service or lease rental obligations on all outstanding bonds or lease rental revenue bonds. If property tax collections are insufficient to fully fund debt service or lease rental levies due to the Circuit Breaker Tax Credit, the IDLGF has indicated the taxing units must use nonproperty tax revenues or revenues from property tax levies for other funds (including operating) to offset revenue loss to the debt service fund.

Tax Increment Revenue Bonds

On July 30, 2009, the Common Council approved the issuance of \$6,300,000 Tax Increment Revenue Bonds, Series 2009A, for the Harborside Redevelopment Project.

Budget Cuts for 2010

On August 12, 2009, the City officials were informed that for calendar year 2010, the budgets for the City will need to have disbursements reduced by \$9,000,000. This is in addition to the cuts that the City made to the budgets for 2009 of \$8,000,000.

Unpaid Leave for Full Time Employees for 2009

On August 31, 2009, Mayor George Pabey signed Executive Order 09-01 establishing unpaid leave for full time City of East Chicago employees. In order to reduce the 2009 operating budget, City employees, with the exception of certain public safety employees, will take seven unpaid days off beginning September 4, 2009.

E. Contingent Liabilities

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

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

F. Property Taxes

The final distribution of the 2006 taxes payable 2007 was made on March 31, 2008. The City received an advance on the 2007 payable 2008 property tax bills on November 25, 2008. The final distribution of the 2007 taxes payable 2008 was made on March 27, 2009.

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 2008, the City refunded \$10,203 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 2008, the City paid \$172,476 in principal and \$10,439 in interest on the loan.

Settlement of Assessed Value Dispute

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.

G. 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, 2008, there were four Pollution Control, two Solid Waste Disposal, and three Economic Development Revenue Bonds outstanding. The aggregate principal amount payable for the six series issued after July 1, 1995, was \$37,110,797 and their original issue amounts totaled \$40,626,000. The aggregate principal amount payable for the three series issued prior to July 1, 1995, was \$61,620,330 and their original issue amounts totaled \$79,750,000.

H. Termination Benefits

During the current year, the City offered the following three termination benefit packages to employees:

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Incentive

The City offered an incentive package to promote early retirement for City employees who met specific requirements. The original date to accept the package was prior to April 14, 2008. This date was extended to November 24, 2008 by executive order from the Mayor. Those employees who were at least 50 years old and had 15 years of service with the City or were 65 years old and had 10 years of service with the City as of December 31, 2008, were entitled to a retirement package. The employees received 50% of their base annual salary in two installments, 100% of the value of their accrued vacation leave time and compensatory time, and 50% of the value of their accrued sick leave time. The employees were also able to continue their insurance coverage at the employee rate until eligible for Medicare. In 2008, 42 people accepted the incentive package. The total cost to the City for the incentive package was \$925,992.

Non-Incentive

When an employee's service for the City is terminated for one reason or another, the employee is entitled to receive 100% of the value of their accrued vacation leave time and compensatory time and 50% of the value of their accrued sick leave time. The employee is also permitted to continue their insurance coverage at the cost of both the employee and employer portions of the premium until they have found other employment offering insurance. A total of 56 people terminated employment in 2008 under this non-incentive program. An additional five people were paid their vacation, sick, and compensatory time for DROP (Deferred Retirement Option Plan) retirement. The total amount paid by the City for the non-incentive termination package was \$275,785.

DROP

The DROP Program is made available to all Police and Fire employees nearing retirement. If the employees elect to participate in the DROP Program, they must select a date for retirement at least one year, but no more than three years from the date of entry in DROP. This allows them to accumulate a lump sum of money while they continue to earn a salary. The lump sum is based on salary at the time of entry into the DROP Program. The money accumulated may be received in one lump sum or three annual amounts upon retirement. The employee must retire by the mandatory retirement age. If the employee fails to retire by the end of the DROP period, they are unable to collect their accrued amount. The City paid a total of \$134,302 in DROP payments during 2008.

I. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The City provides postemployment health care benefits for retirees from the City. The City combines the receipts and disbursements for the retirees with the current employees who are on the same plan in the Health, Life, and Workman's Compensation Fund, an internal service fund of the City.

Funding Policy for 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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

agreements. Currently, 71 retirees meet these eligibility requirements. Plan members receiving benefits contributed \$149,287, or 29.37% of the total premiums for single coverage and 20% of the total premiums for family coverage, through their required contributions of \$118 per month for retiree-only coverage and \$265.60 for retiree and family coverage. 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, 2008, disbursements of \$500,941 for insurance premiums were recognized for postemployment benefits. This amount represents 70.63% of the single coverage premiums and 80% of the family coverage premiums.

Funding Policy for 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, 48 retirees meet these eligibility requirements. Plan members receiving benefits contributed \$57,360, or 23.49% of the total premiums for single coverage and 16% of the total premiums for family coverage, through their required contributions of \$94.40 per month for retiree-only coverage and \$212.48 for retiree 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, 2008, disbursements of \$262,201 for insurance premiums were recognized for postemployment benefits. This amount represents 76.51% of the single coverage premiums and 84% of the family coverage premiums.

J. Loans Receivable

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 Redevelopment, SSED Revolving Loan, and the East Chicago, Gary, Hammond Revolving Loan Consortium Funds.

At December 31, 2008, outstanding loans were as follows:

	Receivable Balance
Redevelopment*	\$ 3,124,576
SSED Revolving Loan	1,410
East Chicago, Gary, Hammond Revolving Loan Consortium	36,675
Total loans receivable	\$ 3,162,661

*Of this loans receivable amount, \$421,588 is for an outstanding loan to developer Nevell Gough who died in 2009. This loan will be considered for write-off later during 2009.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

K. Rate Structure – Enterprise Funds

Water Utility

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

Sanitary District

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

The Board of Sanitary Commissioners approved a \$3 monthly fee for Storm Water on February 28, 2008, with Resolution SD08-01. A separate Board of Storm Water Commissioners began operating on April 17, 2008.

L. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy

PERF members are required to contribute three percent (3%) of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is six percent (6%) for the City (including the Sanitary District and Port Authority) and

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

seven and one-half percent (7.5%) for the Water Utility, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the PERF Board of Trustees.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Sanitary District and Port Authority is not available. There is a separate plan for the Water Utility.

Annual Pension Cost

For 2008, the City's and Water Utility's annual pension costs for PERF were \$1,329,651 and \$147,495, respectively. The required contributions for PERF were \$1,327,428 and \$146,184, respectively. The actual contributions for PERF were \$1,188,579 and \$102,489, respectively.

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

Plan members are required by state statute (IC 36-8-6-4) to contribute an amount equal to six percent (6%) of the salary of a first class patrolman. The City is required to contribute an amount equal to the funding deficit of the difference between receipts of the fund and the required disbursements of the fund (pay-as-you-go basis); the amount contributed for 2008 is \$4,318,484. The contribution requirements of plan members and the City are established by state statute. Of this amount, \$2,374,970 is contributed by the State of Indiana on behalf of the City. On behalf contributions from the State of Indiana was less than the amount paid out for benefits.

Annual Pension Cost

For 2008, the City's annual pension cost for the 1925 Police Officers' Pension Plan was \$3,569,400, while the required and actual contributions were \$3,884,100 and \$4,307,858, respectively.

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Plan members are required by state statute (IC 36-8-7-8) to contribute an amount equal to six percent (6%) of the salary of a fully paid first class firefighter. The City is required to contribute an amount equal to the funding deficit of the difference between receipts of the fund and the required disbursements of the fund (pay-as-you-go basis); the amount contributed for 2008 is \$3,065,763. The contribution requirements of plan members and the City are established by state statute. Of this amount, \$1,853,002 is contributed by the State of Indiana on behalf of the City. On behalf contributions from the State of Indiana was less than the amount paid out for benefits.

Annual Pension Cost

For 2008, the City's annual pension cost for the 1937 Firefighters' Pension Plan was \$2,831,200, while the required and actual contributions were \$3,026,700 and \$3,061,680, respectively.

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	\$ 1,327,428	\$ 146,184	\$ 3,884,100	\$ 3,026,700
Interest on net pension obligation	(15,927)	(9,397)	1,202,300	747,300
Adjustment to annual required contribution	<u>18,150</u>	<u>10,708</u>	<u>(1,517,000)</u>	<u>(942,800)</u>
Annual pension cost	1,329,651	147,495	3,569,400	2,831,200
Contributions made	<u>1,188,579</u>	<u>102,489</u>	<u>4,307,858</u>	<u>3,061,680</u>
Increase (decrease) in net pension obligation	141,072	45,006	(738,458)	(230,480)
Net pension obligation, beginning of year	<u>(219,684)</u>	<u>(129,609)</u>	<u>20,039,134</u>	<u>12,454,995</u>
Net pension obligation, end of year	<u>\$ (78,612)</u>	<u>\$ (84,603)</u>	<u>\$ 19,300,676</u>	<u>\$ 12,224,515</u>

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	6%	No Covered Payroll	3,092%
Water Utility	7.5%	N/A	N/A
Plan members	3%	6%	6%
Actuarial valuation date	07-01-08	01-01-07	01-01-07
Actuarial cost method	Entry age Normal Cost	Entry age	Entry age
Amortization method	Level Dollar, Closed Amortization Period	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	30 years	30 years	30 years
Amortization period (from date)	07-01-07	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

<u>Actuarial Assumptions</u>	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	4%	4%	4%
Cost-of-living adjustments	1.5%	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	06-30-06	\$ 1,116,674	91%	\$ (489,169)
	06-30-07	1,370,518	80%	(219,684)
	06-30-08	1,329,651	89%	(78,612)
PERF (Water Utility)	06-30-06	83,008	142%	(145,453)
	06-30-07	128,436	88%	(129,609)
	06-30-08	147,495	69%	(84,603)

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1925 Police Officers' Pension Plan	12-31-06	\$ 3,751,700	130%	\$ 19,765,043
	12-31-07	3,559,300	92%	20,039,134
	12-31-08	3,569,400	121%	19,300,676
1937 Firefighters' Pension Plan	12-31-06	2,843,200	144%	12,088,377
	12-31-07	2,829,300	87%	12,454,995
	12-31-08	2,831,200	108%	12,224,515

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2008, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	158	120
Current active employees	None	None

Funded Status and Funding Progress for the Above Plans

The funded status of each plan as of July 1, 2008, the most recent actuarial valuation date, (except 1925 Police Pension Fund and 1937 Fire Pension Fund which are as of January 1, 2008) is as follows:

Retirement Plan	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
PERF	\$ 23,423,010	\$ 25,455,480	\$ 2,032,470	92%	\$ 19,627,966	10%
PERF (Water Utility)	1,841,583	2,487,412	645,829	74%	1,575,891	41%
1925 Police Officers' Pension Plan	(1,167,712)	52,806,200	53,973,912	(2%)	No Covered Payroll	No Covered Payroll
1937 Firefighters' Pension Plan	(526,060)	40,988,200	41,514,260	(1%)	97,900	42,405%

The schedule of funding progress, presented as RSI for the above plans following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2008, 2007, and 2006, were \$2,005,385, \$1,932,301, and \$1,852,430, 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
07-01-08	23,423,010	25,455,480	(2,032,470)	92%	19,627,966	(10%)

Public Employees' Retirement Fund (Water Utility)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
07-01-08	1,841,583	2,487,412	(645,829)	74%	1,575,891	(41%)

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-03	\$ 3,314,661	\$ 57,321,400	\$ (54,006,739)	6%	\$ 672,300	(8,033%)
01-01-04	(143,449)	58,601,300	(58,744,749)	(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%)
01-01-08	(1,167,712)	52,806,200	(53,973,912)	(2%)	No Covered Payroll	

1937 Fire Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
01-01-08	(526,060)	40,988,200	(41,514,260)	(1%)	97,900	(42,405%)

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

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-03	\$ 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%
	12-31-08	3,884,100	50%	61%
1937 Firefighters' Pension Plan	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%
	12-31-08	3,026,700	40%	61%

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
 For The Year Ended December 31, 2008

	Local Road And Street	Health Maintenance	Public Transportation	Federal Grants	Law Enforcement Continuing Education	Unsafe Building
Receipts:						
Taxes	\$ -	\$ -	\$ 724,228	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	7,300	-
Intergovernmental	299,793	18,824	695,293	366,449	-	-
Charges for services	-	-	-	-	21,143	-
Fines and forfeits	-	-	-	-	5,563	7,500
Other	-	150,500	8,788	-	-	-
Total receipts	299,793	169,324	1,428,309	366,449	34,006	7,500
Disbursements:						
General government	-	-	-	81,698	-	-
Public safety	-	-	-	29,847	990	33,289
Highways and streets	259,931	-	1,384,347	-	-	-
Health and welfare	-	75,465	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	3,200	23,147	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	7,402	-	-	-	-
Total disbursements	259,931	82,867	1,384,347	114,745	24,137	33,289
Excess (deficiency) of receipts over disbursements	39,862	86,457	43,962	251,704	9,869	(25,789)
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Other receipts	-	-	376	-	-	12,014
Total other financing sources (uses)	-	-	376	-	-	12,014
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	39,862	86,457	44,338	251,704	9,869	(13,775)
Cash and investment fund balance - beginning	145,281	100,225	(407,913)	(231,553)	63,740	47,392
Cash and investment fund balance - ending	<u>\$ 185,143</u>	<u>\$ 186,682</u>	<u>\$ (363,575)</u>	<u>\$ 20,151</u>	<u>\$ 73,609</u>	<u>\$ 33,617</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ (363,575)	\$ 20,151	\$ -	\$ -
Restricted assets:						
Cash and investments	185,143	186,682	-	-	73,609	33,617
Total cash and investment assets - ending	\$ 185,143	\$ 186,682	\$ (363,575)	\$ 20,151	\$ 73,609	\$ 33,617
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	73,609	33,617
Highways and streets	185,143	-	-	-	-	-
Health and welfare	-	186,682	-	-	-	-
Economic development	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	(363,575)	20,151	-	-
Total cash and investment fund balance - ending	\$ 185,143	\$ 186,682	\$ (363,575)	\$ 20,151	\$ 73,609	\$ 33,617

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
 For The Year Ended December 31, 2008
 (Continued)

	State Grants	Parks And Recreation	Local Grants	General Adult Probation	Summer Youth Training Program	Property Improvement
Receipts:						
Taxes	\$ -	\$ 3,124,753	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	381,799	65,115	169,238	-	52,494	-
Charges for services	-	517,389	-	-	-	-
Fines and forfeits	-	-	-	18,391	-	-
Other	-	10,190	84,122	205	-	-
Total receipts	381,799	3,717,447	253,360	18,596	52,494	-
Disbursements:						
General government	-	-	205,234	2,506	344,249	-
Public safety	-	-	-	-	-	-
Highways and streets	108,395	-	-	-	-	-
Health and welfare	279,698	-	-	-	-	-
Culture and recreation	15,140	3,306,135	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	7,663	322	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Total disbursements	403,233	3,306,135	212,897	2,828	344,249	-
Excess (deficiency) of receipts over disbursements	(21,434)	411,312	40,463	15,768	(291,755)	-
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	-
Transfers in	-	-	-	-	300,000	-
Transfers out	-	-	-	-	-	-
Other receipts	-	20,463	-	5	143	-
Total other financing sources (uses)	-	20,463	-	5	300,143	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(21,434)	431,775	40,463	15,773	8,388	-
Cash and investment fund balance - beginning	(9,826)	(2,472,839)	58,842	78,136	(8,388)	6,000
Cash and investment fund balance - ending	<u>\$ (31,260)</u>	<u>\$ (2,041,064)</u>	<u>\$ 99,305</u>	<u>\$ 93,909</u>	<u>\$ -</u>	<u>\$ 6,000</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ (31,260)	\$ (2,041,064)	\$ 99,305	\$ -	\$ -	\$ 6,000
Restricted assets:						
Cash and investments	-	-	-	93,909	-	-
Total cash and investment assets - ending	<u>\$ (31,260)</u>	<u>\$ (2,041,064)</u>	<u>\$ 99,305</u>	<u>\$ 93,909</u>	<u>\$ -</u>	<u>\$ 6,000</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ 93,909	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	(31,260)	(2,041,064)	99,305	-	-	6,000
Total cash and investment fund balance - ending	<u>\$ (31,260)</u>	<u>\$ (2,041,064)</u>	<u>\$ 99,305</u>	<u>\$ 93,909</u>	<u>\$ -</u>	<u>\$ 6,000</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
 For The Year Ended December 31, 2008
 (Continued)

	Police Federal Forfeitures	Damage To City Property	Railroad Relocation	Vital Records	City Court Program	Judgment Bond Proceeds
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	31,722	-	23,120	-	-	-
Charges for services	-	-	-	69,326	-	-
Fines and forfeits	-	-	-	-	30,180	-
Other	648	-	-	-	-	-
Total receipts	32,370	-	23,120	69,326	30,180	-
Disbursements:						
General government	-	1,454	-	-	26,669	1,166,118
Public safety	16,000	-	-	-	-	-
Highways and streets	-	-	165,069	-	-	-
Health and welfare	-	-	-	25,985	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	2,569	-
Public safety	34,773	-	-	-	-	-
Highways and streets	-	-	63,500	-	-	-
Health and welfare	-	-	-	24,405	-	-
Total disbursements	50,773	1,454	228,569	50,390	29,238	1,166,118
Excess (deficiency) of receipts over disbursements	(18,403)	(1,454)	(205,449)	18,936	942	(1,166,118)
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	1,300,005
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Other receipts	-	127	-	-	-	-
Total other financing sources (uses)	-	127	-	-	-	1,300,005
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(18,403)	(1,327)	(205,449)	18,936	942	133,887
Cash and investment fund balance - beginning	41,665	65,743	291,474	89,892	79,540	-
Cash and investment fund balance - ending	<u>\$ 23,262</u>	<u>\$ 64,416</u>	<u>\$ 86,025</u>	<u>\$ 108,828</u>	<u>\$ 80,482</u>	<u>\$ 133,887</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ 64,416	\$ 86,025	\$ 108,828	\$ -	\$ -
Restricted assets:						
Cash and investments	23,262	-	-	-	80,482	133,887
Total cash and investment assets - ending	\$ 23,262	\$ 64,416	\$ 86,025	\$ 108,828	\$ 80,482	\$ 133,887
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ 80,482	\$ 133,887
Public safety	23,262	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	64,416	86,025	108,828	-	-
Total cash and investment fund balance - ending	\$ 23,262	\$ 64,416	\$ 86,025	\$ 108,828	\$ 80,482	\$ 133,887

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
 For The Year Ended December 31, 2008
 (Continued)

	SSED Revolving Loan	East Chicago, Gary, Hammond Revolving Loan Consortium	Redevelopment	Redevelopment Trust	Redevelopment Rehabilitation Escrow	Lease Rental Payment
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,296,708
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	1,575,415	-	-	39,741
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	2,126	2,038	349,426	22,181	5,393	-
Total receipts	2,126	2,038	1,924,841	22,181	5,393	2,336,449
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	2,227,423	1,500	115,665	-
Debt service:						
Principal	-	-	-	-	-	995,534
Interest	-	-	-	-	-	1,263,517
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Total disbursements	-	-	2,227,423	1,500	115,665	2,259,051
Excess (deficiency) of receipts over disbursements	2,126	2,038	(302,582)	20,681	(110,272)	77,398
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	-
Transfers in	-	-	291,000	-	62,386	-
Transfers out	-	-	(62,386)	-	(291,000)	-
Other receipts	16,464	61,655	80,138	-	343,535	-
Total other financing sources (uses)	16,464	61,655	308,752	-	114,921	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	18,590	63,693	6,170	20,681	4,649	77,398
Cash and investment fund balance - beginning	287,197	163,731	356,124	610,277	4,333	(1,167,640)
Cash and investment fund balance - ending	\$ 305,787	\$ 227,424	\$ 362,294	\$ 630,958	\$ 8,982	\$ (1,090,242)
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 8,982	\$ (1,090,242)
Restricted assets:						
Cash and investments	305,787	227,424	362,294	630,958	-	-
Total cash and investment assets - ending	\$ 305,787	\$ 227,424	\$ 362,294	\$ 630,958	\$ 8,982	\$ (1,090,242)
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	305,787	227,424	-	-	-	-
Urban redevelopment and housing	-	-	362,294	630,958	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	-	-	8,982	(1,090,242)
Total cash and investment fund balance - ending	\$ 305,787	\$ 227,424	\$ 362,294	\$ 630,958	\$ 8,982	\$ (1,090,242)

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
 For The Year Ended December 31, 2008
 (Continued)

	Park Bond And Interest	Cumulative Capital Development	Fire Equipment	Park Bond Proceeds	Construction	Totals
Receipts:						
Taxes	\$ 410,640	\$ -	\$ -	\$ -	\$ -	\$ 6,556,329
Licenses and permits	-	-	-	-	-	7,300
Intergovernmental	21,551	-	-	-	-	3,740,554
Charges for services	-	-	-	-	-	607,858
Fines and forfeits	-	-	-	-	-	61,634
Other	-	-	-	-	-	635,617
Total receipts	432,191	-	-	-	-	11,609,292
Disbursements:						
General government	-	-	-	-	-	1,827,928
Public safety	-	-	-	-	-	80,126
Highways and streets	-	-	-	-	-	1,917,742
Health and welfare	-	-	-	-	-	381,148
Culture and recreation	-	-	-	-	-	3,321,275
Urban redevelopment and housing	-	-	-	-	-	2,344,588
Debt service:						
Principal	590,000	-	-	-	-	1,585,534
Interest	48,378	-	-	-	-	1,311,895
Capital outlay:						
General government	-	-	-	-	22,477	33,031
Public safety	-	-	-	-	-	61,120
Highways and streets	-	-	-	-	-	63,500
Health and welfare	-	-	-	-	-	31,807
Total disbursements	638,378	-	-	-	22,477	12,959,694
Excess (deficiency) of receipts over disbursements	(206,187)	-	-	-	(22,477)	(1,350,402)
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	1,300,005
Transfers in	-	-	-	-	-	653,386
Transfers out	-	-	-	-	-	(353,386)
Other receipts	-	-	-	-	-	534,920
Total other financing sources (uses)	-	-	-	-	-	2,134,925
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(206,187)	-	-	-	(22,477)	784,523
Cash and investment fund balance - beginning	922	74,541	21,962	306,537	158,997	(1,245,608)
Cash and investment fund balance - ending	<u>\$ (205,265)</u>	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 306,537</u>	<u>\$ 136,520</u>	<u>\$ (461,085)</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ (205,265)	\$ -	\$ -	\$ -	\$ -	\$ (3,337,699)
Restricted assets:						
Cash and investments	-	74,541	21,962	306,537	136,520	2,876,614
Total cash and investment assets - ending	\$ (205,265)	\$ 74,541	\$ 21,962	\$ 306,537	\$ 136,520	\$ (461,085)
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 308,278
Public safety	-	-	-	-	-	130,488
Highways and streets	-	-	-	-	-	185,143
Health and welfare	-	-	-	-	-	186,682
Economic development	-	-	-	-	-	533,211
Urban redevelopment and housing	-	-	-	-	-	993,252
Capital outlay	-	74,541	21,962	306,537	136,520	539,560
Unrestricted	(205,265)	-	-	-	-	(3,337,699)
Total cash and investment fund balance - ending	\$ (205,265)	\$ 74,541	\$ 21,962	\$ 306,537	\$ 136,520	\$ (461,085)

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, 2008

	Health, Life And Worker Compensation	Communication Revolving	Gasoline Revolving	Utilities Administration Revolving	Totals
Operating receipts:					
Charges for services	10,807,845	\$ 380,108	\$ 1,458,189	\$ 712,329	\$ 13,358,471
Refunds	45,455	-	-	-	45,455
Total operating receipts	<u>10,853,300</u>	<u>380,108</u>	<u>1,458,189</u>	<u>712,329</u>	<u>13,403,926</u>
Operating disbursements:					
Cost of sales and services	-	387,432	1,409,452	712,329	2,509,213
Insurance claims and expense	9,639,169	-	-	-	9,639,169
Administrative and general	329,835	-	-	-	329,835
Total operating disbursements	<u>9,969,004</u>	<u>387,432</u>	<u>1,409,452</u>	<u>712,329</u>	<u>12,478,217</u>
Excess (deficiency) of receipts over disbursements	<u>884,296</u>	<u>(7,324)</u>	<u>48,737</u>	<u>-</u>	<u>925,709</u>
Cash and investment fund balance - beginning	<u>(2,505,088)</u>	<u>(119,488)</u>	<u>(139,175)</u>	<u>-</u>	<u>(2,763,751)</u>
Cash and investment fund balance - ending	<u>\$ (1,620,792)</u>	<u>\$ (126,812)</u>	<u>\$ (90,438)</u>	<u>\$ -</u>	<u>\$ (1,838,042)</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ (1,620,792)</u>	<u>\$ (126,812)</u>	<u>\$ (90,438)</u>	<u>\$ -</u>	<u>\$ (1,838,042)</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ (1,620,792)</u>	<u>\$ (126,812)</u>	<u>\$ (90,438)</u>	<u>\$ -</u>	<u>\$ (1,838,042)</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, 2008

	<u>1925 Police Pension</u>	<u>1937 Firefighters' Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Employer	1,943,514	1,212,761	3,156,275
State	<u>2,374,970</u>	<u>1,853,002</u>	<u>4,227,972</u>
 Total additions	 <u>4,318,484</u>	 <u>3,065,763</u>	 <u>7,384,247</u>
Deductions:			
Benefits	4,145,134	3,359,587	7,504,721
Administrative and general	<u>41,686</u>	<u>23,032</u>	<u>64,718</u>
 Total deductions	 <u>4,186,820</u>	 <u>3,382,619</u>	 <u>7,569,439</u>
 Excess (deficiency) of total additions over total deductions	 131,664	 (316,856)	 (185,192)
 Cash and investment fund balance - beginning	 <u>(1,167,712)</u>	 <u>(526,060)</u>	 <u>(1,693,772)</u>
 Cash and investment fund balance - ending	 <u>\$ (1,036,048)</u>	 <u>\$ (842,916)</u>	 <u>\$ (1,878,964)</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2008

	Court Costs Due County	Payroll Withholdings	Perf	Miscellaneous Employees Insurance	Northwest Indiana Health Department Cooperative	Waterway Management District	East Chicago Property Tax Credit	City Clerk	Totals
Additions:									
Agency fund additions	\$ 27,055	\$ 56,695,599	\$ 4,666,327	\$ 4,409	\$ 1,263,265	\$ 453,740	\$ -	\$ 1,118,799	\$ 64,229,194
Deductions:									
Agency fund deductions	27,055	56,731,528	4,709,450	1,896	1,260,572	304,151	10,203	938,943	63,983,798
Excess (deficiency) of total additions over total deductions	-	(35,929)	(43,123)	2,513	2,693	149,589	(10,203)	179,856	245,396
Cash and investment fund balance - beginning	-	34,747	1,155,360	47,691	38,303	39,349	230,801	481,179	2,027,430
Cash and investment fund balance - ending	\$ -	\$ (1,182)	\$ 1,112,237	\$ 50,204	\$ 40,996	\$ 188,938	\$ 220,598	\$ 661,035	\$ 2,272,826

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, 2008

	<u>Port Authority</u>
Operating receipts:	
Slip rentals	\$ 586,363
Boat storage	274,408
Rentals	40,741
Marina fees	45,481
Services	9,693
Gas and oil	264,966
Restaurant	203,805
Interfund loan proceeds	<u>500,000</u>
Total operating receipts	<u>1,925,457</u>
Operating disbursements:	
Salaries and wages	542,737
Employee pensions and benefits	159,520
Purchased water	2,481
Purchased power	76,437
Material and supplies	410,997
Contractual services	241,219
Repairs	89,122
Refunds	1,481
Equipment and capital improvements	198,858
Interfund loans made/repaid	250,000
Miscellaneous	<u>37,299</u>
Total operating disbursements	<u>2,010,151</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(84,694)</u>
Nonoperating receipts (disbursements):	
Intergovernmental	140,712
Investment income	3,916
Refunds	<u>43,246</u>
Total nonoperating receipts (disbursements)	<u>187,874</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	103,180
Cash and investment fund balance - beginning	<u>91,607</u>
Cash and investment fund balance - ending	<u>\$ 194,787</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	<u>\$ 194,787</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	<u>\$ 194,787</u>

CITY OF EAST CHICAGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2008

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	4,248,718
Capital assets, being depreciated (net of depreciation)	
Infrastructure	26,351,477
Buildings	33,858,341
Improvements other than buildings	1,961,138
Machinery and equipment	<u>5,758,875</u>
Total governmental activities, capital assets	<u>\$ 78,459,299</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	6,039,609
Capital assets, being depreciated (net of depreciation):	
Buildings	747,662
Improvements and lines	2,885,866
Machinery and equipment	<u>72,998</u>
Total Water Utility capital assets	<u>9,995,994</u>
Sanitary District:	
Capital assets, not being depreciated:	
Land	885,268
Capital assets, being depreciated (net of depreciation):	
Buildings	17,355,846
Improvements and lines	3,691,277
Machinery and equipment	<u>3,605,091</u>
Total Sanitary District capital assets	<u>25,537,482</u>
Total business-type activities capital assets	<u>\$ 35,533,476</u>

<u>Discretely Presented Component Unit:</u>	<u>Ending Balance</u>
Port Authority:	
Capital assets, not being depreciated:	
Land	\$ 1,020,000
Construction in progress	170,822
Capital assets, being depreciated (net of depreciation):	
Buildings	7,546,600
Improvements other than buildings	42,500
Machinery and equipment	<u>79,386</u>
Total discretely presented component unit capital assets	<u>\$ 8,859,308</u>

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2008

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	\$ 23,565,234	\$ 2,223,000
Copiers (Police Department)	56,990	27,134
Notes and loans payable:		
2001 Rainy Day Loan	1,447,370	578,947
Circuit Breaker Loan	356,569	304,857
Bonds payable:		
General obligation bonds:		
Park District Bonds, 1999	615,000	631,144
Judgment Funding Bonds, 2008	1,300,000	369,678
Revenue bonds:		
Redevelopment Tax Increment Financing Bonds, 1999	<u>7,008,967</u>	<u>1,325,756</u>
Total governmental activities debt	<u>\$ 34,350,130</u>	<u>\$ 5,460,516</u>
Business-type activities:		
Water Utility:		
Loans payable:		
2002 State Revolving Loan	\$ 1,605,000	\$ 134,080
2006 State Revolving Loan	<u>16,075,000</u>	<u>1,239,310</u>
Total Water Utility	<u>17,680,000</u>	<u>1,373,390</u>
Sanitary District:		
Loans payable:		
2001 Rainy Day Loan	500,000	200,000
1996 State Revolving Loan	<u>7,945,000</u>	<u>846,343</u>
Total Sanitary District	<u>8,445,000</u>	<u>1,046,343</u>
Total business-type activities debt	<u>\$ 26,125,000</u>	<u>\$ 2,419,733</u>

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

On May 20, 2008, the Water Utility paid penalties, interest, and other charges totaling \$2,841.58 to the Indiana Department of Revenue for the late payment of the utility receipt tax and Indiana sales tax. Utility receipt tax penalties totaled \$887.49 from 2006 and sales tax penalties totaled \$1,954.09 for tax periods from December 2005, February 2006, March 2006, April 2006, and October 2006.

We requested Charles Pacurar, City Controller reimburse the Water Utility \$2,841.58 for the utility receipt tax and sales tax penalty and interest. On September 18, 2009, Charles Pacurar, City Controller reimbursed the City \$2,841.58. (See Summary, page 85)

A similar comment appeared in a prior report.

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

EMPLOYEE BONDS

The City does not have employee dishonesty insurance coverage for employees that collect cash in the following departments: the Water Utility, Health Department, Park Department, Animal Control, and Transit Department. Officials indicated that in years past, the City had official bonds for numerous employees. However, in the past four years, the list was shortened substantially and the employees who are in a position that collects cash in the listed departments were omitted. A blanket bond or a crime insurance policy covering all employees was not purchased.

The official bonds for the members of the Sanitary District board are \$5,000 each. This amount is less than the minimum amount required by Indiana Code as cited below. The bonds were not recorded in the Lake County Recorder's office, as required by Indiana Statute.

A similar comment appeared in the prior report.

IC 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:

CITY OF EAST CHICAGO
 AUDIT RESULTS AND COMMENTS
 (Continued)

- (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). . ."

IC 5-4-1-19 states:

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

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)

OVERDRAWN CASH BALANCES

The following funds had overdrawn cash balances at December 31, 2008:

Fund	2008
General Fund	\$ 4,417,994
Special revenue funds:	
Parks and Recreation	2,041,064
Public Transportation	363,575
State Grants	31,260
Debt service fund:	
Lease Rental Payment	1,090,242
Park Bond and Interest	205,265
Internal service funds:	
Communication Revolving	126,812
Health, Life and Workers Compensation	1,620,792
Gasoline Revolving	90,438
Proprietary funds:	
Water Utility Operating	1,306,063
Sanitary District Bond and Interest	9,980
Pension trust funds:	
1925 Police Pension	1,036,048
1937 Firefighters' Pension	842,916
Agency funds:	
Payroll Withholdings	1,182

A similar comment appeared in prior reports.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

Funds of the East Chicago Water Utility, the East Chicago Sanitary District, 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 2008. On November 1, 2008, the Northwest Indiana Health Department Cooperative (Healthy Start) began using its own bank account rather than the City's general bank account. The East Chicago Water Utility, some of the funds belonging to the East Chicago Sanitary District, and the East Chicago Waterway Management District were still a part of the City's general bank account in 2008. The City Controller opened new bank accounts in 2006. However, the activity of the separate entities was not processed in these separate bank accounts due to computer programming issues until September 1, 2009.

A similar comment appeared in prior reports.

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 City financial reports are produced using this software. Computerized forms are being used that have not been approved for use in lieu of prescribed forms. The City added wording to the receipts generated indicating that the receipts were approved forms. Approval to add that language to the receipts had not been received.

The following is a list of prescribed forms replaced by computerized forms that have not been approved for use:

- Recording Receipts, City/Town Form 208
- Purchase Order, General Form 98
- Municipal Water Utility Accounts Payable Voucher, Form 301
- Municipal Wastewater Utility Accounts Payable Voucher, Form 301S
- Accounts Payable Voucher Register, General Form 364
- Clerk-Treasurer's Warrant, City Form 205A
- Payroll Schedule and Voucher, General Form 99
- Clerk-Treasurer's Payroll Warrant, City Form 205A-PR
- Employee's Earnings Record, General Form 99B

A similar comment appeared in prior reports.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

PRESCRIBED FORMS (Applies to Police)

The Police Department is not preparing Report of Collections (General Form 362) to account for collections remitted to the City Controller.

The City uses the prescribed Form 99A, Employee's Service Record, to record vacation and sick time earned and used. The Police Department uses an "Employee Data Calendar" and does not use the approved form. Cumulative leave balances are not noted on the "Employee Data Calendar."

A similar comment appeared in prior reports.

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)

FUND ACTIVITY ON EXCEL SPREADSHEETS

The detail activity for several funds, including the Redevelopment Fund and the Health, Life and Workers' Compensation Insurance Fund, is maintained on Excel spreadsheets. 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. Use of Excel spreadsheets allow for corrections to be made which are not documented.

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. The officials have been in the process of changing their system to accommodate entering all original transactions into MUNIS, rather than using Excel spreadsheets.

A similar comment appeared in prior reports.

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)

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

CITY OF EAST CHICAGO
 AUDIT RESULTS AND COMMENTS
 (Continued)

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

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

Fund	Excess Amount Expended
Lease Rental Payment (Fund 318)	\$ 24,551
Sanitary Debt Service (Fund 308)	10,082

For both funds, the excess disbursement was caused by the payment of circuit breaker debt payments to Lake County.

IC 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."

CONTRACTS

Under a written contract with Arrow Uniform, uniforms are provided for employees of the following departments: City Hall, General Services, Janitorial, Craftsman, Sign Division, and Administration Motor Vehicle Highway. The Park District and Sanitary District Solids Department are not specifically included in the written contract; however, Arrow Uniform provided uniform services for the Park District and Sanitary District Solids Department but the amount paid was not consistent with the contract. The written contract should include all departments of the City.

Payments were made for legal services to Lyles and Harris, LLC totaling \$65,577.95 while the written contract was for an amount not to exceed \$50,000 per year. Most work was paid according to a flat rate per month, except for work on Calumet Concrete billed at \$125 per hour until May 2008, when the hourly rate increased to \$150 per hour. These payments totaled \$4,586.70 for 2008.

Payments were made to McDowell Law Firm, LLC totaling \$35,151.52 while the written contract was for an amount not to exceed \$25,000.

Legal services paid to Joseph Allegretti totaled \$154,364.45 during 2008 (\$65,000 from the General Fund, \$23,734.47 from Sanitary Solids Fund, \$19,452.50 from Water Utility Operating Fund, and \$46,177.48 from Sanitary Wastewater Fund) and were not supported by a written contract. The contract for the year 2008 was not presented for audit. A contract for 2009 was made available for audit.

United Neighborhood Organization was paid \$219,968 for the financial support of programs and services to benefit the residents of the City at three community centers: Martin Luther King, Penn Center, and Bessie Owens. A written contract between the United Neighborhood Organization and the City of East Chicago was not provided for audit.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARD STATEMENTS, LACK OF ORIGINAL RECEIPTS

A credit card was used by an employee to purchase \$2,137 for airline tickets, exchange an air-plane ticket, and reserve a hotel room to attend both an economic development conference and the National Puerto Rican Day Parade in Puerto Rico. Detailed receipts were not presented for audit.

A similar comment appeared in prior reports.

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

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

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

TIMELY PAYMENT OF CLAIMS

Of the claims tested, 16% were paid between two months and one year after the invoice was issued. These claims were for various types of goods and services.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

APPROVING SALARY ORDINANCES

The Common Council failed to adopt salary ordinances for the following departments: Sanitary District Solids, Wastewater, Police, Fire, Emergency Personnel, Utilities Administration, Port Authority, and Water Utility, as well as two resolutions amending salaries of the Wastewater Board and Utility Labor. These salaries were approved in resolution form by their respective boards, but were not approved in ordinance form by the Common Council.

The Common Council also failed to approve a salary for 2008 for the Mayor and the other elected officials. The Common Council has not approved the Mayor's salary through the adoption of an ordinance since 2005.

IC 36-8-3-3(d) states:

"The annual compensation of all members of the police and fire departments and other appointees shall be fixed by ordinance of the legislative body no later than September 30 of each year for the ensuing budget year. The ordinance may grade the members of the departments and regulate their pay by rank as well as by length of service. If the legislative body fails to adopt an ordinance fixing the compensation of members of the police or fire department, the safety board may fix their compensation, subject to change by ordinance."

IC 36-4-7-3(b) states:

"Subject to the approval of the city legislative body, the city executive shall fix the compensation of each appointive officer, deputy, and other employee of the city. The legislative body may reduce but may not increase any compensation fixed by the executive. Compensation must be fixed under this section not later than September 30 of each year for the ensuing budget year."

IC 36-4-7-2 states:

". . . 'compensation' means the total of all money paid to an elected city officer for performing duties as a city officer, regardless of the source of funds from which money is paid. The city legislative body shall, by ordinance, fix the annual compensation of all elected city officers. The ordinance must be published under Indiana Code 5-3-1, with the first publication at least thirty (30) days before final passage by the legislative body. The compensation of an elected city officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

ACTUARIAL STUDY

The City of East Chicago did not have an actuarial study performed for their post-employment benefits. Governmental Accounting Standards Board (GASB) 45 requires that an actuarial study be performed every two years for plans with more than 200 people.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONTRACTUAL EMPLOYEES (Applies to City Provided Health Insurance)

The City provided health insurance benefits for three contractual "employees." The health insurance monthly premium for 2008 was \$401.83 for single coverage and \$1,328 for family coverage. These contractual "employees" reimbursed the City for the "employee" portion of \$94.40 or \$212.48 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 Miscellaneous as non-employee compensation. Unreported compensation for the contractual employees ranged from \$7,722.24 to \$13,386.24.

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)

BUSINESS LICENSES FEE SCHEDULE

The City issues business licenses after collecting a fee. The officials could not provide documentation that the current fee schedule was approved by the governing board.

A similar comment appeared in the prior report.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

INEFFECTIVE INTERNAL CONTROLS (Applies to Water Utility and Sanitary District)

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

The collections for the year were approximately \$5,332,000 for the Water Utility and \$5,964,000 for the Sanitary District. These are material amounts for the proprietary funds and are material to the City as a whole.

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

A. The following deficiencies exist in the billing area:

1. The penalty on late payment of water charges, as approved in the rate schedule, was not assessed consistently. Also, the penalty is not in compliance with the Indiana Utility Regulatory Commission regulations. The penalty assessed by the Water Utility is 3% of the delinquent balance. The Indiana Utility Regulatory Commission states that a late payment charge (penalty) may be added in the amount of 10% of the first three dollars and 3% of the excess of three dollars.
2. Adjustments to customer bills totaling \$1,362,044 were completed during 2008 but did not have the appropriate approval of the Office Manager or Director. These adjustments and waiver of fees were not presented to the Water Utility Board for approval.
3. The October, November, and December, 2008 industrial billings were not sent out until February, 2009. The October, November, and December 2008 bills should have been mailed in the months that the service was provided.

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

1. A detail listing of customer meter deposits as of December 31, 2008, has a total of \$284,390.40. The reconciled bank account balance for customer meter deposits was \$782,311.04. The detail and reconciled bank balance should agree.
2. The report of all the customer meter deposits received in 2008 was not in agreement with the bank deposits for the customer deposit account. The bank deposits were higher by \$6,535. If a customer starts and stops service within the same year, these customers would not be included on the report.
3. The amount of customer meter deposits applied to the final bills in 2008 was not disbursed from the customer deposits bank account to the operating bank account.
4. Customer meter deposits refunded during 2008 did not have Water Utility Board approval. The refund checks were not listed on the Accounts Payable Voucher Register approved by the Water Utility Board at meetings.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

5. A monthly comparison of the reconciled customer deposits bank account to the detail listing of customer meter deposits was not performed.
- C. The governing board has not approved a written policy for writing off bad debts.
- D. Both the Water Utility and the Sanitary District maintain an aging accounts receivable balance even though the units maintain cash basis records. The City also maintains an accrual basis accounts receivable balance. The Water Utility aging report balance exceeded the City's ledger accounts receivable balance by \$663,249. The Sewer (Sanitary District) aging report balance is greater than the City ledger accounts receivable balance by \$948,907. Reconciliations between the aging reports and the City accounts receivable ledger balance are not performed by personnel at the Water Department or the City Controller's office.

A similar comment appeared in prior reports.

170 IAC 6-1-13 Bills Sec. 13. (B)(2) states:

"A utility service bill shall be rendered as a net bill. If the net bill is not paid within seventeen (17) days after the bill is mailed, it shall become a delinquent bill and a late payment charge may be added in the amount of ten (10) percent of the first three (3) dollars and three (3) percent of the excess of three (3) dollars."

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)

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

INTERNAL CONTROL OVER BILLING ADJUSTMENTS (Applies to Water Utility)

The Water Utility Board adopted a policy for billing adjustments in August 2008. There are a series of steps in the adjustment process to be completed. One of the final steps is, "The office manager can either approve the recommended course of action (regarding the adjustment proposed) or provide it to the director for approval. Approval shall be noted on the work order and all attachments inclusive of the current date, current time, and their signature." The Water Utility processed \$1,362,044.27 in billing adjustments in 2008. Neither the Office Manager nor the Director noted their approval on the adjustments completed.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

During 2008, the Water Utility officials discovered that fictitious meter readings were being submitted. After discovering the problem, correct readings were completed and numerous customer bills were adjusted, resulting in lost revenues to the Water Utility. Officials estimated the loss of revenue at approximately \$30,000.

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

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)

LATE FEES OR PENALTIES (Applies to Water Utility and Sanitary District)

The Water Department Rate Ordinance currently sets the late payment fee at 3% of the outstanding amount. This amount is not in agreement with policy approved by the Indiana Utility Regulatory Commission (IURC) setting the late payment fee at 10% of the first three dollars and 3% of the remaining outstanding amount.

Utility bills have a due date established for each billing cycle. After the due date has passed, the Utility Clerk has to initiate a penalty "update" in the computer system for penalties to be assessed. As stated in prior reports, we found instances when the "update" was not initiated and penalties were not assessed.

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)

IC 36-9-23-31 states as follows:

"If fees assessed against real property under this chapter, or any statute repealed by Indiana Code 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)

DELINQUENT ACCOUNTS NOT SHUT OFF (Applies to Water Utility)

The policy for nonpayment of a water bill will result in the water being shut off at the residence. This policy was not enforced consistently during the audit period.

A similar comment appeared in prior reports.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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)

BAD DEBTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS (Applies to Water Utility)

The Water Utility does not have a written policy addressing bad debts or an allowance for doubtful accounts.

A similar 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)

DIFFERENCE IN RECONCILEMENT AND RECEIPTS POSTINGS (Applies to Redevelopment)

The Redevelopment Department personnel reconcile their cash journal to the corresponding bank account and also to Redevelopment Fund 231; however, the Redevelopment Department's cash journal does not reconcile to the corresponding bank account or Fund. The Redevelopment Department record is overstated by \$34,360.13. Of the \$34,360.13 difference, \$28,241.42 could be identified as a year-end timing issue; however, the officials could not explain the other \$6,118.71.

The Redevelopment Department also maintains an Accounts Receivable Reconciliation Report (Report) to post principal payments accounted for in the City's Redevelopment Rehabilitation Escrow Fund 283 (Fund). Principal payments posted to the Report exceeded principal payments recorded in the Fund by \$2,176.70. The officials could not explain the difference.

A similar comment appeared in prior reports.

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)

GENERAL LEDGER (Applies to Redevelopment)

As of August 20, 2009, the Redevelopment Department had not completed the posting of all entries to the 2007 or 2008 ledgers. The City maintains Redevelopment Fund 231 activity from the Redevelopment Department's check register that is provided by the Redevelopment Department. The City reconciles the Redevelopment Department's bank account to the City's Fund 231. Since the Redevelopment Department did not timely complete the posting of its ledger for this fund, errors would not timely be detected.

A similar comment appeared 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 Indiana Code 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)

CARNEGIE LIBRARY PROJECT (Applies to Redevelopment)

The Redevelopment Department had a project for roof restoration of the Carnegie Library. The project plans, specifications, and bidding occurred in 2007. Actual construction occurred in 2008 and 2009. Advertisements for bids were published on October 12, 2007, and October 15, 2007, three days apart, less than the required one week apart.

Change orders were not properly approved or signed by the Redevelopment Board of Commissioners. The first change order was approved by the Board without a dollar amount stated in the Board Minutes. It was not to exceed an amount agreed on by the architect. The second and third change orders were not approved by the Board in its minutes. The change orders were also not signed by the Board.

The total of the three change orders was \$243,358.28. This amount increased the cost of the project by 68%.

IC 36-1-12-4(b)(3) states: "Upon filing of the plans and specifications, the board shall publish a notice two times, at least one week apart, with the second publication made at least seven days before the date the bids will be received, calling for sealed proposals for the public work."

If, in the course of construction, reconstruction or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. All change orders must be directly related to the original public work project.

Addendum: The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

Architect or Engineer: If a licensed architect or engineer is assigned to the public work project the change order must be prepared by that person.

Increase in Scope of Project: The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

Cost of Materials: If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CONTRACTS NOT AVAILABLE FOR AUDIT (Applies to Animal Control)

Contracts for the disposal of euthanized animals between East Chicago Animal Control and the following entities were not provided for audit: City of Whiting, Town of Highland, and Indiana University Northwest.

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

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)

EMS CLASS FEES AND RECEIPTS (Applies to EMS and Fire Department)

The EMS/Fire Department provides courses for first aid, CPR, and AED. The fees charged for these courses were established by the former EMS Director. The fees were increased during 2008, but were not approved by the governing board.

The receipts issued for these classes were not on prescribed forms.

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)

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)

TICKET SALES (Applies Port Authority)

The Port Authority holds various events throughout the season in which tickets are sold. 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.

A similar comment appeared in prior reports.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

FINANCIAL REPORT OPINION MODIFICATIONS

We were unable to obtain legal representations from the City's attorney regarding any possible loss contingencies resulting from litigation that may require disclosure in the notes to the financial statements. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditor's Report for the financial statements.

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

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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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, 2008. 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.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient documentation supporting the compliance of the City with Community Development Block Grants/Entitlement Grants regarding Cash Management, Period of Availability, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions, nor were we able to satisfy ourselves as to the City's compliance with those requirements by other auditing procedures as described in item 2008-2.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City's compliance with the requirements of Community Development Block Grants/Entitlement Grants regarding Cash Management, Period of Availability, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-3.

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)

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.

Our consideration of 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 the entity's 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.

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. 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, the City of East Chicago Common Council, the City of East Chicago Board of Public Works and Safety, 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

September 17, 2009

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2008

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 State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	FY 07-08 FY 08-09	\$ 211,403 <u>44,842</u>
Total for program			<u>256,245</u>
Pass-Through Indiana Department of Natural Resources Urban and Community Forestry Program	10.675	FY06 FY07	3,820 <u>3,750</u>
Total for program			<u>7,570</u>
Total for federal grantor agency			<u>263,815</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grants:			
Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-180004 B-07-MC-180004	143,309 <u>1,209,928</u>
Total for program			<u>1,353,237</u>
HOME Investment Partnerships Program	14.239	M-01-MC-18210 M-02-MC-18210 M-03-MC-18210 M-05-MC-18210 M-06-MC-18210 M-07-MC-18210	67,077 74,700 43,724 62,338 594 <u>1,986</u>
Total for program			<u>250,419</u>
Pass-Through Gary/Hammond/East Chicago Empowerment Zone Empowerment Zones Program	14.244	EZ-99IN0004 Jet Prog 07-08	150,000 <u>61,998</u>
Total for program			<u>211,998</u>
Total for federal grantor agency			<u>1,815,654</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Edward Byrne Memorial Formula Grant Program	16.579	FY08	<u>31,722</u>
Total for federal grantor agency			<u>31,722</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit - Formula Grants	20.507	FY08	<u>371,281</u>
Total for federal grantor agency			<u>371,281</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, 2008
(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. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant			
Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	EECCN0800020-08	<u>8,600</u>
Total for federal grantor agency			<u>8,600</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW19911002	1,197,098
Pass-Through Indiana Department of Environmental Management			
Beach Monitoring and Notification Program Implementation Grants	66.472		<u>8,280</u>
Total for federal grantor agency			<u>1,205,378</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Department of Health			
Public Health Emergency Preparedness	93.069	BPRS-A01	1,454
		BPRS04 A-2	4,400
		BPRS 193-6	2,214
		5U90TP517024-08	6,898
		5U90TP517024-08	<u>42,500</u>
Total for program			<u>57,466</u>
Total for federal grantor agency			<u>57,466</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		<u>236,869</u>
Total for federal grantor agency			<u>236,869</u>
Total federal awards expended			<u>\$ 3,990,785</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, 2008:

Program Title	Federal CFDA Number	2008
Community Development Block Grants/Entitlement Grants	14.218	<u>\$ 210,514</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
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified for all programs except CDBG, which was qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
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 2008-1, INEFFECTIVE INTERNAL CONTROLS

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

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

The collections for the year were approximately \$5,332,000 for the Water Utility and \$5,964,000 for the Sanitary District. These are material amounts for the proprietary funds and are material to the City as a whole.

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

A. The following deficiencies exist in the billing area:

1. The penalty on late payment of water charges, as approved in the rate schedule, was not assessed consistently. Also, the penalty is not in compliance with the Indiana Utility Regulatory Commission regulations. The penalty assessed by the Water Utility is 3% of the delinquent balance. The Indiana Utility Regulatory Commission states that a late payment charge (penalty) may be added in the amount of 10% of the first three dollars and 3% of the excess of three dollars.
2. Adjustments to customer bills totaling \$1,362,044 were completed during 2008 but did not have the appropriate approval of the Office Manager or Director. These adjustments and waiver of fees were not presented to the Water Utility Board for approval.
3. The October, November, and December, 2008 industrial billings were not sent out until February, 2009. The October, November, and December 2008 bills should have been mailed in the months that the service was provided.

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

1. A detail listing of customer meter deposits as of December 31, 2008, has a total of \$284,390.40. The reconciled bank account balance for customer meter deposits was \$782,311.04. The detail and reconciled bank balance should agree.
2. The report of all the customer meter deposits received in 2008 was not in agreement with the bank deposits for the customer deposit account. The bank deposits were higher by \$6,535. If a customer starts and stops service within the same year, these customers would not be included on the report.
3. The amount of customer meter deposits applied to the final bills in 2008 was not disbursed from the customer deposits bank account to the operating bank account.
4. Customer meter deposits refunded during 2008 did not have Water Utility Board approval. The refund checks were not listed on the Accounts Payable Voucher Register approved by the Water Utility Board at meetings.
5. A monthly comparison of the reconciled customer deposits bank account to the detail listing of customer meter deposits was not performed.

C. The governing board has not approved a written policy for writing off bad debts.

D. Both the Water Utility and the Sanitary District maintain an aging accounts receivable balance even though the units maintain cash basis records. The City also maintains an accrual basis accounts receivable balance. The Water Utility aging report balance exceeded

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

the City's ledger accounts receivable balance by \$663,249. The Sewer (Sanitary District) aging report balance is greater than the City ledger accounts receivable balance by \$948,907. Reconciliations between the aging reports and the City accounts receivable ledger balance are not performed by personnel at the Water Department or the City Controller's office.

170 IAC 6-1-13 Bills Sec. 13. (B)(2) states:

"A utility service bill shall be rendered as a net bill. If the net bill is not paid within seventeen (17) days after the bill is mailed, it shall become a delinquent bill and a late payment charge may be added in the amount of ten (10) percent of the first three (3) dollars and three (3) percent of the excess of three (3) dollars."

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, written policies approved by the governing board, and accounts receivable. 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

FINDING 2008-2, SCOPE LIMITATION FOR CASH MANAGEMENT, PERIOD OF AVAILABILITY, PROGRAM INCOME, REPORTING, SUBRECIPIENT MONITORING, SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. Department of Housing and Urban Development (Hud)
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218

After repeated requests to personnel of the Redevelopment Department of the City of East Chicago, whose responsibility is to manage the federal funds received from the U.S. Department of Housing and Urban Development (HUD), we were unable to obtain documentation to test for certain grant compliance guidelines. We were unable to perform alternative audit procedures to determine if the City was in compliance in the following areas:

1. Cash Management - Cash drawdowns could not be traced to the disbursements recorded in the ledger maintained by the Redevelopment Department. Our several inquiries for further explanation were ignored by the Department's personnel.

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

2. Period of Availability - We could not determine the program income earned and on hand at May 2, 2009, (60 days prior to the end of its current program year) in order to determine if they were in compliance with 24 CFR 570.902 (a)(2)(i) which states: "The recipient may be failing to carry out its activities in a timely manner if the amount of the CDBG program income the recipient has on hand 60 days prior to the end of its current program year, together with the amount of funds in its CDBG line of credit, exceeds 1.5 times the entitlement grant amount for its current program year." This information was not provided and we were unable to determine by alternative audit procedures if the City was in compliance with this requirement.
3. Program Income - We could not trace \$44,850.00 reported to HUD in the program income detail to the unit's ledger. Our attempts to inquire about this transaction went unheeded by the City's personnel.
4. Reporting - We could not verify the accuracy of the 2007 Community Development Block Grant financial summary report. Further breakdown of the various general categories was needed to perform the audit procedures to determine if the City was in compliance with reporting requirements. Due to the City's personnel reluctance to provide the breakdown, we could not determine if the amounts reported were accurate.
5. Subrecipient Monitoring - The City failed to provide documentation so that we could determine compliance with the subrecipient monitoring requirements.
6. Special Tests and Provisions - The City failed to provide documentation to support any environmental reviews or exemption from such reviews as required to be in compliance with the program.

Circular A-133 Subpart D--Federal Agencies and Pass-Through Entities §___.400 Responsibilities. (d) states: "Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

We recommended that the City's personnel be well informed of the audit requirements under OMB's Circular A-133 as it pertains to providing records and other supporting documentation to support the financial transactions of the program, so that the City is able to submit a timely audit report to the federal agency. Any scope limitation reported to the federal agency may jeopardize future funding.

FINDING 2008-3, SUBSEQUENT EVENT

Federal Agency: U.S. Department of Housing and Urban Development (HUD)
Federal Program: HOME Investment Partnerships Program
CFDA Number: 14.239

In 2009, the United States Department of Housing and Urban Development performed a monitoring review for the City's HOME Investment Partnerships Program. The results of the monitoring review were communicated to the City and their findings are therefore repeated in this report as follows:

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

Finding #1:

The HOME Participating Jurisdictions Vacant Units Reports identifies units that have received HOME funds that are marked "vacant" in IDIS. The City of East Chicago has many vacant units listed on this report.

Issue #1: The following is a listing of HOME activities that remain on the HOME Participating Jurisdictions Vacant Units Reports and have been determined based on Ms. Turk and Ms. Kincaid's drive-by to not meet the HOME project completion definition:

IDIS Account	Program Year	Number of Units	Address	Home Funds Drawn and Program Income
7	1994	1	3914 Alexander Avenue	\$ 30,000.00
11	1994	1	3733-3735 Hemlock	8,200.00
12	1994	1	4011 Drummond	55,000.00
1513	1996	2	616, 618, 620 E. Columbus Dr.	18,000.00
1659	1998	4	4018 McCook, 3907/3911/3928 Melville	12,533.68
1677	1997	1	Rona NC Homeownership	14,000.00
1807	2000	1	Rona NC Homeownership (activity 1677)	10,605.00
1955	2002	1	2001 Columbus Dr.	35,420.57

The Total HOME funds drawn on the above activities totals \$183,759.25. Please advise this office no later than 30 days from the date of this letter how the City plans to rectify this situation.

Issue #2: The following are units that this reviewer was unable to determine if these units met the HOME project completion definition because not enough information was known at the time of monitoring:

IDIS Account	Program Year	Number of Units	Address	Home Funds Drawn and Program Income
10	1994	1	3901 Melville, 3902 Melville & 4008 McCook	\$ 3,700.00
1514	1996	1	3901 Melville Ave	7,528.00
1631	1997	1	2107 Joy Lane	25,000.00
1656	1998	1	3902-06 Alexander Ave.	25,575.00
1657	1998	1	SF City wide	202,920.00
1806	2000	6	3824 Catalpa St.	145,000.00
1954	2002	6	720 W. Chicago Ave.	117,025.12
2199	2006	1	3821-25 Alexander Ave.	150,485.26

The Total HOME funds drawn on the above activities are \$677,233.38. Please advise this office no later than 30 days from the date of this letter as to how you plan to enter project completion information into the IDIS system for each of the units listed above or how you plan for these activities to meet the HOME project completion definition at 24CFR 92.2.

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

Questioned costs under issue #1 total \$183,759.25. Questioned costs under issue #2 total \$677,233.38.

Section __.510 (4) of A-133. This section states:

"The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

- (4) Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this part to perform audit procedures for such a Federal program; therefore, the auditor will normally not find questioned costs for a program which is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program which is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$10,000, then the auditor shall report this as an audit finding."

We recommended that the City continue its communication with HUD to resolve the above issues.

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. 2008-1 INEFFECTIVE INTERNAL CONTROLS

Billing Area:

1) The Water Department began to assess late fees in first part of the 2008 calendar year. Because of the way that the software was developed by the provider, the application of the late fees is not automatic. The application of the late fee is instituted in the billing cycle. Given the issue stated, it is obvious that a weakness in the software exists in that a late fee can be applied to a balance not officially subject to such a fee. The Utility is working with the software provider to see if a cost beneficial fix can be arrived at in order to prevent this situation from happening in the future. Late fees for wastewater will need to be approved by the Sanitary District Board before these fees can be assessed. The late fee being charged by the Water Utility has been approved by the Indiana Utility Regulatory Commission and an official file stamped approved Tariff Sheet is on file at the Water Department billing office. Thus, the Water Department is in compliance with the Indiana Utility Regulatory Commission regulations.

2) From this point forward the signature of the Office Manager or Director will be obtained and the documentation will be forwarded to the Water Utility Board for their approval.

3) All customers are currently billed in a timely manner.

Customer Deposits

1, 3, 4) Changes in the billing system are being implemented. Once the changes take effect, the balance in the meter deposit fund will accurately reflect the total of the customer deposits. Refund checks will be generated through the billing system and appear on an AP voucher for Board approval.

2) A limitation of the reports generated by the billing system exists: customers who begin water service and terminate water service in the same calendar year will not appear on a deposit report. The Water Utility will attempt to track these customers manually.

5) The Water Department is currently working on developing a policy regarding the comparison of reconciled customer deposits bank account to the detail listing of the customer meter deposits.

Written Policies:

The Water Department is currently working on developing a policy regarding bad debts.

Reconciliations:

During 2009, the East Chicago Water Department received extensive training with the billing software system provider regarding report parameters and content. We are continuing to work with the provider to obtain correct reports that will coincide with information provided by the City's ledger.

Section III – Financial Statement Findings

FINDING 2008-2 SCOPE LIMITATION – CASH MANAGEMENT, PERIOD OF AVAILABILITY, PROGRAM INCOME, REPORTING, SUBRECIPIENT MONITORING, SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award No: B-06-MC-180004, B-07-MC-180004

Pass-Through Entity: N/A

Auditee Contact Person: Charles Pacurar

Title of Contact Person: City Controller

Phone Number: (219) 391-8220

The Department of Redevelopment acknowledges a lack of timeliness in its response which was due in part to staff illnesses, vacation and the preparation of the public meeting for the Consolidated Annual Performance & Evaluation Report required for CDBG funds. The Department of Redevelopment will assure that for all future audits priority will be given to the auditor with full attention and cooperation from staff. In

order to maintain better control of the accounting processes at the Department of Redevelopment, beginning January 1, 2010 the City plans to bring the Department of Redevelopment onto its financial system.

FINDING 2008-3 SUBSEQUENT EVENT

Federal Agency: U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Federal Program: HOME Investment Partnerships Program

CFDA Number: 14.239

Federal Award No: M-06-MC-18210, M-07-MC-18210

Pass-Through Entity: N/A

Auditee Contact Person: Charles Pacurar

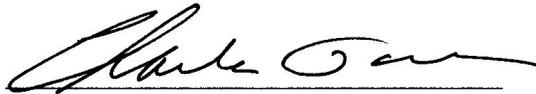
Title of Contract Person: City Controller

Phone Number: (219) 391-8220

The City of East Chicago in accordance with Option 1 as proposed in your letter dated July 30, 3009 is proposing to complete Project Completion by HOME definition at 24CFR 92.2 for certain projects identified under Issue No. 1 and No. 2 of your aforementioned letter.

Those projects which meet the HOME definition of Project Completion will be identified and provided to HUD not later than 120 days from the date of your aforementioned letter.

Projects that do not or cannot meet HOME definition of Project Completion in the aforementioned time frame will be identified and funds for that project will be reimbursed to HUD.

Signed 

Date: 9.17.09

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on September 17, 2009, with Charles Pacurar, Controller; and George Pabey, Mayor. The official response has been made a part of this report and may be found on pages 82 through 84.

**City of East Chicago
Audit Responses
For the Year Ended December 31, 2008**

Employee Bonds

The City will contact its insurance carrier to obtain a crime insurance policy and to increase the Sanitary District Board member bonds to the required amount.

Separate Bank Accounts

The City is currently using separate bank accounts for the East Chicago Waterway Management District, the East Chicago Water Department and the East Chicago Sanitary District.

Approval of Computerized Forms

All computerized forms will be submitted or resubmitted for approval.

Prescribed Forms-Police

The Police Department has been instructed to begin using the prescribed forms.

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.

Contracts

The City will reevaluate the current procedures used to monitor contracts in an attempt to be fully compliant.

Approving Salary Ordinances

All salary resolutions approved by the City's various boards will be forwarded to the Common Council for their approval.

Actuarial Study

The City's insurance administrator has been informed that an actuarial study needs to be performed every two years.

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.

Business Licenses Fee Schedule

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

Ineffective Internal Controls at the Water Utility and Sanitary District

A. Billing Area

- 1) The Water Department began to assess late fees in first part of the 2008 calendar year. Because of the way that the software was developed by the provider, the application of the late fees is not automatic. The application of the late fee or to what charge the application of it is made is instituted in the billing cycle. The Utility is working with the software provider to see if a cost beneficial fix can be arrived at in order to prevent this situation from happening in the future. Late fees for wastewater will need to be approved by the Sanitary District Board before these fees can be assessed. The Water Department has the official file stamped approved Water Utility Tariff Sheet available for review at the billing office. Thus, the Water Department is in compliance with the Indiana Utility Regulatory Commission.
- 2) As far as not following the written internal control procedures, when the sign-off individual is involved with the research and development of the solution for an adjustment, it wasn't thought that they had to give their signoff for a process that they were involved with. On an ongoing basis this procedure has been modified that regardless of the signoff individuals involvement in situation a signoff will be acquired.
- 3) All customers are currently billed in a timely manner.

B. Customer Deposit Area

- 1, 3, 4) Changes in the billing system are being implemented. Once the changes take effect, the balance in the meter deposit fund will accurately reflect the total of the customer deposits. Refund checks will be generated through the billing system and appear on an AP voucher for Board approval.
- 2) A limitation of the reports generated by the billing system exists: customers who begin water service and terminate water service in the same calendar year will not appear on a deposit report.
- 5) The Water Department is currently working on developing a policy regarding the comparison of reconciled customer deposits bank account to the detail listing of the customer meter deposits.

C. Written Policies' Deficiencies

The Water Department is currently working on developing a policy regarding bad debts.

D. Accounts Receivable Reconciliation

During 2009, the East Chicago Water Department received extensive training with the billing software system provider regarding report parameters and content. We are continuing to work with the provider to obtain correct reports that coincide with information provided by the City's ledger.

Difference in Reconciliation and Receipts Postings

The Department of Redevelopment will reconcile the cash journal to the corresponding bank account and to the City's Fund. The Department of Redevelopment will attempt to complete such reconciliation by the end of the year.

Within the next 45 days the Department of Redevelopment will review the principal and interest payments and post a journal entry to correct the accounts receivable reconciliation report.

General Ledger-Redevelopment

The Department of Redevelopment is currently posting the entries to the 2007 and 2008 ledgers. The ledgers will be completely updated by October 31, 2009.

Carnegie Library Project-Redevelopment

The Department of Redevelopment will follow Indiana Code 36-1-12-4(b)(3) to publish bid notices two times, at least one week apart, with the second publication made at least seven days before the date the bids will be received. In the past the department followed Federal Program requirements for advertisements.

The Department of Redevelopment will ensure that all change orders, when approved, are signed by the Redevelopment Board of Commissioners as requested.

Contracts not Available for Audit-Animal Control

The Board of Directors for the East Chicago Health Department has hired an attorney to formulate a written contractual agreement with the City of Whiting, Town of Highland, and Indiana University Northwest. This agreement will be available for the 2009 audit year.

EMS Class Fees and Receipts

The EMS/Fire Department has been instructed to submit their fee schedule to the Common Council for approval and to begin using the prescribed receipt forms.

Ticket Sales – Port Authority

The State Board of Accounts has supplied the East Chicago Marina office manager with the procedure and forms used by the School City of East Chicago for concession sales. The office manager will work with the social director and restaurant staff to adopt this procedure for use at all future events hosted by the East Chicago Port Authority.

CITY OF EAST CHICAGO
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Charles Pacurar, Controller: Penalties, Interest, and Other Charges, page 50, Paid by Charles Pacurar, September 18, 2009, Receipt 572850	<u>\$ 2,841.58</u>	<u>\$ 2,841.58</u>	<u>\$ -</u>