

B37586

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

ANNUAL FINANCIAL REPORT

2009

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA



FILED
09/30/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	3
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	4-5
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	6-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Activities and Net Assets – Cash and Investment Basis	8
Fund Financial Statements:	
Governmental Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Governmental Funds	9
Proprietary Funds:	
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Proprietary Funds.....	10
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investment Balances – Fiduciary Funds	11
Notes to Financial Statements	12-33
Supplementary Information:	
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds.....	34-39
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Water Utility Funds	40
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Sanitary District Funds	41
Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Internal Service Funds	42
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Pension Trust Funds	43
Combining Schedule of Additions, Deductions, and Changes in Cash and Investment Balances – Agency Funds.....	44-45
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balance – Cash and Investment Basis – Discrete Component Unit.....	46
Schedule of Capital Assets.....	47
Schedule of Long-Term Debt	48
Other Reports.....	49

TABLE OF CONTENTS
(Continued)

<u>Description</u>	<u>Page</u>
Audit Results and Comments:	
Financial Transactions Not Recorded	50-51
American Recovery and Reinvestment Act of 2009.....	51-52
Redevelopment Tax Increment Financing (TIF) Receipts and Disbursements	52
Cumulative Capital Improvement Fund Activity.....	52-53
Community Development Entity	53-56
Annual Report.....	56
Temporary Loans Between Funds	57
Negative Cash Balances	57-58
Public Works Projects.....	58-59
Accounts Payable Vouchers.....	59-63
Disbursements Exceed Appropriations	63
Payroll Inconsistencies	63-64
Compensation of Elected Officials.....	64-65
Health Insurance for Teamsters Members	65
Employee Bonds.....	66
Conflict of Interest Disclosure Statements	66-67
Internal Controls at Water Utility and Sanitary District	67-68
Delinquent Water and Wastewater Accounts	68-69
Redevelopment Commission.....	69
Economic Development Commission.....	70
Internal Controls - Park Department.....	70-71
Park Board Minutes	71-72
Marina Director's Fringe Benefit.....	72
Ticket Sales (Applies to Port Authority).....	72
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	74-75
Schedule of Expenditures of Federal Awards	76-77
Notes to Schedule of Expenditures of Federal Awards.....	78
Schedule of Findings and Questioned Costs	79-86
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings	87-88
Corrective Action Plan.....	89-90
Exit Conference.....	91
Official Response	92-98

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Charles Pacurar	01-01-09 to 12-31-10
Mayor	George Pabey	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Charles Pacurar	01-01-09 to 12-31-10
President of the Common Council	Richard Medina	01-01-09 to 12-31-10
President of the Redevelopment Commission	Augusto Flores	01-01-09 to 12-31-10
Utilities Director	Adolfo Velez	01-01-09 to 12-31-10
President of the Water Board	John Bakota	01-01-09 to 12-31-10
President of the Sanitary District Board of Commissioners	Ralph Fabbri	01-01-09 to 12-31-10
Port Authority Director	Richard Novak	01-01-09 to 12-31-10
President of the Port Authority Board of Directors	Milton Reed	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON 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, 2009, 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.

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.

In our opinion, 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, 2009, 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 August 16, 2010, 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 integral part of 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 has not presented Management's Discussion and Analysis, Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities, 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.

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

August 16, 2010



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 16, 2010. 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 deficiencies described in items 2009-01 and 2009-02 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 deficiencies described above, we consider item 2009-01 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 items 2009-01 and 2009-02.

The City's response to the findings 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, Common Council, Redevelopment Commissioners, Water Board, Sanitary District Board of Commissioners, Port Authority Board of Directors, 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

August 16, 2010

CITY OF EAST CHICAGO
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2009

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	\$ 31,772,118	\$ 266,694	\$ 344,377	\$ -	\$ (31,161,047)	\$ -	\$ (31,161,047)	\$ -
Public safety	18,239,502	1,144,823	109,803	656,188	(16,328,688)	-	(16,328,688)	-
Highways and streets	3,238,392	-	1,212,055	278,709	(1,747,628)	-	(1,747,628)	-
Health and welfare	1,582,384	74,584	331,720	-	(1,176,080)	-	(1,176,080)	-
Economic development	6,372,886	-	-	1,174,635	(5,198,251)	-	(5,198,251)	-
Culture and recreation	2,073,937	51,819	-	-	(2,022,118)	-	(2,022,118)	-
Urban redevelopment and housing	10,561,982	-	-	-	(10,561,982)	-	(10,561,982)	-
Principal and interest on indebtedness	5,518,578	-	-	-	(5,518,578)	-	(5,518,578)	-
Total governmental activities	<u>79,359,779</u>	<u>1,537,920</u>	<u>1,997,955</u>	<u>2,109,532</u>	<u>(73,714,372)</u>	<u>-</u>	<u>(73,714,372)</u>	<u>-</u>
Business-type activities:								
Storm Water Utility	228,763	365	-	-	-	(228,398)	(228,398)	-
Water Utility	9,553,147	6,410,803	-	-	-	(3,142,344)	(3,142,344)	-
Sanitary District	15,530,321	6,714,015	155,710	-	-	(8,660,596)	(8,660,596)	-
Total business-type activities	<u>25,312,231</u>	<u>13,125,183</u>	<u>155,710</u>	<u>-</u>	<u>-</u>	<u>(12,031,338)</u>	<u>(12,031,338)</u>	<u>-</u>
Total primary government	<u>\$ 104,672,010</u>	<u>\$ 14,663,103</u>	<u>\$ 2,153,665</u>	<u>\$ 2,109,532</u>	<u>(73,714,372)</u>	<u>(12,031,338)</u>	<u>(85,745,710)</u>	<u>-</u>
Component unit:								
Port Authority	\$ 1,783,189	\$ 1,259,603	\$ -	\$ 182,978	-	-	-	(340,608)
General receipts:								
Property taxes					44,629,093	12,256,149	56,885,242	-
Intergovernmental					18,918,714	234,909	19,153,623	77,000
Other local sources					10,397,444	5,850	10,403,294	84,318
Net proceeds from borrowings					6,300,000	145,070	6,445,070	-
Grants and contributions not restricted to specific programs					1,030,187	-	1,030,187	-
Net tax anticipation warrant proceeds (repayments)					(6,734,062)	-	(6,734,062)	-
Investment earnings					61,542	42,393	103,935	2,058
Total general receipts					<u>74,602,918</u>	<u>12,684,371</u>	<u>87,287,289</u>	<u>163,376</u>
Change in net assets					888,546	653,033	1,541,579	(177,232)
Restated net assets - beginning (Note III.E.)					<u>7,564,458</u>	<u>17,429,386</u>	<u>24,993,844</u>	<u>194,787</u>
Net assets - ending					<u>\$ 8,453,004</u>	<u>\$ 18,082,419</u>	<u>\$ 26,535,423</u>	<u>\$ 17,555</u>
Assets								
Cash and investments					\$ 657,836	\$ 7,251,929	\$ 7,909,765	\$ 17,555
Restricted assets:								
Cash and investments					<u>7,795,168</u>	<u>10,830,490</u>	<u>18,625,658</u>	<u>-</u>
Total assets					<u>\$ 8,453,004</u>	<u>\$ 18,082,419</u>	<u>\$ 26,535,423</u>	<u>\$ 17,555</u>
Net Assets								
Restricted for:								
General government					\$ 226,128	\$ -	\$ 226,128	\$ -
Public safety					198,157	-	198,157	-
Highways and streets					1,863,027	-	1,863,027	-
Health and welfare					101,399	-	101,399	-
Economic development					3,228,616	-	3,228,616	-
Urban redevelopment and housing					441,459	-	441,459	-
Debt service					630,015	2,298,170	2,928,185	-
Capital outlay					1,106,367	8,532,320	9,638,687	-
Unrestricted					<u>657,836</u>	<u>7,251,929</u>	<u>7,909,765</u>	<u>17,555</u>
Total net assets					<u>\$ 8,453,004</u>	<u>\$ 18,082,419</u>	<u>\$ 26,535,423</u>	<u>\$ 17,555</u>

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2009

	General	Economic Development Commission	Riverboat	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 31,373,347	\$ 6,711,040	\$ -	\$ 6,623,426	\$ 44,707,813
Licenses and permits	215,469	-	-	7,750	223,219
Intergovernmental	1,628,988	-	17,338,891	4,981,503	23,949,382
Charges for services	874,866	-	-	125,168	1,000,034
Fines and forfeits	96,917	-	-	63,931	160,848
Interfund loans	2,500,000	-	500,000	-	3,000,000
Other	731,816	-	2,774,162	2,048,159	5,554,137
Total receipts	37,421,403	6,711,040	20,613,053	13,849,937	78,595,433
Disbursements:					
General government	8,765,462	-	9,490,214	2,164,298	20,419,974
Public safety	20,725,583	-	-	23,669	20,749,252
Highways and streets	2,271,199	-	-	1,281,075	3,552,274
Health and welfare	1,540,849	-	-	187,682	1,728,531
Economic development	-	6,372,886	-	-	6,372,886
Culture and recreation	-	-	-	2,443,193	2,443,193
Urban redevelopment and housing	-	-	-	4,261,883	4,261,883
Interfund loans	2,500,000	-	500,000	-	3,000,000
Debt service:					
Principal	-	520,090	1,184,992	1,705,000	3,410,082
Interest	-	890,862	68,490	1,149,144	2,108,496
Capital outlay:					
General government	1,505	-	1,919,860	310,463	2,231,828
Public safety	-	-	-	95,575	95,575
Health and welfare	-	-	-	30,219	30,219
Urban redevelopment and housing	-	-	-	6,300,099	6,300,099
Total disbursements	35,804,598	7,783,838	13,163,556	19,952,300	76,704,292
Excess (deficiency) of receipts over disbursements	1,616,805	(1,072,798)	7,449,497	(6,102,363)	1,891,141
Other financing sources (uses):					
Net proceeds from borrowings	-	-	-	6,300,000	6,300,000
Tax anticipation warrant proceeds	24,250,000	-	-	-	24,250,000
Tax anticipation warrant repayments	(30,984,062)	-	-	-	(30,984,062)
Transfers in	5,800,000	-	-	1,693,872	7,493,872
Transfers out	-	(630,000)	(7,765,251)	(916,914)	(9,312,165)
Other receipts	81,394	279,851	348,155	277,562	986,962
Total other financing sources (uses)	(852,668)	(350,149)	(7,417,096)	7,354,520	(1,265,393)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	764,137	(1,422,947)	32,401	1,252,157	625,748
Restated cash and investment fund balance - beginning (Note III.E.)	(4,418,839)	4,107,420	6,509,340	3,228,584	9,426,505
Cash and investment fund balance - ending	\$ (3,654,702)	\$ 2,684,473	\$ 6,541,741	\$ 4,480,741	10,052,253
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.					
					(1,599,249)
Net assets of governmental activities					\$ 8,453,004
Cash and Investment Assets - Ending					
Cash and investments	\$ (3,654,702)	\$ -	\$ 6,541,741	\$ (629,954)	\$ 2,257,085
Restricted assets:					
Cash and investments	-	2,684,473	-	5,110,695	7,795,168
Total cash and investment assets - ending	\$ (3,654,702)	\$ 2,684,473	\$ 6,541,741	\$ 4,480,741	\$ 10,052,253
Cash and Investment Fund Balance - Ending					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ 226,128	\$ 226,128
Public safety	-	-	-	198,157	198,157
Highways and streets	-	-	-	1,863,027	1,863,027
Health and welfare	-	-	-	101,399	101,399
Economic development	-	2,684,473	-	544,143	3,228,616
Urban redevelopment and housing	-	-	-	441,459	441,459
Debt service	-	-	-	630,015	630,015
Capital outlay	-	-	-	1,106,367	1,106,367
Unrestricted	(3,654,702)	-	6,541,741	(629,954)	2,257,085
Total cash and investment fund balance - ending	\$ (3,654,702)	\$ 2,684,473	\$ 6,541,741	\$ 4,480,741	\$ 10,052,253

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, 2009

	Storm Water Utility	Water Utility	Sanitary District	Totals	Internal Service Funds
Operating receipts:					
Unmetered/flat rate	\$ -	\$ 60,142	\$ 100,750	\$ 160,892	\$ -
Metered/measured	-	4,779,974	5,992,041	10,772,015	-
Fire protection receipts	-	717,334	-	717,334	-
Property taxes	-	-	11,279,592	11,279,592	-
Intergovernmental	-	-	215,575	215,575	-
Penalties	-	19,303	-	19,303	-
Charges for services	-	-	-	-	3,552,054
Interfund loan proceeds	-	400,000	2,500,000	2,900,000	-
Employer contributions	-	-	-	-	3,994,856
Employee and retiree contributions	-	-	-	-	1,236,400
Miscellaneous	365	834,050	621,224	1,455,639	57,165
Total operating receipts	365	6,810,803	20,709,182	27,520,350	8,840,475
Operating disbursements:					
Salaries and wages	148,430	1,543,470	6,610,908	8,302,808	-
Employee pensions and benefits	42,511	567,496	2,547,973	3,157,980	-
Sludge removal	-	-	219,044	219,044	-
Purchased power	-	364,322	718,321	1,082,643	-
Chemicals	-	268,888	74,634	343,522	-
Material and supplies	2,847	166,638	642,844	812,329	-
Contractual services	32,959	340,424	885,571	1,258,954	-
Waste disposal	-	-	723,534	723,534	-
Rents	-	77,193	-	77,193	-
Insurance claims and expense	-	21,597	31,527	53,124	9,149,760
Administration and general	-	-	-	-	1,246,210
Refunds	-	5,741	-	5,741	-
Equipment and capital improvements	404	4,282,155	1,518,706	5,801,265	-
Interfund loans made/repaid	-	-	2,900,000	2,900,000	-
Miscellaneous	1,612	533,391	436,326	971,329	-
Total operating disbursements	228,763	8,171,315	17,309,388	25,709,466	10,395,970
Excess (deficiency) of operating receipts over operating disbursements	(228,398)	(1,360,512)	3,399,794	1,810,884	(1,555,495)
Nonoperating receipts (disbursements):					
Property taxes	-	-	976,557	976,557	-
Intergovernmental	-	-	19,334	19,334	-
Rent	-	-	5,500	5,500	-
Investment income	-	10,460	31,933	42,393	-
Net proceeds from borrowings	-	145,070	-	145,070	-
Tax anticipation warrant proceeds	-	-	5,000,000	5,000,000	-
Tax anticipation warrant repayments	-	-	(5,000,000)	(5,000,000)	-
Refunds	-	-	350	350	-
Grants	-	-	155,710	155,710	-
Debt service of principal	-	(635,000)	(825,000)	(1,460,000)	-
Interest disbursements	-	(746,832)	(295,933)	(1,042,765)	-
Total nonoperating receipts (disbursements)	-	(1,226,302)	68,451	(1,157,851)	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(228,398)	(2,586,814)	3,468,245	653,033	(1,555,495)
Transfers in	228,398	2,180,008	971,993	3,380,399	1,818,293
Transfers out	-	(2,346,842)	(1,033,557)	(3,380,399)	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	-	(2,753,648)	3,406,681	653,033	262,798
Restated cash and investment fund balance - beginning (Note III.E.)	-	13,780,624	3,648,762	17,429,386	(1,862,047)
Cash and investment fund balance - ending	\$ -	\$ 11,026,976	\$ 7,055,443	\$ 18,082,419	\$ (1,599,249)
Cash and Investment Assets - December 31					
Cash and investments	\$ -	\$ 480,965	\$ 6,770,964	\$ 7,251,929	\$ (1,599,249)
Restricted assets:					
Cash and investments	-	10,546,011	284,479	10,830,490	-
Total cash and investment assets - December 31	\$ -	\$ 11,026,976	\$ 7,055,443	\$ 18,082,419	\$ (1,599,249)
Cash and Investment Fund Balance - December 31					
Restricted for:					
Debt service	\$ -	\$ 2,171,123	\$ 127,047	\$ 2,298,170	\$ -
Capital outlay	-	8,374,888	157,432	8,532,320	-
Unrestricted	-	480,965	6,770,964	7,251,929	(1,599,249)
Total cash and investment fund balance - December 31	\$ -	\$ 11,026,976	\$ 7,055,443	\$ 18,082,419	\$ (1,599,249)

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, 2009

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Employer	\$ 1,940,713	
Plan members	200	
State	7,960,119	
Total additions	9,901,032	
Deductions:		
Benefits	7,137,061	
Administrative and general	51,089	
Total deductions	7,188,150	
Excess (deficiency) of total additions over total deductions	2,712,882	
Cash and investment fund balance - beginning	(1,878,964)	
Cash and investment fund balance - ending	\$ 833,918	\$ 2,079,910

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, storm water 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 discretely presented component unit is presented below:

East Chicago Port Authority: The East Chicago Port Authority is a significant discretely presented component unit of the City. The City 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 in a joint venture to operate the Northwestern Indiana Regional Planning Commission (NIRPC) which was created as a multipurpose area wide planning agency. NIRPC assists with planning economic development, transportation, environmental protection, and comprehensive planning. NIRPC enabling legislation, Indiana Code 36-7-7, provides that participating counties must provide an annual appropriation at a minimum level of thirty cents per capita. NIRPC applies for federal transportation grant funds which are passed to the City. Complete financial statements for the Northwestern Indiana Regional Planning Commission (NIRPC) can be obtained from the Northwestern Indiana Regional Planning Commission office at 6100 Southport Road, Portage, Indiana 46368.

The City is a participant 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 City. The Empowerment Zone's continued existence depends on the Empowerment Zone's ability to be awarded continued federal funding. Complete financial statements for the Gary/Hammond/East Chicago Empowerment Zone can be obtained from the Empowerment Zone's administrative office at 839 Broadway, Gary, Indiana 46402.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City is a participant in a joint venture to operate the Regional Development Authority (RDA) which was created to assist in funding and developing transportation services including the Gary/Chicago International Airport expansion and other airport authority projects, commuter transportation districts, rail projects and services, bus projects and services, and shoreline and economic development projects. The Regional Development Authority (RDA) uses its surplus resources to undertake special projects for the City. Complete financial statements for the Regional Development Authority (RDA) can be obtained from the Regional Development Authority's administrative office at 9800 Connecticut Drive, Crown Point, Indiana, 46307.

The City is a participant 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, Indiana, 46368.

The City is a participant in a joint venture to operate the East Chicago Government Services Cooperative which was created to develop training programs, personnel services, joint purchasing programs, administrative support services, data processing and telecommunication services, and operation of facilities or properties.

The City is a participant in a joint venture to operate the Northwest Indiana Health Department Cooperative which was created to govern the Healthy Start Initiative federal grant program. Complete financial statements for the Northwest Indiana Health Department Cooperative can be obtained from the City of East Chicago; City Controller's Office at 4525 Indianapolis Boulevard, East Chicago, Indiana, 46312.

Related Organizations

The City's officials are also responsible for appointing the voting majority 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 voting majority 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,

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 economic development commission fund accounts for the tax incremental financing (TIF) property taxes restricted for public improvements and economic development within the TIF allocation area.

The riverboat fund is used to account for riverboat tax revenue and may be used for any legal or corporate purpose of the City.

The City reports the following major enterprise funds:

The storm water utility fund accounts for the operation of the storm water management district.

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, collection systems, and sanitation services.

Additionally, the City reports the following fund types:

The internal service funds account for group health and life insurance, workman's compensation, telephone communication, and gasoline usage provided to other departments on a cost-reimbursement basis.

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

Agency funds account for assets held by the City as an agent for federal and state revenue agencies and serve as control of accounts for cash transactions during the time they are a liability to the City.

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.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. Property Taxes

Normally, 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. 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).

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Taxes may be paid in two equal installments which may become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2009, as required by statute due to the continued delay caused in the completion of the trending process of Lake County. The 2008 payable 2009 property tax rates were approved on July 31, 2009. The County sent the bills in October 2009, which were due in two installments, on October 28 and November 30, 2009. The City received partial collections in November 2009. Final settlement of tax collections were received in January 2010.

4. 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.

5. Long-Term Debt

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

6. 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."

Fund Financial Statements

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

F. Internal and Interfund 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 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.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

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

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Primary government and component unit activity – Resource flows between the primary government and the discretely-presented component unit are reported as if they were external transactions and are classified separately from internal activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2009, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2009
Lease Rental Payment	\$ 25,629
Park District Bonds	13,941
Solid Waste Bond and Interest	12,520
Total	\$ 52,090

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Cash and Investment Balance Deficits

At December 31, 2009, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

Fund	2009
Major Fund:	
General	\$ 3,654,702
Other Governmental Funds:	
Parks and Recreation Operating	917,337
Federal Grants	42,415
State Grants	55,781
Police Federal Forfeitures	2,008
Lease Rental Payment	893,186
Park District Bonds	47,672
Internal Service Funds:	
Health, Life, and Worker Compensation	1,398,247
Communications	126,332
Gasoline	74,670
Agency Fund:	
Payroll Withholdings	401

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

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 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 City does not have a deposit policy for custodial credit risk. At December 31, 2009, the City had deposit balances in the amount of \$20,706,510.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

As of December 31, 2009, the City had the following investments:

<u>Investment Type</u>	<u>Market Value</u>
U.S. treasuries and securities	<u>\$ 9,987,789</u>

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 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 have a stated final maturity of one day.

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

Investment Custodial Credit Risk

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years. The City does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years) Less Than 1
U.S. treasuries and securities	\$ 9,987,789

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, were as follows:

Transfer From	Transfer To	2009
Economic Development Commission Riverboat	Other Governmental Funds General	\$ 630,000 5,400,000
Other Governmental Funds	Other Governmental Funds Internal Service Funds General Other Governmental Funds	546,958 1,818,293 400,000 516,914
Total		\$ 9,312,165
Water Utility	Water Utility	\$ 2,180,008
Sanitary District	Sanitary District Storm Water Utility Sanitary District	166,834 228,398 805,159
Total		\$ 3,380,399

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Tax Anticipation Warrants

In July 2009, the Common Council and Sanitary District Board of Commissioners authorized the issuance of tax anticipation warrants (TAWs) due to property taxes not being billed or collected by Lake County in May and November as required by state statute. The TAWs were to be repaid by December 31, 2009 or April 15, 2010. The TAW transactions for 2009 and the balance outstanding at December 31, 2009 are detailed in the following schedule:

Fund	Beginning Principal Outstanding	Proceeds	Repayments	Ending Principal Outstanding
Governmental activities:				
General	\$ 17,884,062	\$ 24,250,000	\$ 30,984,062	\$ 11,150,000
Business activities:				
Sanitary District:				
Solid Waste Operating	\$ -	\$ 5,000,000	\$ 5,000,000	\$ -

D. Temporary Interfund Loans

Temporary interfund loans for the year ended December 31, 2009, were as follows:

Loan to	Loan From	Beginning Loans Outstanding	Proceeds	Repayments	Ending Loans Outstanding
General	Sanitary District	\$ -	\$ 2,500,000	\$ 2,500,000	\$ -
Water Utility	Sanitary District	-	400,000	-	400,000
Component Unit	Riverboat	500,000	500,000	500,000	500,000
Totals		\$ 500,000	\$ 3,400,000	\$ 3,000,000	\$ 900,000

E. Restatements and Reclassifications

For the year ended December 31, 2009, certain changes have been made to the financial statements to more appropriately reflect financial activity of the City. The following schedule presents a summary of restated beginning balances by opinion unit.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Opinion Unit	Balance as Reported December 31, 2008	Fund Reclassification	Balance as Restated January 1, 2009
Statement of Activities and Net Assets:			
Governmental Activities	\$ 7,588,463	\$ (24,005)	\$ 7,564,458
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances:			
Governmental funds:			
General	(4,417,995)	(844)	(4,418,839)
Other Governmental Funds	3,227,740	844	3,228,584
Proprietary funds:			
Internal Service Funds	(1,838,042)	(24,005)	(1,862,047)
Statement of Additions, Deductions, and Changes in Cash and Investment Balances:			
Fiduciary funds:			
Agency Funds	2,272,826	24,005	2,296,831

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; and natural disasters.

The risks of theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties.

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 (except for Teamster Union employees). 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. The City purchases commercial insurance for claims in excess of coverage provided by the fund. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon the percentage of each fund's current payroll as it relates to total payroll and are reported as quasi-external interfund transactions.

The City has chosen to establish a risk financing fund for risks associated with torts. The risk financing fund is accounted for in the Riverboat Fund, a major governmental fund. The risks are paid as tort claims are settled.

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Indiana Harbor Revitalization Project

The Community Builders, Inc. (TCB), Hispanic Housing Development Corp. (HHDC), and EDAW combined to form the Indiana Harbor Community Master Development Team, which was jointly selected by the East Chicago Board of Public Works, East Chicago Housing Authority, and the East Chicago Redevelopment Commission.

On March 1, 2006, a Master Development Agreement was entered into for a Master Developer to oversee and carry out the redevelopment (the Revitalization) of a certain portion of the City known as the Indiana Harbor Community. This area was designated by the City's Redevelopment Commission as a Tax Increment Financing (TIF) District in 2002. As part of the agreement, the Master Developer is to plan, coordinate and implement all aspects of the Revitalization. The Revitalization contemplates a comprehensive redevelopment of the Revitalization Area, including the development or redevelopment of housing, commercial and retail space, public space, public facilities, and industrial facilities.

To achieve the revitalization, the City's Redevelopment Commission transferred ownership of 21 parcels of property to Northtown Village Townhomes Limited Partnership (Northtown) for the sum of \$10 in 2008. Northtown is a wholly owned subsidiary of The Community Builders, Inc., one of the three entities which comprise the Indiana Harbor Community Master Development Team.

The Commission also loaned Northtown \$3,000,000 to be used to finance construction of 75 unit townhomes consisting of two, three, and four bedroom rental units comprised of ten separate buildings. The loan was made in installments over a three year period. Northtown was loaned \$619,558 in October 2007 and \$1,380,442 in November 2008 from the Economic Development Commission Fund, which receipts the tax increment financing property tax revenues generated from the TIF District. The final installment was paid to Northtown on February 6, 2009, from grants awarded to the City in 2007 from the East Chicago Urban Enterprise Association, Inc. and the Gary/Hammond/East Chicago Empowerment Zone. The Phase I loan bears interest at 1.25% compounded annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2048.

Northtown completed the 75 unit development and all units were fully occupied as of March 30, 2010, with plans underway for a Phase II development. Phase II will consist of 50 additional units. To undertake this project the Northtown retained \$1,200,000 of funds available for repayment on the \$3,000,000 loan for Phase I, and the Commission provided an additional \$500,000 from the Economic Development Commission Fund. A new loan agreement was established to evidence the \$1,700,000 loan made by the Commission to Northtown as of June 30, 2010. This loan bears interest at 1.25%, compounding annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2050.

On June 30, 2010, the Commission loaned Northtown \$953,000 also bearing interest at 1.25%, compounding annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2050. The Commission received the loan funds from the U.S. Department of Housing and Urban Development through the Neighborhood Stabilization Program (NSP).

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The loan activity between the City's Redevelopment Commission and Northtown is as follows:

	<u>Balance January 1, 2009</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance, December 31, 2009</u>
Phase I	\$ 2,000,000	\$ 1,000,000	\$ -	\$ 3,000,000
	<u>Balance January 1, 2010</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance, July 31, 2010</u>
Phase I	\$ 3,000,000	\$ -	\$ 1,200,000	\$ 1,800,000
Phase II	-	2,653,000	-	2,653,000
Totals	<u>\$ 3,000,000</u>	<u>\$ 2,653,000</u>	<u>\$ 1,200,000</u>	<u>\$ 4,453,000</u>

C. Water Filtration Plant Financing

In 2006, the City authorized the construction of a new water treatment plant and improvements to the intake system, water pumping station, pretreatment and filtration systems, and water storage system. To finance the estimated \$54,200,000 water filtration plant construction and improvements, the City has committed the following resources:

1. In 2006, the City entered into a \$16,600,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2006 loan program funds are still being drawn down. As of December 31, 2009, the City has drawn \$10,140,184 which leaves \$6,459,816 remaining to be drawn.

The repayment of the loan is from the Water Utility Operating Fund

2. In 2009, the City entered into a \$27,200,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 loan program funds are still being drawn down. As of December 31, 2009, the City has drawn \$145,070 which leaves \$27,054,930 remaining to be drawn.

The City approved Ordinance 06-0053 on January 9, 2007, to irrevocably pledge a maximum of \$3,000,000 annually of gaming revenue for the payment of principal and interest on the 2009 \$27,200,000 State Revolving Fund loan. Per the financial assistance agreement, the City is to deposit by January 16th of each year an annual amount equal to the principal and interest on all outstanding bonds payable during the next twelve month period. If gaming revenue is insufficient, the City 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 payments when due.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. In 2009, the City entered into a \$3,000,000 forgivable loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks bond anticipation notes (BAN) issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 BAN is subject to loan forgiveness and shall be deemed forgiven and discharged on November 12, 2010, to the extent permitted by the American Recovery and Reinvestment Act, provided however that there is not any default under the agreement. As of December 31, 2009, the City did not draw from the loan.
4. In 2009, the City disbursed \$5,750,000 from the Economic Development Commission Fund, in accordance with the financial assistance agreement with the Indiana Finance Authority, into a Project Fund for the water utility improvements.
5. The U.S. Army Corp of Engineers will contribute the construction of a water storage reservoir at an estimated value of \$1,650,000.

D. 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 2009 totaled \$2,223,000.

E. Subsequent Events

Tax Anticipation Warrants

On December 28, 2009, the Common Council approved Ordinance 09-0027 authorizing the issuance of tax anticipation warrants totaling \$15,821,181 for several funds. The following schedule details the transactions and remaining balances at August 9, 2010:

<u>Fund</u>	<u>Principal Outstanding January 1, 2010</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Principal Outstanding August 9, 2010</u>
Governmental activities:				
General	\$ 11,150,000	\$13,387,268	\$ 17,843,634	\$ 6,693,634
Parks and Recreation Operating	-	771,850	385,925	385,925
Lease Rental Payment	-	<u>1,662,063</u>	<u>442,279</u>	<u>1,219,784</u>
Totals	<u>\$ 11,150,000</u>	<u>\$15,821,181</u>	<u>\$ 18,671,838</u>	<u>\$ 8,299,343</u>

Budget Reductions

The City has not received the 2010 certified budget order from the Indiana Department of Local Government Finance (IDLGF) as of August 9, 2010. The City estimates a reduction in the 2010 budget due to estimated shortfalls in property tax collections, as well as estimated declines in assessed valuations.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 2010, the applicable percentages for homestead (owner-occupied) residential property, other residential property, and commercial/industrial property are 1%, 2%, and 3%, respectively. 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.

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 requirements due to the Circuit Breaker Tax Credit, the IDLGF has indicated the taxing units must use non property tax revenues or revenues from property tax levies for other funds (including operating) to offset revenue loss to the debt service fund.

Property Taxes

Due to delays caused by trending of assessments, the assessed valuations of Lake County were not finalized by February 15, 2010, as required. Therefore, the 2009 pay 2010 property tax rates and levies, as well as related budget orders for 2010, were not established. The County issued a provisional billing due May 10, 2010, based upon the 2008 pay 2009 tax rates. The County has not been advised when the tax rates for 2009 pay 2010 will be established.

Unpaid Leave

On December 22, 2009, the Mayor signed Executive Order No. 09-02 establishing unpaid leave for full time employees, with the exception to certain public safety employees, in order to reduce its operating budget for 2010. By and through the Executive Order, full-time employees were ordered to take twelve scheduled unpaid leave days throughout 2010.

F. Contingent Liabilities

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.

G. Settlements

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 preceding tax year. The collection rate to be applied to the 2006 pay 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. For 2008 pay 2009 taxes, \$4,000,000 credit was applied to Mittal's tax bill. For 2009 pay 2010 taxes, \$4,000,000 credit was applied to Mittal's tax bill. The City only expects approximately \$500,000 credit to be applied for the 2010 pay 2011 tax bill due to the 2006 pay 2007 allowable adjustment due to the collection rate applied as stated in the agreement.

Corruption Lawsuit

On March 11, 2010, a federal judge ordered former Mayor Robert Pastrick, former aide James Fife III, and former City Council President Frank Kollintzas to pay \$108 million in civil damages in settlement of the federal racketeering lawsuit filed by the State in 2004. The suit alleged former Mayor Pastrick and others ran the City as a "corrupt enterprise" and spent \$24 million in public money on private driveways, patios, and walkways to court voters in the 1999 Democratic primary. Damages were calculated based not only on money alleged spent to buy votes, but on other costs associated with public corruption, including a bond issue that the City issued due to the General Fund being depleted.

Consent Decree

An Agreed Judgment resolving the case of the Indiana Department of Environment Management (IDEM) vs. The East Chicago Sanitary District (District) was approved and entered by the Judge of the Lake Circuit Court on October 1, 2007. The Consent Decree contains both specific and general tasks and obligations and goals which are to be accomplished within prescribed deadlines. The Consent Decree provides for the payment of stipulated penalties in the event of the District's failure to comply with specified wastewater treatment plant performance standards or to achieve facility improvement programs within the time limits imposed.

The major component of the Agreed Judgment is the District's obligation to revise and implement a long-term combined sewer overflow control plan (Long-Term Plan). The process includes submission of a Use Attainability Analysis which determines a financial capability assessment of the District user charge payers and the cost effectiveness of treatment plant and system improvements which would reduce Combined Sewer Overflows (CSO) into the Grand Calumet River. The Long-Term Plan has been submitted to the IDEM and review by the United States Environmental Protection Agency (EPA) is pending. The current plan proposes spending approximately \$4,000,000 on treatment plant and system improvements. IDEM has recently suggested that EPA approval may require an additional expenditure over years in order to reduce the number of CSO events. The District is currently negotiating with representatives of IDEM to determine whether to modify the terms of the Long Term Plan so as to contain additional obligations of the District. The total cost of this project could be as much as \$10,000,000, to be completed over a time period negotiated.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Conduit Debt Obligation

The City has issued conduit debt (no commitment debt) 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, 2009, the outstanding aggregate principal amount payable was \$97,587,489.

I. Termination Benefits

The City offered an incentive package to promote early retirement for City employees who were at least 50 years of age and had 15 years of service with the City or were 65 years of age and had 10 years of service with the City as of December 31, 2009. The employees received 50% of their base annual salary in two installments, 100% of the value of their accrued vacation 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. The same plan was offered in 2008 with the second installment of the plan paid in March 2009. In 2009, the City paid \$125,127 to 14 employees under the 2008 plan and \$214,142 to 10 employees under the 2009 plan.

The City offers termination benefits to employees who terminate employment with City. The employee is entitled to receive 100% of the value of their accrued vacation 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 other employment offering insurance has been secured. In 2009, the City paid \$100,507 to 19 employees under the non-incentive termination package.

J. Other Postemployment Benefits

Defined Contribution Healthcare Plan

Plan Description

The City's Health, Life, and Workman's Compensation Fund Healthcare Plan is a defined contribution healthcare plan administered by Professionals Claim Management, Inc. The plan provides medical insurance benefits to eligible retirees and their spouses until age 65. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the City.

Funding Policy for Police and Firefighters

The contribution requirements of plan members for the police and firefighters' who retire on or after attaining age requirements and years of service set forth in their respective union agreements, are established by the City's governing board. The required contribution is \$118 per month for retiree-only coverage and \$265.60 for retiree and family coverage. For the year ended December 31, 2009, the City contributed approximately \$355,499 to the plan. Plan members receiving benefits contributed approximately \$109,762.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy for City Employees

The contribution requirements of plan members for the city employees who retired under the City's incentive program are established by the City's governing board. The required contribution is \$94.40 per month for retiree-only coverage and \$212.48 for retiree and family coverage. For the year ended December 31, 2009, the City contributed approximately \$349,308 to the plan. Plan members receiving benefits contributed approximately \$80,728.

K. Loans Receivable – Economic Development

The City makes low interest loans to local businesses for economic development through the redevelopment and economic development departments. Loans receivable under this program are as follows:

	Amount
Redevelopment	\$ 1,239,876
Redevelopment Rehabilitation Escrow	1,189,481
East Chicago, Gary, Hammond Revolving Loan Fund Consortium	28,253
Total loans receivable	\$ 2,457,610

L. 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.

M. Tax Increment Receipts Pledged

The City has pledged a portion of tax incremental finance property tax receipts to repay \$9,065,040 in tax increment finance revenue bonds issued in 1999 to finance the acquisition of processing and production equipment for high capacity wallboard manufacturing facility (U.S. Gypsum Company). The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds.

The City has pledged a portion of tax incremental finance property tax receipts to repay \$1,750,000 in tax increment finance revenue bonds issued in 2007 to finance the costs of converting an existing retail structure located in Riley Plaza into a supermarket facility. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City has pledged a portion of tax incremental finance property tax receipts to repay \$6,300,000 in tax increment finance revenue bonds issued in 2009 to finance the costs of acquiring certain property located within the Allocation Area, commonly known as the Harborside Apartments, pursuant to the Redevelopment Plan for the Allocation Area. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds.

N. 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

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the City during the period were \$1,217,245.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The contributions made by the City during the period were \$1,189,495.

c. 1937 Firefighters' Pension Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The contributions made by the City during the period were \$751,218.

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Funding Policy

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 during the period were \$2,415,339.

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, 2009

	Motor Vehicle Highway	Local Road and Street	Parks and Recreation Operating	Health Maintenance	General Adult Probation	Public Transportation
Receipts:						
Taxes	\$ -	\$ -	\$ 2,769,706	\$ -	\$ -	\$ 711,554
Licenses and permits	-	-	-	-	-	-
Intergovernmental	881,351	278,709	39,017	81,723	-	994,284
Charges for services	-	-	51,819	-	-	-
Fines and forfeits	-	-	-	-	20,231	-
Other	-	-	504,615	4,005	-	3,754
Total receipts	881,351	278,709	3,365,157	85,728	20,231	1,709,592
Disbursements:						
General government	-	-	-	-	-	1,197,066
Public safety	-	-	-	-	3,178	-
Highways and streets	1,013,576	267,499	-	-	-	-
Health and welfare	-	-	-	140,792	-	-
Culture and recreation	-	-	2,443,193	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	4,221	-
Health and welfare	-	-	-	30,219	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Total disbursements	1,013,576	267,499	2,443,193	171,011	7,399	1,197,066
Excess (deficiency) of receipts over disbursements	(132,225)	11,210	921,964	(85,283)	12,832	512,526
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	-
Transfers in	-	-	200,000	-	-	-
Transfers out	-	-	-	-	-	-
Other receipts	-	-	2,080	-	-	288
Total other financing sources (uses)	-	-	202,080	-	-	288
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(132,225)	11,210	1,124,044	(85,283)	12,832	512,814
Restated cash and investment fund balance - beginning	1,798,899	185,143	(2,041,381)	186,682	93,909	(364,086)
Cash and investment fund balance - ending	\$ 1,666,674	\$ 196,353	\$ (917,337)	\$ 101,399	\$ 106,741	\$ 148,728
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ -	\$ (917,337)	\$ -	\$ -	\$ 148,728
Restricted assets:						
Cash and investments	1,666,674	196,353	-	101,399	106,741	-
Total cash and investment assets - ending	\$ 1,666,674	\$ 196,353	\$ (917,337)	\$ 101,399	\$ 106,741	\$ 148,728
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	106,741	-
Highways and streets	1,666,674	196,353	-	-	-	-
Health and welfare	-	-	-	101,399	-	-
Economic development	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	(917,337)	-	-	148,728
Total cash and investment fund balance - ending	\$ 1,666,674	\$ 196,353	\$ (917,337)	\$ 101,399	\$ 106,741	\$ 148,728

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, 2009
 (Continued)

	Federal Grants	Redevelopment	Law Enforcement Continuing Education	Unsafe Building	State Grants	Local Grants
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	7,750	-	-	-
Intergovernmental	190,475	1,875,951	-	-	286,676	140,466
Charges for services	-	-	15,543	-	-	-
Fines and forfeits	-	-	7,979	6,920	-	-
Other	-	606,075	-	-	-	107,006
Total receipts	190,475	2,482,026	31,272	6,920	286,676	247,472
Disbursements:						
General government	100,709	-	-	-	311,197	127,889
Public safety	-	-	-	4,491	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	3,206,865	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	152,332	-	-	-	-	22,119
Public safety	-	-	60,759	-	-	-
Health and welfare	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Total disbursements	253,041	3,206,865	60,759	4,491	311,197	150,008
Excess (deficiency) of receipts over disbursements	(62,566)	(724,839)	(29,487)	2,429	(24,521)	97,464
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	-
Transfers in	-	462,226	-	-	-	-
Transfers out	-	(54,688)	-	-	-	-
Other receipts	-	360	-	11,248	-	13,994
Total other financing sources (uses)	-	407,898	-	11,248	-	13,994
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(62,566)	(316,941)	(29,487)	13,677	(24,521)	111,458
Restated cash and investment fund balance - beginning	20,151	362,294	73,609	33,617	(31,260)	99,305
Cash and investment fund balance - ending	<u>\$ (42,415)</u>	<u>\$ 45,353</u>	<u>\$ 44,122</u>	<u>\$ 47,294</u>	<u>\$ (55,781)</u>	<u>\$ 210,763</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ (42,415)	\$ -	\$ -	\$ -	\$ (55,781)	\$ 210,763
Restricted assets:						
Cash and investments	-	45,353	44,122	47,294	-	-
Total cash and investment assets - ending	\$ (42,415)	\$ 45,353	\$ 44,122	\$ 47,294	\$ (55,781)	\$ 210,763
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	44,122	47,294	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Urban redevelopment and housing	-	45,353	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	(42,415)	-	-	-	(55,781)	210,763
Total cash and investment fund balance - ending	\$ (42,415)	\$ 45,353	\$ 44,122	\$ 47,294	\$ (55,781)	\$ 210,763

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, 2009
 (Continued)

	TIF Revenue Bonds	SSED Revolving Loan	Summer Youth Training Program	Property Improvement	Police Federal Forfeitures	Damage to City Property
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	30,441	-	21,255	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	99	1,691	-	-	70	-
Total receipts	99	1,691	30,441	-	21,325	-
Disbursements:						
General government	-	2	330,441	-	-	2,545
Public safety	-	-	-	-	16,000	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	30,595	-
Health and welfare	-	-	-	-	-	-
Urban redevelopment and housing	6,300,099	-	-	-	-	-
Total disbursements	6,300,099	2	330,441	-	46,595	2,545
Excess (deficiency) of receipts over disbursements	(6,300,000)	1,689	(300,000)	-	(25,270)	(2,545)
Other financing sources (uses):						
Net proceeds from borrowings	5,670,000	-	-	-	-	-
Transfers in	630,000	-	300,000	-	-	-
Transfers out	-	-	-	-	-	-
Other receipts	-	1,415	-	-	-	8,603
Total other financing sources (uses)	6,300,000	1,415	300,000	-	-	8,603
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	3,104	-	-	(25,270)	6,058
Restated cash and investment fund balance - beginning	-	305,787	-	6,000	23,262	64,416
Cash and investment fund balance - ending	\$ -	\$ 308,891	\$ -	\$ 6,000	\$ (2,008)	\$ 70,474
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ -	\$ -	\$ 6,000	\$ (2,008)	\$ 70,474
Restricted assets:						
Cash and investments	-	308,891	-	-	-	-
Total cash and investment assets - ending	\$ -	\$ 308,891	\$ -	\$ 6,000	\$ (2,008)	\$ 70,474
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	308,891	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	-	-	-	6,000	(2,008)	70,474
Total cash and investment fund balance - ending	\$ -	\$ 308,891	\$ -	\$ 6,000	\$ (2,008)	\$ 70,474

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, 2009
 (Continued)

	Railroad Relocation	Redevelopment Rehabilitation Escrow	Vital Records	City Court Programs	Judgment Bond Proceeds	East Chicago, Gary, Hammond Revolving Loan Fund Consortium
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	655	-	-	-
Charges for services	-	-	57,806	-	-	-
Fines and forfeits	-	-	3,194	25,607	-	-
Other	812,500	1,452	-	-	-	1,428
Total receipts	812,500	1,452	61,655	25,607	-	1,428
Disbursements:						
General government	28,597	-	-	13,848	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	46,890	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	54,717	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	107,237	-	6,264	-	-	-
Public safety	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Total disbursements	135,834	54,717	53,154	13,848	-	-
Excess (deficiency) of receipts over disbursements	676,666	(53,265)	8,501	11,759	-	1,428
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	-	-	-
Transfers in	-	54,688	-	-	-	-
Transfers out	-	(222,226)	-	-	-	-
Other receipts	-	222,164	211	-	-	6,400
Total other financing sources (uses)	-	54,626	211	-	-	6,400
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	676,666	1,361	8,712	11,759	-	7,828
Restated cash and investment fund balance - beginning	86,025	8,982	108,828	80,482	133,887	227,424
Cash and investment fund balance - ending	\$ 762,691	\$ 10,343	\$ 117,540	\$ 92,241	\$ 133,887	\$ 235,252
Cash and Investment Assets - Ending						
Cash and investments	\$ 762,691	\$ 10,343	\$ 117,540	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	-	-	-	92,241	133,887	235,252
Total cash and investment assets - ending	\$ 762,691	\$ 10,343	\$ 117,540	\$ 92,241	\$ 133,887	\$ 235,252
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ 92,241	\$ 133,887	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	-	-	-	-	235,252
Urban redevelopment and housing	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	762,691	10,343	117,540	-	-	-
Total cash and investment fund balance - ending	\$ 762,691	\$ 10,343	\$ 117,540	\$ 92,241	\$ 133,887	\$ 235,252

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, 2009
 (Continued)

	Redevelopment Trust	Petty Cash	Lease Rental Payment	TIF Revenue Bonds Debt Service Reserve	Park District Bonds	Cumulative Capital Improvement
Receipts:						
Taxes	\$ -	\$ -	\$ 2,388,895	\$ -	\$ 753,271	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	58,289	-	2,819	99,392
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	5,449	-	-	15	-	-
Total receipts	5,449	-	2,447,184	15	756,090	99,392
Disbursements:						
General government	-	10,560	27,128	-	14,316	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	301	-	-	-	-	1,000,000
Debt service:						
Principal	-	-	1,090,000	-	615,000	-
Interest	-	-	1,133,000	-	16,144	-
Capital outlay:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Total disbursements	301	10,560	2,250,128	-	645,460	1,000,000
Excess (deficiency) of receipts over disbursements	5,148	(10,560)	197,056	15	110,630	(900,608)
Other financing sources (uses):						
Net proceeds from borrowings	-	-	-	630,000	-	-
Transfers in	-	-	-	-	46,958	-
Transfers out	(240,000)	-	-	-	-	(400,000)
Other receipts	-	10,794	-	-	5	-
Total other financing sources (uses)	(240,000)	10,794	-	630,000	46,963	(400,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(234,852)	234	197,056	630,015	157,593	(1,300,608)
Restated cash and investment fund balance - beginning	630,958	1,672	(1,090,242)	-	(205,265)	1,889,926
Cash and investment fund balance - ending	\$ 396,106	\$ 1,906	\$ (893,186)	\$ 630,015	\$ (47,672)	\$ 589,318
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ 1,906	\$ (893,186)	\$ -	\$ (47,672)	\$ -
Restricted assets:						
Cash and investments	396,106	-	-	630,015	-	589,318
Total cash and investment assets - ending	\$ 396,106	\$ 1,906	\$ (893,186)	\$ 630,015	\$ (47,672)	\$ 589,318
Cash and Investment Fund Balance - Ending						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Urban redevelopment and housing	396,106	-	-	-	-	-
Debt service	-	-	-	630,015	-	-
Capital outlay	-	-	-	-	-	589,318
Unrestricted	-	1,906	(893,186)	-	(47,672)	-
Total cash and investment fund balance - ending	\$ 396,106	\$ 1,906	\$ (893,186)	\$ 630,015	\$ (47,672)	\$ 589,318

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, 2009
 (Continued)

	Cumulative Capital Development	Fire Equipment	Park Bond Proceeds	Construction	Totals
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 6,623,426
Licenses and permits	-	-	-	-	7,750
Intergovernmental	-	-	-	-	4,981,503
Charges for services	-	-	-	-	125,168
Fines and forfeits	-	-	-	-	63,931
Other	-	-	-	-	2,048,159
Total receipts	-	-	-	-	13,849,937
Disbursements:					
General government	-	-	-	-	2,164,298
Public safety	-	-	-	-	23,669
Highways and streets	-	-	-	-	1,281,075
Health and welfare	-	-	-	-	187,682
Culture and recreation	-	-	-	-	2,443,193
Urban redevelopment and housing	-	-	-	-	4,261,883
Debt service:					
Principal	-	-	-	-	1,705,000
Interest	-	-	-	-	1,149,144
Capital outlay:					
General government	-	-	-	22,511	310,463
Public safety	-	-	-	-	95,575
Health and welfare	-	-	-	-	30,219
Urban redevelopment and housing	-	-	-	-	6,300,099
Total disbursements	-	-	-	22,511	19,952,300
Excess (deficiency) of receipts over disbursements	-	-	-	(22,511)	(6,102,363)
Other financing sources (uses):					
Net proceeds from borrowings	-	-	-	-	6,300,000
Transfers in	-	-	-	-	1,693,872
Transfers out	-	-	-	-	(916,914)
Other receipts	-	-	-	-	277,562
Total other financing sources (uses)	-	-	-	-	7,354,520
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	(22,511)	1,252,157
Restated cash and investment fund balance - beginning	74,541	21,962	306,537	136,520	3,228,584
Cash and investment fund balance - ending	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 306,537</u>	<u>\$ 114,009</u>	<u>\$ 4,480,741</u>
Cash and Investment Assets - Ending					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ (629,954)
Restricted assets:					
Cash and investments	74,541	21,962	306,537	114,009	5,110,695
Total cash and investment assets - ending	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 306,537</u>	<u>\$ 114,009</u>	<u>\$ 4,480,741</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 226,128
Public safety	-	-	-	-	198,157
Highways and streets	-	-	-	-	1,863,027
Health and welfare	-	-	-	-	101,399
Economic development	-	-	-	-	544,143
Urban redevelopment and housing	-	-	-	-	441,459
Debt service	-	-	-	-	630,015
Capital outlay	74,541	21,962	306,537	114,009	1,106,367
Unrestricted	-	-	-	-	(629,954)
Total cash and investment fund balance - ending	<u>\$ 74,541</u>	<u>\$ 21,962</u>	<u>\$ 306,537</u>	<u>\$ 114,009</u>	<u>\$ 4,480,741</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 WATER UTILITY FUNDS
 As Of And For The Year Ended December 31, 2009

	Operating	Bond and Interest	Depreciation/ Improve	Customer Deposit	Construction	Change Fund	Debt Reserve	Totals
Operating receipts:								
Unmetered/flat rate	\$ 44,317	\$ -	\$ -	\$ 15,825	\$ -	\$ -	\$ -	\$ 60,142
Metered/measured	4,779,974	-	-	-	-	-	-	4,779,974
Fire protection receipts	717,334	-	-	-	-	-	-	717,334
Penalties	19,303	-	-	-	-	-	-	19,303
Interfund loan proceeds	400,000	-	-	-	-	-	-	400,000
Miscellaneous	833,747	-	-	303	-	-	-	834,050
Total operating receipts	6,794,675	-	-	16,128	-	-	-	6,810,803
Operating disbursements:								
Salaries and wages	1,543,470	-	-	-	-	-	-	1,543,470
Employee pensions and benefits	567,496	-	-	-	-	-	-	567,496
Purchased power	364,322	-	-	-	-	-	-	364,322
Chemicals	268,888	-	-	-	-	-	-	268,888
Material and supplies	166,638	-	-	-	-	-	-	166,638
Contractual services	340,424	-	-	-	-	-	-	340,424
Rents	77,193	-	-	-	-	-	-	77,193
Insurance claims and expense	21,597	-	-	-	-	-	-	21,597
Refunds	686	-	-	5,055	-	-	-	5,741
Equipment and capital improvements	37,229	-	2,010	-	4,242,916	-	-	4,282,155
Miscellaneous	533,391	-	-	-	-	-	-	533,391
Total operating disbursements	3,921,334	-	2,010	5,055	4,242,916	-	-	8,171,315
Excess (deficiency) of operating receipts over operating disbursements	2,873,341	-	(2,010)	11,073	(4,242,916)	-	-	(1,360,512)
Nonoperating receipts (disbursements):								
Investment income	1,377	264	-	2,845	5,528	-	446	10,460
Net proceeds from borrowings	-	-	-	-	145,070	-	-	145,070
Debt service of principal	-	(635,000)	-	-	-	-	-	(635,000)
Interest disbursements	-	(746,832)	-	-	-	-	-	(746,832)
Total nonoperating receipts (disbursements)	1,377	(1,381,568)	-	2,845	150,598	-	446	(1,226,302)
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	2,874,718	(1,381,568)	(2,010)	13,918	(4,092,318)	-	446	(2,586,814)
Transfers in	464,581	1,398,390	66,560	-	-	-	250,477	2,180,008
Transfers out	(1,882,261)	-	-	(464,581)	-	-	-	(2,346,842)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	1,457,038	16,822	64,550	(450,663)	(4,092,318)	-	250,923	(2,753,648)
Cash and investment fund balance - beginning	(1,306,063)	1,025,032	493,673	780,153	11,908,983	500	878,346	13,780,624
Cash and investment fund balance - ending	\$ 150,975	\$ 1,041,854	\$ 558,223	\$ 329,490	\$ 7,816,665	\$ 500	\$ 1,129,269	\$ 11,026,976
Cash and Investment Assets - December 31								
Cash and investments	\$ 150,975	\$ -	\$ -	\$ 329,490	\$ -	\$ 500	\$ -	\$ 480,965
Restricted assets:								
Cash and investments	-	1,041,854	558,223	-	7,816,665	-	1,129,269	10,546,011
Total cash and investment assets - December 31	\$ 150,975	\$ 1,041,854	\$ 558,223	\$ 329,490	\$ 7,816,665	\$ 500	\$ 1,129,269	\$ 11,026,976
Cash and Investment Fund Balance - December 31								
Restricted for:								
Debt service	\$ -	\$ 1,041,854	\$ -	\$ -	\$ -	\$ -	\$ 1,129,269	\$ 2,171,123
Capital outlay	-	-	558,223	-	7,816,665	-	-	8,374,888
Unrestricted	150,975	-	-	329,490	-	500	-	480,965
Total cash and investment fund balance - December 31	\$ 150,975	\$ 1,041,854	\$ 558,223	\$ 329,490	\$ 7,816,665	\$ 500	\$ 1,129,269	\$ 11,026,976

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 SANITARY DISTRICT FUNDS
 As Of And For The Year Ended December 31, 2009

	Solid Waste Operating	Solid Waste Bond and Interest	Revolving	Wastewater Utility Operating	Wastewater Utility Deprec/Improve	Sanitary State Revolving	Utilities Revolving	Totals
Operating receipts:								
Unmetered/flat rate	\$ -	\$ -	\$ -	\$ 100,750	\$ -	\$ -	\$ -	\$ 100,750
Metered/measured	-	-	-	5,992,041	-	-	-	5,992,041
Property taxes	11,279,592	-	-	-	-	-	-	11,279,592
Intergovernmental	215,575	-	-	-	-	-	-	215,575
Interfund loan proceeds	2,500,000	-	-	-	-	-	-	2,500,000
Miscellaneous	53,421	-	290,625	277,178	-	-	-	621,224
Total operating receipts	14,048,588	-	290,625	6,369,969	-	-	-	20,709,182
Operating disbursements:								
Salaries and wages	4,243,978	-	-	1,819,287	-	-	547,643	6,610,908
Employee pensions and benefits	1,756,533	-	-	641,440	-	-	150,000	2,547,973
Sludge removal	-	-	-	219,044	-	-	-	219,044
Purchased power	115,161	-	-	603,160	-	-	-	718,321
Chemicals	-	-	-	74,634	-	-	-	74,634
Material and supplies	271,720	-	-	371,124	-	-	-	642,844
Contractual services	164,674	-	-	720,897	-	-	-	885,571
Waste disposal	723,534	-	-	-	-	-	-	723,534
Insurance claims and expense	19,302	-	-	12,225	-	-	-	31,527
Equipment and capital improvements	465,602	-	-	265,714	787,390	-	-	1,518,706
Interfund loans made/repaid	2,500,000	-	-	400,000	-	-	-	2,900,000
Miscellaneous	300,129	12,520	-	123,677	-	-	-	436,326
Total operating disbursements	10,560,633	12,520	-	5,251,202	787,390	-	697,643	17,309,388
Excess (deficiency) of operating receipts over operating disbursements	3,487,955	(12,520)	290,625	1,118,767	(787,390)	-	(697,643)	3,399,794
Nonoperating receipts (disbursements):								
Property taxes	-	976,557	-	-	-	-	-	976,557
Intergovernmental	-	19,334	-	-	-	-	-	19,334
Rent	5,500	-	-	-	-	-	-	5,500
Investment income	22,485	-	-	9,448	-	-	-	31,933
Tax anticipation warrant proceeds	5,000,000	-	-	-	-	-	-	5,000,000
Tax anticipation warrant repayments	(5,000,000)	-	-	-	-	-	-	(5,000,000)
Refunds	350	-	-	-	-	-	-	350
Grants	122,847	-	-	32,863	-	-	-	155,710
Debt service of principal	(200,000)	(625,000)	-	-	-	-	-	(825,000)
Interest disbursements	(74,589)	(221,344)	-	-	-	-	-	(295,933)
Total nonoperating receipts (disbursements)	(123,407)	149,547	-	42,311	-	-	-	68,451
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	3,364,548	137,027	290,625	1,161,078	(787,390)	-	(697,643)	3,468,245
Transfers in	-	-	-	-	274,350	-	697,643	971,993
Transfers out	(595,644)	-	-	(437,913)	-	-	-	(1,033,557)
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	2,768,904	137,027	290,625	723,165	(513,040)	-	-	3,406,681
Cash and investment fund balance - beginning	448,532	(9,980)	1,613,786	887,269	670,472	38,683	-	3,648,762
Cash and investment fund balance - ending	<u>\$ 3,217,436</u>	<u>\$ 127,047</u>	<u>\$ 1,904,411</u>	<u>\$ 1,610,434</u>	<u>\$ 157,432</u>	<u>\$ 38,683</u>	<u>\$ -</u>	<u>\$ 7,055,443</u>
Cash and Investment Assets - December 31								
Cash and investments	\$ 3,217,436	\$ -	\$ 1,904,411	\$ 1,610,434	\$ -	\$ 38,683	\$ -	\$ 6,770,964
Restricted assets:								
Cash and investments	-	127,047	-	-	157,432	-	-	284,479
Total cash and investment assets - December 31	<u>\$ 3,217,436</u>	<u>\$ 127,047</u>	<u>\$ 1,904,411</u>	<u>\$ 1,610,434</u>	<u>\$ 157,432</u>	<u>\$ 38,683</u>	<u>\$ -</u>	<u>\$ 7,055,443</u>
Cash and Investment Fund Balance - December 31								
Restricted for:								
Debt service	\$ -	\$ 127,047	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,047
Capital outlay	-	-	-	-	157,432	-	-	157,432
Unrestricted	3,217,436	-	1,904,411	1,610,434	-	38,683	-	6,770,964
Total cash and investment fund balance - December 31	<u>\$ 3,217,436</u>	<u>\$ 127,047</u>	<u>\$ 1,904,411</u>	<u>\$ 1,610,434</u>	<u>\$ 157,432</u>	<u>\$ 38,683</u>	<u>\$ -</u>	<u>\$ 7,055,443</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS
 As Of And For The Year Ended December 31, 2009

	Health, Life, and Worker <u>Compensation</u>	<u>Communications</u>	<u>Gasoline</u>	<u>Totals</u>
Operating receipts:				
Charges for services	\$ 2,506,818	\$ 267,630	\$ 777,606	\$ 3,552,054
Employer contributions	3,994,856	-	-	3,994,856
Employee and retiree contributions	1,236,400	-	-	1,236,400
Miscellaneous	<u>57,165</u>	<u>-</u>	<u>-</u>	<u>57,165</u>
Total operating receipts	<u>7,795,239</u>	<u>267,630</u>	<u>777,606</u>	<u>8,840,475</u>
Operating disbursements:				
Administrative and general	148,929	267,150	830,131	1,246,210
Insurance claims and expense	<u>9,149,760</u>	<u>-</u>	<u>-</u>	<u>9,149,760</u>
Total operating disbursements	<u>9,298,689</u>	<u>267,150</u>	<u>830,131</u>	<u>10,395,970</u>
Excess (deficiency) of receipts over disbursements	<u>(1,503,450)</u>	<u>480</u>	<u>(52,525)</u>	<u>(1,555,495)</u>
Transfers in	<u>1,750,000</u>	<u>-</u>	<u>68,293</u>	<u>1,818,293</u>
Excess (deficiency) of receipts and transfers in over disbursements	246,550	480	15,768	262,798
Restated cash and investment fund balance - beginning	<u>(1,644,797)</u>	<u>(126,812)</u>	<u>(90,438)</u>	<u>(1,862,047)</u>
Cash and investment fund balance - ending	<u>\$ (1,398,247)</u>	<u>\$ (126,332)</u>	<u>\$ (74,670)</u>	<u>\$ (1,599,249)</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ (1,398,247)</u>	<u>\$ (126,332)</u>	<u>\$ (74,670)</u>	<u>\$ (1,599,249)</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ (1,398,247)</u>	<u>\$ (126,332)</u>	<u>\$ (74,670)</u>	<u>\$ (1,599,249)</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, 2009

	1925 Police Pension	1937 Firefighters' Pension	Totals
Additions:			
Contributions:			
Employer	\$ 1,189,495	\$ 751,218	\$ 1,940,713
Plan members	200	-	200
State	4,437,981	3,522,138	7,960,119
Total additions	5,627,676	4,273,356	9,901,032
Deductions:			
Benefits	4,026,467	3,110,594	7,137,061
Administrative and general	30,676	20,413	51,089
Total deductions	4,057,143	3,131,007	7,188,150
Excess (deficiency) of total additions over total deductions	1,570,533	1,142,349	2,712,882
Cash and investment fund balance - beginning	(1,036,048)	(842,916)	(1,878,964)
Cash and investment fund balance - ending	\$ 534,485	\$ 299,433	\$ 833,918

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2009

	Court Costs Due County	Payroll Withholdings	PERF	Health Insurance	Miscellaneous Employee Insurance	Northwest Indiana Health Department Cooperative
Additions:						
Agency fund additions	\$ 34,984	\$ 66,152,704	\$ 4,281,528	\$ 2,711,841	\$ 2,282	\$ 1,172,803
Deductions:						
Agency fund deductions	34,984	66,151,923	4,387,134	2,710,621	2,601	1,171,496
Excess (deficiency) of total additions over total deductions	-	781	(105,606)	1,220	(319)	1,307
Restated cash and investment fund balance - beginning	-	(1,182)	1,112,237	22,460	50,204	40,996
Cash and investment fund balance - ending	\$ -	\$ (401)	\$ 1,006,631	\$ 23,680	\$ 49,885	\$ 42,303

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Waterway Management District	Property Tax Credit	Insurance Administration	Worker's Compensation	City Clerk	Totals
Additions:						
Agency fund additions	\$ 279,177	\$ -	\$ 318,157	\$ 266,592	\$ 972,400	\$ 76,192,468
Deductions:						
Agency fund deductions	377,351	1,000	318,109	265,249	988,921	76,409,389
Excess (deficiency) of total additions over total deductions	(98,174)	(1,000)	48	1,343	(16,521)	(216,921)
Restated cash and investment fund balance - beginning	188,938	220,598	60	1,485	661,035	2,296,831
Cash and investment fund balance - ending	<u>\$ 90,764</u>	<u>\$ 219,598</u>	<u>\$ 108</u>	<u>\$ 2,828</u>	<u>\$ 644,514</u>	<u>\$ 2,079,910</u>

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCE - CASH AND INVESTMENT BASIS
DISCRETE COMPONENT UNIT
As Of And For The Year Ended December 31, 2009

	<u>Port Authority</u>
Operating receipts:	
Slip rentals	\$ 536,155
Boat storage	267,332
Rentals	51,479
Marina fees	52,476
Services	11,123
Gas and oil	188,224
Restaurant	152,814
Miscellaneous	65,466
Interfund loan proceeds	<u>500,000</u>
Total operating receipts	<u>1,825,069</u>
Operating disbursements:	
Salaries and wages	475,482
Employee pensions and benefits	141,435
Purchased utilities	132,791
Material and supplies	245,878
Contractual services	304,049
Repairs	60,720
Refunds	2,624
Equipment and capital improvements	271,515
Interfund loans made/repaid	500,000
Miscellaneous	<u>148,695</u>
Total operating disbursements	<u>2,283,189</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(458,120)</u>
Nonoperating receipts (disbursements):	
Intergovernmental	77,000
Rent	2,700
Investment income	2,058
Refunds	<u>16,152</u>
Total nonoperating receipts (disbursements)	<u>97,910</u>
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	<u>(360,210)</u>
Capital contributions	<u>182,978</u>
Excess (deficiency) of receipts and contributions over disbursements	<u>(177,232)</u>
Cash and investment fund balance - beginning	<u>194,787</u>
Cash and investment fund balance - ending	<u>\$ 17,555</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	<u>\$ 17,555</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted	<u>\$ 17,555</u>

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2009

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	\$ 5,176,882
Rights of Way	1,724,781
Construction in progress	5,847,246
Capital assets, being depreciated (net of depreciation)	
Infrastructure	25,468,284
Buildings	38,594,373
Improvements other than buildings	1,840,641
Machinery and equipment	<u>5,236,410</u>
Total governmental activities, capital assets	<u>\$ 83,888,617</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 249,859
Construction in progress	10,137,454
Capital assets, being depreciated (net of depreciation)	
Buildings	634,125
Improvements and lines	2,799,175
Machinery and equipment	<u>44,717</u>
Total Water Utility capital assets	<u>13,865,330</u>
Sanitary District	
Capital assets, not being depreciated:	
Land	885,268
Capital assets, being depreciated (net of depreciation)	
Buildings	16,853,028
Improvements and lines	3,883,145
Machinery and equipment	<u>3,216,854</u>
Total Sanitary District capital assets	<u>24,838,295</u>
Total business-type activities capital assets	<u>\$ 38,703,625</u>
<u>Discretely Presented Component Unit</u>	<u>Ending Balance</u>
Port Authority:	
Capital assets, not being depreciated:	
Land	\$ 1,020,000
Capital assets, being depreciated (net of depreciation)	
Buildings	7,277,078
Improvements other than buildings	350,433
Machinery and equipment	<u>54,055</u>
Total discretely presented component unit capital assets	<u>\$ 8,701,566</u>

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2009

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	\$ 22,505,000	\$ 2,223,000
Copiers (Police Department)	32,626	25,989
Notes and loans payable:		
2001 Rainy Day Loan	868,421	578,947
Circuit Breaker Loan	60,525	60,972
Bonds payable:		
General obligation bonds:		
Judgment Funding, 2008	990,000	701,625
Revenue bonds:**		
Redevelopment Tax Increment Financing Bonds, 1999	6,744,177	2,089,255
Taxable Economic Development, 2007 Riley Plaza Project	1,750,000	70,000
Lake Front Redevelopment Tax Increment Financing Bonds 2009	<u>6,300,000</u>	<u>708,906</u>
Total governmental activities debt	<u>\$ 39,250,750</u>	<u>\$ 6,458,694</u>
Business-type activities:		
Water Utility:		
Loans payable:		
2002 State Revolving Loan	\$ 1,520,000	\$ 132,775
2006 State Revolving Loan	15,525,000	1,251,545
2009 State Revolving Loan*	<u>27,200,000</u>	<u>1,878,076</u>
Total Water Utility	<u>44,245,000</u>	<u>3,262,396</u>
Sanitary District:		
Loans payable:		
2001 Rainy Day Loan	300,000	200,000
1996 State Revolving Loan	<u>7,320,000</u>	<u>843,000</u>
Total Sanitary District	<u>7,620,000</u>	<u>1,043,000</u>
Total business-type activities debt	<u>\$ 51,865,000</u>	<u>\$ 4,305,396</u>

*Loans to be paid from either the Riverboat or Economic Development Commission Funds

**The City issued several revenue bonds to provide funds for the acquisition, development, and renovation of properties within the City. The bonds do not constitute a corporate obligation of the City, but constitute a special limited obligation of the City, payable solely from the tax increment financing (TIF) revenues. The City is not obligated to pay the debt service on the bonds from any source other than the TIF revenues. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the bonds.

CITY OF EAST CHICAGO
OTHER REPORTS

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

City Clerk
City Court
Police Department

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS NOT RECORDED

In 2009, the City received \$6,300,000 of Redevelopment Commission Lake Front Redevelopment Area Tax Increment Revenue Bonds, Series 2009A proceeds. The revenue bond proceeds were disbursed in 2009 for the purchase of properties totaling \$5,370,540, to establish a \$630,000 Debt Service Reserve Fund, and for \$299,460 of issuance costs. A fund was not established by the City to record the receipt of the bond proceeds and subsequent disbursements; therefore, none of this activity was reflected in the official records of the City. However, the transactions were reported in the Annual Report prepared by the City Controller based upon the trustee account bank statements.

In addition, the City executed a loan agreement with Northtown Village Townhomes Limited Partnership (Northtown Village Townhomes) in 2007. In accordance with the loan agreement, the City was to loan Northtown Village Townhomes \$1,305,000 at an interest rate of 6%. The loan maturity date was to be twelve months after the closing date of the loan which was October 23, 2007. The first installment on the loan was paid by the City on October 25, 2007, in the amount of \$619,558. The next loan installment in the amount of \$380,442 was not made until October 6, 2008, just days prior to the date the loan was to be repaid. (The two installment payments made by the City to Northtown Village Townhomes did not agree to the loan amount indicated in the agreement dated October 25, 2007, of \$1,305,000.) Another loan agreement was provided indicating another loan was to be made to Northtown Village Townhomes in an amount not to exceed \$800,000; however, the next loan installment made by the City was in the amount of \$1,000,000 on November 21, 2008. The next loan agreement we were provided was from June 2010, and indicated Northtown Village Townhomes had received \$3,000,000 in loans for which repayments were being made in the amounts of \$550,000 and \$650,000. These repayments were then being applied to this new loan agreement in the amount of \$1,700,000. Neither the \$550,000 nor the \$650,000 loan repayments was recorded in the financial records of the City. Additionally, the interest due from the loan made in 2007 was not found to have been collected by the City.

We attempted to research the historical trail of the transactions between the City and Northtown Village Townhomes. Inquiries were made of City officials, available loan agreements and ledgers were reviewed, as well as claims paid by the City dating back to the initial 2007 loan origination date. We were unable to satisfy ourselves as to the accuracy and validity of the loan transactions.

Furthermore, the City has not established funds in their official records to record the proceeds and disbursements of State Revolving Loan Funds for the Water Utility. In 2009, the Water Utility disbursed \$4,242,915 in State Revolving Loan Funds. The financial activity is noted in Excel (commercial spreadsheet software), and the activity is reported on the Annual Report prepared by the City Controller.

Since the official records of the City do not reflect the above noted transactions, accounts payable vouchers or claims were not prepared or approved by their respective governing boards. The dollar amounts which bypassed the official recordkeeping process are material to the financial statements; thus, the City is lacking material financial compliance with laws and regulations of the City, as well as bypassing internal controls.

IC 5-11-10-2 (c) states: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

IC 5-11-1-2 states in part: "The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following:

- (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe.
- (2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals.
- (3) Show the receipt, use, and disposition of all public property and the income, if any, derived from the property.
- (4) Show all sources of public income and the amounts due and received from each source.
- (5) Show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction. . . ."

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

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

In 2009, the City was awarded a \$1,120,105 COPS Hiring Recovery Program grant from the U.S. Department of Justice. Per the grant terms and conditions, the federal agency notified the City the grant was funded through the American Recovery and Reinvestment Act of 2009 (ARRA). The City agreed to comply with the extensive accountability and transparency requirements on the use of ARRA funds. The City agreed to maintain accounting systems and records that adequately track and account for all ARRA funds separately from all other funds. The 2009 federal receipts and disbursements activity for the ARRA grant were accounted for through the General Fund of the City and not a separate grant fund.

Failure to maintain official records that track the source (receipts) and application (disbursements) of each ARRA grant individually may hinder the City's ability to provide accountability and transparency for federal awards.

2CFR 176.210 states in part: "The award term described in this section shall be used by agencies to clarify recipient responsibilities regarding tracking and documenting Recovery Act expenditures:

- (a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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)

REDEVELOPMENT TAX INCREMENT FINANCING (TIF) RECEIPTS AND DISBURSEMENT

The City has declared portions of the City as economic development areas to be developed under IC 36-7-14 and 36-7-25 and prepared economic development plans for the selected economic development areas. The additional taxes collected, once an economic development area has been established, are remitted to the Redevelopment Commission from the County as Tax Increment Financing (TIF) allocations. Since 2007, the commission has received \$4,722,782 and \$18,407,102 of TIF allocations for the USG and Lakefront TIF allocation areas, respectively. The TIF allocations were posted to the Economic Development Commission Fund. Per Indiana Code 36-7-14-39(b)(2), the allocations are to be recorded in a separate allocation fund for the established economic development area.

IC 36-7-14-39(b)(2) states in part: "Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivision (1) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following: . . ."

CUMULATIVE CAPITAL IMPROVEMENT FUND ACTIVITY

In 2007, the City receipted a \$918,000 grant from the East Chicago Urban Enterprise Association to the Cumulative Capital Improvement Fund. Per a "Memorandum of Understanding between the City and the East Chicago Urban Enterprise Association" this money was a grant for the Indiana Harbor Revitalization Project. Again in 2007, the City receipted \$870,635.26 from the Gary, Hammond, East Chicago Empowerment Zone (Empowerment Zone) to the Cumulative Capital Improvement Fund as a federal grant. The City could not provide a grant agreement or any other documentation from the Empowerment Zone as to the source or purpose of this funding. City officials indicated the money from the Empowerment Zone was also a grant to be used for the Indiana Harbor Revitalization Project.

City officials indicated the Urban Enterprise Association and the Empowerment Zones' grants received in 2007 were the funding source for the \$1,000,000 disbursement from the Cumulative Capital Improvement Fund to Northtown Village Townhomes Limited Partnership on February 6, 2009. The \$1,000,000 was the third installment of a \$3,000,000 loan made by the City to Northtown Village Townhomes Limited Partnership. City officials did not report the portion of the loan disbursed from the Empowerment Zone funds on their Schedule of Federal Expenditures.

This capital projects type fund (Cumulative Capital Improvement Fund) is used to account for receipts and disbursements of state cigarette tax distributions. The fund is established by IC 6-7-1-31.1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

IC 6-7-1-31.1 states:

"(a) The fiscal body of each city and the fiscal body of each town shall, by ordinance or resolution, establish a cumulative capital improvement fund for the city or town. Except as otherwise pro-vided in subsection (c), the city or town may only use money in its cumulative capital improvement fund to:

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) purchase land, easements, or rights-of-way;
 - (2) purchase buildings;
 - (3) construct or improve city owned property;
 - (4) design, develop, purchase, lease, upgrade, maintain, or repair:
 - (A) computer hardware;
 - (B) computer software;
 - (C) wiring and computer networks; and
 - (D) communications access systems used to connect with computer networks or electronic gateways;
 - (5) pay for the services of full-time or part-time computer maintenance employees;
 - (6) conduct nonrecurring in-service technology training of unit employees;
 - (7) undertake Internet application development; or
 - (8) retire general obligation bonds issued by the city or town for one (1) of the purposes stated in subdivision (1), (2), (3), (4), (5), or (6).
- (b) The money in the city's or town's cumulative capital improvement fund does not revert to its general fund.
- (c) A city or town may at any time, by ordinance or resolution, transfer to:
- (1) its general fund; or
 - (2) an authority established under IC 36-7-23; money derived under this chapter that has been deposited in the city's or town's cumulative capital improvement fund."

COMMUNITY DEVELOPMENT ENTITY

On February 11, 2009, the East Chicago Redevelopment Commission approved Resolution 1317 authorizing the formation of the East Chicago Redevelopment Community Development Entity (CDE) limited liability company (LLC). The East Chicago Redevelopment Commission would own 99.999% of the Parent CDE with the East Chicago Urban Enterprise Association, Inc., owning the remaining 0.001%. The Parent CDE will be taxable as a domestic partnership for federal and state income tax purposes. The Parent CDE was created as part of the City's application for New Market Tax Credits. Subsequently, the City's application was denied and the Parent CDE did not organize and remains inactive as of July 2010. The city may apply for grants in the future through the Parent CDE.

The resolution did not note under what authority the Redevelopment Commission was enabled to form and become a member of a community development entity. IC 36-7-14-12.2 does not provide redevelopment commissions that authority.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

IC 36-7-14-12.2 states:

"(a) The redevelopment commission may do the following:

- (1) Acquire by purchase, exchange, gift, grant, condemnation, or lease, or any combination of methods, any personal property or interest in real property needed for the redevelopment of areas needing redevelopment that are located within the corporate boundaries of the unit.
- (2) Hold, use, sell (by conveyance by deed, land sale contract, or other instrument), exchange, lease, rent, or otherwise dispose of property acquired for use in the redevelopment of areas needing redevelopment on the terms and conditions that the commission considers best for the unit and its inhabitants.
- (3) Sell, lease, or grant interests in all or part of the real property acquired for redevelopment purposes to any other department of the unit or to any other governmental agency for public ways, levees, sewerage, parks, playgrounds, schools, and other public purposes on any terms that may be agreed on.
- (4) Clear real property acquired for redevelopment purposes.
- (5) Enter on or into, inspect, investigate, and assess real property and structures acquired or to be acquired for redevelopment purposes to determine the existence, source, nature, and extent of any environmental contamination, including the following:
 - (A) Hazardous substances.
 - (B) Petroleum.
 - (C) Other pollutants.
- (6) Remediate environmental contamination, including the following, found on any real property or structures acquired for redevelopment purposes:
 - (A) Hazardous substances.
 - (B) Petroleum.
 - (C) Other pollutants.
- (7) Repair and maintain structures acquired for redevelopment purposes.
- (8) Remodel, rebuild, enlarge, or make major structural improvements on structures acquired for redevelopment purposes.
- (9) Survey or examine any land to determine whether it should be included within an area needing redevelopment to be acquired for redevelopment purposes and to determine the value of that land.
- (10) Appear before any other department or agency of the unit, or before any other governmental agency in respect to any matter affecting:

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) real property acquired or being acquired for redevelopment purposes; or
 - (B) any area needing redevelopment within the jurisdiction of the commissioners.
- (11) Institute or defend in the name of the unit any civil action.
- (12) Use any legal or equitable remedy that is necessary or considered proper to protect and enforce the rights of and perform the duties of the department of redevelopment.
- (13) Exercise the power of eminent domain in the name of and within the corporate boundaries of the unit in the manner prescribed by section 20 of this chapter.
- (14) Appoint an executive director, appraisers, real estate experts, engineers, architects, surveyors, and attorneys.
- (15) Appoint clerks, guards, laborers, and other employees the commission considers advisable, except that those appointments must be made in accordance with the merit system of the unit if such a system exists.
- (16) Prescribe the duties and regulate the compensation of employees of the department of redevelopment.
- (17) Provide a pension and retirement system for employees of the department of redevelopment by using the Indiana public employees' retirement fund or a retirement plan approved by the United States Department of Housing and Urban Development.
- (18) Discharge and appoint successors to employees of the department of redevelopment subject to subdivision (15).
- (19) Rent offices for use of the department of redevelopment, or accept the use of offices furnished by the unit.
- (20) Equip the offices of the department of redevelopment with the necessary furniture, furnishings, equipment, records, and supplies.
- (21) Expend, on behalf of the special taxing district, all or any part of the money of the special taxing district.
- (22) Contract for the construction of:
- (A) local public improvements (as defined in IC 36-7-14.5-6) or structures that are necessary for redevelopment of areas needing redevelopment or economic development within the corporate boundaries of the unit; or
 - (B) any structure that enhances development or economic development.
- (23) Contract for the construction, extension, or improvement of pedestrian skyways.
- (24) Accept loans, grants, and other forms of financial assistance from the federal government, the state government, a municipal corporation, a special taxing district, a foundation, or any other source.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (25) Provide financial assistance (including grants and loans) to enable individuals and families to purchase or lease residential units within the district. However, financial assistance may be provided only to individuals and families whose income is at or below the unit's median income for individuals and families, respectively.
- (26) Provide financial assistance (including grants and loans) to neighborhood development corporations to permit them to:
 - (A) provide financial assistance for the purposes described in subdivision (25); or
 - (B) construct, rehabilitate, or repair commercial property within the district.
- (27) Require as a condition of financial assistance to the owner of a multiple unit residential structure that any of the units leased by the owner must be leased:
 - (A) for a period to be determined by the commission, which may not be less than five (5) years;
 - (B) to families whose income does not exceed eighty percent (80%) of the unit's median income for families; and
 - (C) at an affordable rate.

(b) Conditions imposed by the commission under subsection (a)(27) remain in force throughout the period determined under subsection (a)(27)(A), even if the owner sells, leases, or conveys the property. The subsequent owner or lessee is bound by the conditions for the remainder of the period.

(c) As used in this section, 'pedestrian skyway' means a pedestrian walkway within or outside of the public right-of-way and through and above public or private property and buildings, including all structural supports required to connect skyways to buildings or buildings under construction. Pedestrian skyways constructed, extended, or improved over or through public or private property constitute public property and public improvements, constitute a public use and purpose, and do not require vacation of any public way or other property.

(d) All powers that may be exercised under this chapter by the redevelopment commission may also be exercised by the redevelopment commission in carrying out its duties and purposes under IC 36-7-14.5."

ANNUAL REPORT

The annual report for 2009 was not timely filed. The annual report for 2009 was not filed until April 2010. The due date for the filing was March 1, 2010.

IC 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

CITY OF EAST CHICAGO
 AUDIT RESULTS AND COMMENTS
 (Continued)

TEMPORARY LOANS BETWEEN FUNDS

A temporary loan of \$500,000 was made in 2009 from the Special Gaming Revenue (Riverboat) Fund to the Marina Fund and was not repaid by the end of the six month extension. As of July 7, 2010, the loan has not been repaid. In 2010, the Marina received an additional loan of \$500,000 from the Sanitary District.

IC 36-1-8-4 concerning temporary loans states in part: "(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

NEGATIVE CASH BALANCES

The following funds had negative cash balances at December 31, 2009:

Fund	2009
Major Fund:	
General	\$ 3,654,702
Other Governmental Funds:	
Parks and Recreation Operating	917,337
Federal Grants	42,415
State Grants	55,781
Police Federal Forfeitures	2,008
Lease Rental Payment	893,186
Park District Bonds	47,672
Internal Service Funds:	
Health, Life, and Worker Compensation	1,398,247
Communications	126,332
Gasoline	74,670
Agency Fund:	
Payroll Withholdings	401

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)

PUBLIC WORKS PROJECTS

The Board of Public Works and Safety is not inviting quotes for public works projects for which the cost is expected to exceed \$25,000, but be less than \$100,000 in accordance with state statute. Also, the City is providing "deposits" or advances on various construction projects. One contractor requested "a 50% deposit" prior to the start of the project, which the City paid.

The City has not formally adopted a purchasing policy. A resolution from 1999 was presented in which the Board designated "the Director of Personnel and Purchasing to be the 'purchasing agent' "for the city." It also stipulated that the Purchasing Agent should comply with "IC 5-22-15-21", which addresses purchase of supplies manufactured in the United States. This resolution was no longer being followed.

On March 18, 2010, the City Controller issued a memorandum to all department heads which addressed some accounts payable procedures including that purchase orders were required for all purchases and to attach "copies of quotes" (if over \$500.00) to Purchase Order Request Forms. Since this memorandum was issued in 2010, we tested some disbursements from 2010, mostly those for public works projects to determine compliance or the lack there of with state statutes.

In 2010, most of the projects over \$25,000 reviewed indicated only two quotes were obtained. None of the quotes were provided to the Board of Public Works and Safety for action; instead the department heads determined the action to be followed.

IC 36-1-12-4.7 states in part:

"(a) This section applies whenever a public work project is estimated to cost:

(1) at least twenty-five thousand dollars (\$25,000) and less than one hundred thousand dollars (\$100,000) in:

(A) a consolidated city, second class city, or third class city with a population of fifteen thousand (15,000) or more;

(B) a county containing a consolidated city or second class city; or city; or . . .

(b) The board must proceed under the following provisions:

(1) The board shall invite quotes from at least three (3) persons known to deal in the class of work proposed to be done by mailing them a notice stating that plans and specifications are on file in a specified office. The notice must be mailed not less than seven (7) days before the time fixed for receiving quotes.

(2) The board may not require a person to submit a quote before the meeting at which quotes are to be received. The meeting for receiving quotes must be open to the public. All quotes received shall be opened publicly and read aloud at the time and place designated and not before.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

(3) The board shall award the contract for the public work to the lowest responsible and responsive quoter.

(4) The board may reject all quotes submitted."

IC 5-11-10-1.6 (c) states in part: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

(2) the invoice or bill is approved by the officer or person receiving the goods and services;
. . .

This subsection does not prohibit a school corporation, with prior approval of the board having jurisdiction over allowance of payment of the claim, from making payment in advance of receipt of services as allowed by guidelines developed under IC 20-20-13-10. This subsection does not prohibit a municipality from making meal expense advances to a municipal employee who will be traveling on official municipal business if the municipal fiscal body has adopted an ordinance allowing the advance payment, specifying the maximum amount that may be paid in advance, specifying the required invoices and other documentation that must be submitted by the municipal employee, and providing for reimbursement from the wages of the municipal employee if the municipal employee does not submit the required invoices and documentation."

ACCOUNTS PAYABLE VOUCHERS

Credit Card Usage

The City Controller cancelled all Corporate issued credit cards due to lack of compliance with City and State policies regarding usage of credit cards; however, reimbursements are still made based upon usage of personal credit cards without itemized vendor invoices being provided. For example, reimbursements were made to the Mayor for purchases made at SAM's Club for various small purchases, airfares, hotels, and meals. For some meal reimbursements which were local, no indication was made as to who attended or the business nature of the "meal" meeting.

IC 5-11-10-1.6 (c) states in part: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

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

Per Diem

The City allows elected officials to provide meal receipts for reimbursement or they may receive a maximum of \$100 per day as a per diem. In order to comply with Internal Revenue Service Guidelines, the federal per diem rate applicable to the travel destination is to be attached to the accounts payable voucher. The accounts payable voucher is then to be provided to the payroll clerk so the excess per diem paid can be reported on the elected officials' Wage and Tax Statements (Forms W-2) as other income.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

For 2009, none of the per diem reimbursements were included on the elected officials' Wage and Tax Statements (Forms W-2). Some reimbursements processed by the accounts payable clerks were made in the amount of the IRS allowable per diem rate or the non-taxable portion only; thus, negating the need to include the reimbursement on the Form W-2. For the others that were processed at the full \$100 per diem rate allowed by City Ordinance, either the entire portion or the excess over the allowable IRS per diem rate should have been calculated by the elected official for inclusion on the Form W-2.

In addition, a Department head at the Sanitary District received \$80 per diem which was not processed through payroll as required by the City's policy; thus, the per diem was not included on his Form W-2.

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

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

Donations

Some donations paid from the City's promotional budget line item at the direction of elected officials were made to individuals rather than a qualified non-profit organization. For example, payments totaling \$900 from the Mayor and Council were made to Jessica Camacho, daughter of the City Engineer, to assist with tuition to participate in the Center for Global Education at Augsburg College in Nambia, Africa. The total tuition was \$25,000, which significantly exceeded the donated amounts received from the City; however, information was not provided as to what would happen to the donations if the trip was cancelled, or not enough funds were raised for the trip.

For most donations directed by elected officials, checks are made payable to the organization, group, or individual that will benefit from the donation; however, the City Clerk is reimbursed for donations. The reimbursements included purchases made by the City Clerk of fundraising goods such as flowers, cookie dough, or tickets to events - such as a fashion show. It cannot be determined as to who benefited from these purchased items.

City Ordinance 06-0005, section 3.04.230 establishes the City promotional fund and states: "The city promotional fund is established. The common council is authorized to budget and appropriate funds from the general fund or from other funds to pay the expenses incurred in promoting the betterment of the municipality."

Section 3.04.240 regarding expenditures states: "Expenditures from this fund may include, but are not necessarily limited to the following:

- A. Membership dues in local, regional, state and national associations of a civic, educational, or governmental nature, which have as their purpose the betterment and improvement of municipal operations;

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- B. Direct expenses for travel, meals and lodging in conjunction with municipal business or meetings, or organizations to which the municipality belongs;
- C. Expenses incurred in the promotion of economic, industrial and civic development for the municipality, including meeting room rental, decorations, parades, floats, nominal gifts, meals and travel;
- D. Commemorative plaques, certificates, or objects such as commemorative keys;
- E. Other purposes which are deemed by the mayor and/or the common council to directly relate to promotion or betterment of the city.
- F. Donations to non-for-profit organizations, church sponsored secular, civic or social activity or other civic or fraternal organizations, where such donation is deemed to be of benefit to the citizens of the City of East Chicago."

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. IC 36-10-2-4 and 5 allow cities and towns to establish, aid, maintain, and operate libraries museums, cultural historical and scientific facilities and programs, community service facilities and programs, neighborhood centers, community centers, civic centers, convention centers, auditorium, arenas, and stadiums. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

Any compensation, premium, bonus, or product earned as a result of the purchase of goods or services by the governmental unit becomes the property of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Contracts

Payments made for contractual services are either not always supported by a current contract, or the payment does not comply with the terms of the contract.

Payments made for contractual services not supported by a written agreement included payment for psychological evaluations ordered by the City Judge, payments made for security services at the Park Department, and payments made to a law firm through the Law Department. Additionally, a chef at the Port Authority restaurant was paid, but a contract was not provided, nor was there approval by the board for the \$20 per hour compensation invoiced to the Port Authority. Officials at the Port Authority indicated he was hired on a temporary basis to fill in for their regular head chef who was on leave.

The contract with the attorney for the Board of Works stated, "payments not to exceed" a specified dollar amount. The accounts payable vouchers did not include itemized invoices with hours and rates per hour. The attorney simply divided the contract amount by the term the invoice covered by the contract.

Finally, one contractor was paid an additional \$50 per month for cell phone reimbursement. This cell phone reimbursement was not addressed in his contract. The City allows employees to be reimbursed \$50 for use of their personal cell phone for City business; however, we could not find where this applied to outside contractors.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Payments for services provided by an organization should go directly to the organization and not to an individual employee of the organization. All payments for services should be supported by a written contract. Compensation should be made in such a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and 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)

Additional Clerk Compensation from the Water Utility

Resolution 150 dated December 28, 1973 stated in part:

"Whereas, further, pursuant to statute, the Board has found need for the services to the East Chicago Water Works Department of the Mayor Robert Pastrick; City Controller James Knight; City Clerk Jean Brozovic; City Attorney Jeffrey Martin, and of the acting City Engineer John Dobay, for the efficient and full operation of the Board of Water Works, and

Whereas, such statute authorizes pay for said services of the above-named individuals . . . all of them paid in the sum of two hundred dollars (\$200.00) per month."

It is based upon this resolution that the current City Clerk, who is not Jean Brozovic, continues to receive \$200 per month. The monthly payment is paid through the City's claim process and not the payroll process. An IRS Miscellaneous Income Form 1099 is issued at the end of the year.

IC 36-4-7-2 states in part:

"(a) As used in this section, "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 the money is paid.

(b) The city legislative body shall, by ordinance, fix the annual compensation of all elected city officers."

Cell Phone Reimbursement

The City has a "Cell Phone Reimbursement Policy" which was authorized by the Mayor and City Controller on May 28, 2008 which states, "The undersigned Mayor and Controller of the City of East Chicago, Indiana hereby authorize all City Officials to a maximum monthly personal cell phone reimbursement of \$50.00. An original cell phone statement must be submitted highlighting all business calls specific to the City of East Chicago."

This policy was not in the form of an Ordinance, so it was not approved by the City Council. Furthermore, a list is not maintained as to which officials qualify for the cell phone reimbursement.

The officials who were paid the reimbursement presented either original vendor invoices or copies of the vendor invoices for their personal phones; however, none had highlighted the business calls. Under IRS Publication 15-b, this reimbursement would be considered a fringe benefit to the official to be included on his or her Wage and Tax Statement (Form W-2). The City is not including the reimbursement on the employee's Form W-2.

CITY OF EAST CHICAGO
 AUDIT RESULTS AND COMMENTS
 (Continued)

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

DISBURSEMENTS EXCEED APPROPRIATIONS

Disbursements exceeded appropriations in the following funds:

Fund	2009
Lease Rental Payment	\$ 25,629
Park District Bonds	13,941
Solid Waste Bond and Interest	12,520
Total	\$ 52,090

IC 36-4-8-2 states in part: "Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted;
 . . . "

PAYROLL INCONSISTENCIES

City employees are paid longevity. Employees from all departments, except police and fire, are to be paid in accordance with the following based upon the various City Resolutions and Ordinance 07-0032, which states in part: "In addition to the amounts stated above, each full time employee . . . shall receive a longevity pay incremental increase in the rates stated above equal to \$300 per annum for each full year of employment with the City of East Chicago, up to a maximum of \$3,000 for ten (10) years of employment. Such longevity pay increment shall be effective on January 1st of each year in accordance with procedures established by the City Controller. New hires shall be given credit for one full year of service if they are hired on or before June 30th. . . ."

The City's accounting software for payroll computes the longevity pay based upon a formula; however, the computations are not consistent among all employees. Some employees were observed to be earning one additional year of longevity than allowed by the policy stated above.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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 2009 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. Elected officials have been compensated based upon the 2005 ordinance.

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."

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 36-8-3-3(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."

COMPENSATION OF ELECTED OFFICIALS

Reduction of Elected Officials Salaries

On January 11, 2010, the City Council adopted Ordinance 09-0028, An Ordinance Fixing Salaries of Elected Officials of the City of East Chicago, Indiana, For the Year 2010. The salaries established by this new ordinance remained the same as the salaries established by Ordinance 04-0049, which was basis of the salaries paid to elected officials in the years 2005 through 2009.

Due to the cash deficit balance in the General Fund, the declining tax base, and legislation imposing tax caps, City officials have been attempting to reduce spending by requesting long-term contractual consultants to accept 10% reductions in contract amounts, and employees in 2009 and 2010 have been required to take furlough days (days off without pay). In an effort to further reduce spending, City Council minutes from December 28, 2009, indicated that the Council voted to reduce their bi-weekly salaries by 10%. Letters were provided by the Mayor and City Clerk to reduce their salaries by 5%, and a letter from the City Judge requested a 10% salary reduction. The Council members, Mayor, and City Clerk salary reductions were effective on the second pay of 2010; the City Judge's salary reduction was effective on the third pay of 2010. These voluntary reductions in the salaries of the elected officials will result in their salaries being less than the prior year amounts paid.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Other Compensation

Section 3 of Elected Officials Salary Ordinance 09-0028 states: "In addition to amounts set forth in Section One, members of the Common Council of the City of East Chicago shall receive as additional compensation a stipend for all expenses relating to their office, including but not limited to travel expenses, communication charges, office supplies, printing, promotional expenses and such other expenses as deemed appropriate by each council member. Such stipend shall be in an amount appropriated for such purpose and shall be paid by the City Controller each month upon submission of a claim by each council member." This is the same wording from Ordinance 04-0049, which was subsequently amended by Ordinance 06-0047 to state, "In addition to the amount set forth in Section One, members of Common Council of the City of East Chicago shall receive as additional compensation a stipend for all administrative office expenses, supplies and overhead relating to their office. Such stipend shall be in an amount appropriated for such purpose and shall be paid by the City Controller to each Council member in 12 monthly installments." This change in language allowed the City to continue paying travel and promotion for council members in addition to the stipend.

Because the stipend should be used for "travel expenses, . . . promotional expenses. . .", the City should be eliminating the travel and promotion in the council budget. Currently the Council members continue to submit claims without documentation attached to receive their \$2,000 per month stipend (for which the dollar amount is not addressed in the salary ordinance), as well as submitting claims for travel and promotional expenses.

IC 36-4-7-2 states:

"(a) As used in this section, '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 the money is paid.

(b) The city legislative body shall, by ordinance, fix the annual compensation of all elected city officers.

(c) 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."

HEALTH INSURANCE FOR TEAMSTERS MEMBERS

The City pays Central States Insurance for the entire cost of health insurance premiums for employees who are members of the Teamsters Union.

IC 5-10-8-2.6 (c) states:

"A public employer may pay a part of the cost of group insurance, but shall pay a part of the cost of group life insurance for local employees. A public employer may pay, as supplemental wages, an amount equal to the deductible portion of group health insurance as long as payment of the supplemental wages will not result in the payment of the total cost of the insurance by the public employer."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

EMPLOYEE BONDS

As noted in the prior report, the City does not have employee dishonesty insurance coverage for employees that handle cash. A blanket bond or a crime insurance policy covering all employees was not purchased.

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)".

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)

CONFLICT OF INTEREST DISCLOSURE STATEMENTS

Numerous officials and employees have spouses and/or children, who are still financially supported by the official or employee, also being paid by the City either through payroll or through accounts payable vendor transactions. An all inclusive list of the employees and the related party transactions could not be provided by the City as only a few have filed the Conflict of Interest Disclosure statements to disclose the relationship.

Also, the Conflict of Interest Disclosure statements on file at the City were not filed with the State Board of Accounts as required.

IC 35-44-1-3 does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served under any of the following conditions:

1. If the public servant is not a member or on the staff of the governing body empowered to contract or purchase on behalf of the governmental entity; the functions and duties the public servant performs for the governmental entity are unrelated to the contract or purchase; and the public servant makes a disclosure as provided in IC 35-44-1-3(d). [IC 35-44-1-3(c)(1)]
2. If the contract or purchase involves utility services from a utility whose rate structure is regulated by the state or federal government. [IC 35-44-1-3(c)(2)]
3. If the public servant was appointed by an elected public servant and makes a disclosure under the procedures in IC 35-44-1-3(d). [IC 35-44-1-3(c)(4)]

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of:

1. The public servant; or
2. A dependent of the public servant who:
 - a. Is under the direct or indirect administrative control of the public servant; or
 - b. Receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. [IC 35-44-1-3(g)]

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

INTERNAL CONTROLS AT WATER UTILITY AND SANITARY DISTRICT

As stated in prior reports, the water utility employees are responsible for the utility billing for both the Water Utility and the Sanitary District. These employees handle the billing, customer meter deposits, meter reading, final bills, and collection of utility bills.

- A. The following deficiencies exist in the customer deposits area:
 1. The Water Utility Operating Fund (0601) posts activity to a customer deposit payable account. The only activity posted to the account is when a customer meter deposit is applied to the final bill of a customer. The collection of the customer meter deposits is not posted through the City's accounting software. A separate bank account with the activity abstracted via Excel spreadsheets is maintained. As of December 31, 2009, the operating fund's customer deposit payable account had a negative \$94,807.50 balance. As of December 31, 2009, the balance of the detail report of customer meter deposits was \$293,267.96.
 2. The detail listing of customer meter deposits on hand should agree to the City's bank account specifically for meter deposits. A detail report of customer meter deposits has a balance of \$293,267.96 as of December 31, 2009. The separate bank account balance for customer meter deposits was \$329,489.84. In addition, \$11,050 of meter deposit collections were receipted and deposited to the Water Operating Fund. A monthly comparison of the reconciled customer deposits bank account to the detail listing of customer meter deposits was not performed.
 3. The amount of customer meter deposits applied to the final bills in 2009 was not transferred from the customer meter deposits bank account to the operating bank account.
 4. Customer meter deposits refunded during 2009 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)

B. The Water Utility aging accounts receivable report balance is greater than the City ledger accounts receivable balance by \$499,879. The Sewer (Sanitary District) aging accounts receivable report balance is greater than the City ledger accounts receivable balance by \$547,820. 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.

C. The Water Utility assesses and collects sales tax for the sale of water. The amount of sales tax collected in one month is remitted to the State of Indiana by the 20th of the following month. Therefore, as of December 31, 2009, the sales tax payable account on the City's general ledger should agree to the December 2009 sales tax collections remitted to the state in January of 2010. The amount remitted was \$21,748; however, the City's general ledger sales tax payable account had a negative \$93,881 balance at year end. This results in a difference of \$115,627. A review of the sales tax payable account disclosed the July 2009 sales tax payment was not posted to the sales tax payable account. Reconciliations between the monthly sales tax remitted and the City's sales tax payable general ledger account are not performed by personnel at the Water Department or the City Controller's office.

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)

DELINQUENT WATER AND WASTEWATER ACCOUNTS

The Water Board of Trustees approved resolution no. WD-03-01 on June 28, 2001, authorizing the fiscal officer of the water department to write-off uncollectible accounts if an account for water usage is not paid within three years after reasonable attempts to collect the debt. The water utility had not written-off the uncollectible accounts from 2005 and prior as of December 2009 in accordance with the resolution.

Delinquent Wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) A description of the premises, as shown by the records of the county auditor; and
 - (C) The amount of the delinquent fees, together with the penalty; or
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."
- (c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . .
- (e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

REDEVELOPMENT COMMISSION

The Redevelopment Commission did not organize at the beginning of 2009 or 2010 as required by IC 36-7-14-8. In addition, the Redevelopment Commission's annual report to be filed with the Mayor's office required by IC 36-7-14-13 was not provided for audit.

Furthermore, the Redevelopment Commission pays the East Chicago Housing Authority for payroll services without a written contract.

IC 36-7-14-8(a) states:

"The redevelopment commissioners shall hold a meeting for the purpose of organization not later than thirty (30) days after they are appointed and, after that, each year on the first day in January that is not a Saturday, a Sunday, or a legal holiday. They shall choose one (1) of their members as president, another as vice president, and another as secretary. These officers shall perform the duties usually pertaining to their offices and shall serve from the date of their election until their successors are elected and qualified."

IC 36-7-14-13 states in part:

"(a) Within thirty (30) days after the close of each calendar year, the redevelopment commissioners shall file with the unit's executive a report setting out their activities during the preceding calendar year. (b) The report of the commissioners of a municipal redevelopment commission must show the names of the then qualified and acting commissioners, the names of the officers of that body, the number of regular employees and their fixed salaries or compensation, the amount of the expenditures made during the preceding year and their general purpose, the amount of funds on hand at the close of the calendar year, and other information necessary to disclose the activities of the commissioners and the results obtained."

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)

ECONOMIC DEVELOPMENT COMMISSION

The Economic Development Director provided minutes of the last meeting of the Economic Development Commission held July 21, 2005, and an agenda for a March 27, 2006, meeting. However, per the 2007 Taxable Economic Development Revenue Bonds bond transcript, a regular meeting of the Economic Development Commission was held on December 10, 2007. Only excerpts of the minutes of the December 10, 2007, meeting were included in the bond transcript in addition to the notice of the public hearing to be held on the same date and the resolution passed providing final approval for the bond issue. No minutes of reorganization meetings held in 2006, 2007, 2008, 2009, or 2010, were provided for audit.

The decision as to the disposition or destruction of any record rests entirely upon the commission [the State Commission on Public Records]; however, there are certain records which appear to be sufficient value to require that they be retained permanently, and there are other records which should not be disposed of for a period of longer than three years, due to limitations imposed under other statutes. Among these records are:

Retained Permanently

All minutes due to their historical value and their value in determining titles of property, appointments, etc. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IC 36-7-12-12(a) states in part: "An economic development commission shall meet within thirty (30) days after its original appointment, at a time and place designated by the executive of the unit, for the purpose of organization, and shall meet to reorganize in February of each succeeding year."

INTERNAL CONTROLS - PARK DEPARTMENT

Collections

Employees at the Park Department collect money for golf, concessions, swimming (non-resident only), shelter rentals, and recreation program fees.

The fees for swimming, shelter rentals, and recreation program fees are collected at the main park office. A cash change fund has not been established at the park office, change is made from previous collections and/or personal funds.

The fees collected are tallied on worksheets developed by the Park Department by fee type. Each park that collects fees for concessions and golf has cash registers that work; however, employees and volunteers have not been properly trained on the cash registers, so they are simply used to hold the cash change. Thus, receipts are not issued at these park locations. (Officials indicated senior citizen volunteers staff the concession office at Tod Park.)

When a cash count was performed on collections at the golf course, an overage was observed. When the collections were remitted to the Park Office, the park employee remitting the collections did not wait for a receipt to be issued. Upon request, the clerk counted the funds, compared the collections to the tally sheet and issued a receipt for the dollar amount indicated on the tally sheet. She then indicated that overage would be retained in an envelope in the office until she could dispose of it. Upon inquiry she

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

indicated that all cash overages were handled; however, she could not produce an envelope with money held. Receipts from the Park Office tested to remittances to the Controller showed that collections received by the Park Office did not always agree to the tally worksheets; thus, actual collections were received by the Park Office and remitted to the Controller (overages were not held).

Concessions

Bottled beverages and snack foods, including hot dogs, are sold at concessions at the park locations. Items are purchased through Gordon Food Service, Hershey Creamery, and Pepsi, but inventory records are not maintained. A comparison of concession receipts to payments made to the concession vendors indicates approximately \$6,230 more was paid to these vendors than receipted. This is based upon extracting 11% of the golf receipts to concessions, as the golf and concessions at the golf course are commingled as golf receipts.

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)

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

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.

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PARK BOARD MINUTES

Minutes were not provided for several scheduled meetings of the Park and Recreation Board; furthermore, nothing was provided to indicate the meeting had been canceled.

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

1. Date, time, and place of the meeting;
2. Members present and absent;
3. The general substance of all matters proposed, discussed or decided; and

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

4. A record of all votes taken, by individual members if there is a roll call. The memoranda should be available to the public within a reasonable period of time after the meeting. [IC 5-14-1.5-4]

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

MARINA DIRECTOR'S FRINGE BENEFIT

In August of 2009, the Port Authority Board of Directors approved the marina director's wet slip and winter storage fees be waived since his boat is used to inspect the marina. For 2009, only the winter storage fee of \$1,239 was waived. Taxable fringe benefits were not reported on the director's Wage and Tax Statement (Form W-2) for the value of the service provided.

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

TICKET SALES (Applies Port Authority)

As stated in prior reports, 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.

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)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Compliance

We have audited the compliance of the City of East Chicago (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2009. 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 the Empowerment Zones Program regarding Activities Allowed, Allowable Costs, Cash Management, Period of Availability, Program Income, Reporting, nor were we able to satisfy ourselves as to the City's compliance with those requirements by other auditing procedures as described in item 2009-03.

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 the Empowerment Zones Program regarding Activities Allowed, Allowable Costs, Cash Management, Period of Availability, Program Income, Reporting, 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, 2009. 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 2009-04.

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 preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in items 2009-03 and 2009-04 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2009-03, to be 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, Common Council, Redevelopment Commissioners, Water Board, Sanitary District Board of Commissioners, Port Authority Board of Directors, 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

August 16, 2010

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

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 08-09 FY 09-10	\$ 203,499 <u>53,683</u>
Total for program			<u>257,182</u>
Pass-Through Indiana Department of Natural Resources Urban and Community Forestry Program	10.675	FY 09-10	<u>3,125</u>
Total for federal grantor agency			<u>260,307</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grants			
CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-180004 B-08-MC-180004	191,797 <u>697,110</u>
Total for cluster			<u>888,907</u>
HOME Investment Partnerships Program	14.239	M-03-MC-18210 M-04-MC-18210 M-05-MC-18210 M-06-MC-18210 M-07-MC-18210	31,276 75,000 8,399 115,541 <u>38,422</u>
Total for program			<u>268,638</u>
Pass-Through Gary/Hammond/East Chicago Empowerment Zone Empowerment Zones Program	14.244	Jet Prog 07-08 EZ-99-IN-0004	55,295 <u>870,635</u>
Total for program			<u>925,930</u>
Total for federal grantor agency			<u>2,083,475</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants			
Edward Byrne Memorial Formula Grant Program	16.579	Federal Forfeitures	21,255
Bulletproof Vest Partnership Program	16.607	FY08	8,340
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0343	<u>115,507</u>
Total for federal grantor agency			<u>145,102</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, 2009
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	STP-N845(007)	<u>14,591</u>
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit - Formula Grants	20.507	IN-90-489 IN-90-547 and 567	55,618 86,296
ARRA - Federal Transit - Formula Grants	20.507	IN-90-547 and 567	<u>180,324</u>
Total for cluster			<u>322,238</u>
Total for federal grantor agency			<u>336,829</u>
<u>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	FY00 FY02 5FPSLP0155 EECCN080020-09	5,135 9,744 1,256 <u>12,600</u>
Total for federal grantor agency			<u>28,735</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW19911002 DW19911003 2009A	1,639,185 56,925
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW19911003 2009	<u>221,386</u>
Total for program			<u>1,917,496</u>
Pass-Through Indiana Department of Environmental Management Beach Monitoring and Notification Program Implementation Grants	66.472	A305-9-266 FFY08	<u>14,214</u>
Total for federal grantor agency			<u>1,931,710</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health Public Health Emergency Preparedness	93.069	BPRS 193-6 Bio-Survey 5U90TP517024-09 (BPRS 193-9) 5U90TP517024-09 CRI 1H75TP000339-01	2,814 19,366 13,311 <u>73,512</u>
Total for federal grantor agency			<u>109,003</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant Assistance to Firefighters Grant	97.044	EMW-2008-F0-08348	<u>38,556</u>
Total federal awards expended			<u>\$ 4,933,717</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, 2009:

Program Title	Federal CFDA Number	2009
Community Development Block Grants/Entitlement Grants	14.218	\$ <u>112,840</u>

III. Subsequent Events

The City was awarded a \$350,000 and \$166,400 Highway Planning and Construction grant, financed with American Recovery and Reinvestment Act (ARRA) funds, through the Indiana Department of Transportation. The City has also been awarded a \$365,575 Community Development Block Grants/Entitlement Grants and \$559,073 Homeless Prevention and Rapid Re-Housing Program, financed with American Recovery and Reinvestment Act (ARRA) funds.

In addition, the City was awarded a \$1,900,000 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, through the Indiana Housing and Community Development Authority, from the Neighborhood Stabilization Program allowed by the Housing and Economic Recovery Act of 2008 (HERA).

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: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

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?	yes

Type of auditor's report issued on compliance for major programs: Unqualified for all programs except Empowerment Zones Program, 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
14.244	Empowerment Zones Program
	Federal Transit Cluster
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 2009-01, FINANCIAL TRANSACTIONS NOT RECORDED

In 2009, the City received \$6,300,000 of Redevelopment Commission Lake Front Redevelopment Area Tax Increment Revenue Bonds, Series 2009A proceeds. The revenue bond proceeds were disbursed in 2009 for the purchase of properties totaling \$5,370,540, to establish a \$630,000 Debt Service Reserve Fund, and for \$299,460 of issuance costs. A fund was not established by the City to record the receipt of the bond proceeds and subsequent disbursements; therefore, none of this activity was reflected in the official records of the City. However, the transactions were reported in the Annual Report prepared by the City Controller based upon the trustee account bank statements.

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

In addition, the City executed a loan agreement with Northtown Village Townhomes Limited Partnership (Northtown Village Townhomes) in 2007. In accordance with the loan agreement, the City was to loan Northtown Village Townhomes \$1,305,000 at an interest rate of 6%. The loan maturity date was to be twelve months after the closing date of the loan which was October 23, 2007. The first installment on the loan was paid by the City on October 25, 2007, in the amount of \$619,558. The next loan installment in the amount of \$380,442 was not made until October 6, 2008, just days prior to the date the loan was to be repaid. (The two installment payments made by the City to Northtown Village Townhomes did not agree to the loan amount indicated in the agreement dated October 25, 2007, of \$1,305,000.) Another loan agreement was provided indicating another loan was to be made to Northtown Village Townhomes in an amount not to exceed \$800,000; however, the next loan installment made by the City was in the amount of \$1,000,000 on November 21, 2008. The next loan agreement we were provided was from June 2010, and indicated Northtown Village Townhomes had received \$3,000,000 in loans for which repayments were being made in the amounts of \$550,000 and \$650,000. These repayments were then being applied to this new loan agreement in the amount of \$1,700,000. Neither the \$550,000 nor the \$650,000 loan repayments was recorded in the financial records of the City. Additionally, the interest due from the loan made in 2007 was not found to have been collected by the City.

We attempted to research the historical trail of the transactions between the City and Northtown Village Townhomes. Inquiries were made of City officials, available loan agreements and ledgers were reviewed, as well as claims paid by the City dating back to the initial 2007 loan origination date. We were unable to satisfy ourselves as to the accuracy and validity of the loan transactions.

Furthermore, the City has not established funds in their official records to record the proceeds and disbursements of State Revolving Loan Funds for the Water Utility. In 2009, the Water Utility disbursed \$4,242,915 in State Revolving Loan Funds. The financial activity is noted in Excel (commercial spreadsheet software), and the activity is reported on the Annual Report prepared by the City Controller.

Since the official records of the City do not reflect the above noted transactions, accounts payable vouchers or claims were not prepared or approved by their respective governing boards. The dollar amounts which bypassed the official recordkeeping process are material to the financial statements; thus, the City is lacking material financial compliance with laws and regulations of the City, as well as bypassing internal controls.

IC 5-11-10-2 (c) states: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

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

IC 5-11-1-2 states in part: "The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must comply with the following:

- (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe.
- (2) Exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individuals.
- (3) Show the receipt, use, and disposition of all public property and the income, if any, derived from the property.
- (4) Show all sources of public income and the amounts due and received from each source.
- (5) Show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction. . . ."

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

We recommended officials establish the appropriate funds and accounts within their financial accounting software to record all transactions processed by the City and its departments. By establishing the appropriate funds and accounts, purchase orders, claims and claim dockets will be produced, so disbursements can be properly reviewed and approved by the appropriate governing board prior to payments being made.

FINDING 2009-02, AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

In 2009, the City was awarded a \$1,120,105 COPS Hiring Recovery Program grant from the U.S. Department of Justice. Per the grant terms and conditions, the federal agency notified the City the grant was funded through the American Recovery and Reinvestment Act of 2009 (ARRA). The City agreed to comply with the extensive accountability and transparency requirements on the use of ARRA funds. The City agreed to maintain accounting systems and records that adequately track and account for all ARRA funds separately from all other funds. The 2009 federal receipts and disbursements activity for the ARRA grant were accounted for through the General Fund of the City and not a separate grant fund.

Failure to maintain official records that track the source (receipts) and application (disbursements) of each ARRA grant individually may hinder the City's ability to provide accountability and transparency for federal awards.

2 CFR 176.210 states in part: "The award term described in this section shall be used by agencies to clarify recipient responsibilities regarding tracking and documenting Recovery Act expenditures:

- (a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds."

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

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 officials implement procedures to maintain records that adequately track and account for all funds from the American Recovery and Reinvestment Act of 2009 separately from all other funds.

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-03, ACTIVITIES ALLOWED, ALLOWABLE COSTS, CASH MANAGEMENT
PERIOD OF AVAILABILITY, PROGRAM INCOME AND REPORTING

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Empowerment Zones Program

CFDA Number: 14.244

Award Number: EZ-99-IN-0004

Pass-through Agency: Gary/Hammond/East Chicago Empowerment Zone (Empowerment Zone)

On October 19, 2007, the City receipted \$870,635.26 from the Empowerment Zone. The receipt was posted to the Cumulative Capital Improvement Fund as a federal grant. City officials indicated the Empowerment Zones' federal grant received in 2007 was a partial funding source for the \$1,000,000 disbursement from the Cumulative Capital Improvement Fund to Northtown Village Townhomes Limited Partnership on February 6, 2009. The \$1,000,000 was the third installment of a \$3,000,000 loan made by the City to Northtown Village Townhomes Limited Partnership. City officials did not report the portion of the loan disbursed from the Empowerment Zone funds on their Schedule of Federal Expenditures.

In addition, officials could not provide any type of agreement between the City and the Empowerment Zone which would define the terms of the grant. Such an agreement would be necessary to identify the federal grantor agency, the Catalog of Federal Domestic Assistance (CFDA) number, the allowable activities for the grant funds (activities allowed and allowable costs), a timeline on the use of the funds (period of availability), and any reporting requirements.

Because officials could not provide an agreement on the Empowerment zone grant funds, we could not determine if funds were spent on allowable activities or if loans were considered allowable costs under the grant. Furthermore, we could not determine the type or frequency of any reporting requirements.

Based upon information provided on the U.S. Department of Housing and Urban Development's website, we were able to determine the federal agency and the CFDA number. City officials did approve to adjust the Schedule of Federal Expenditures to include the grant activity.

Based upon federal grant guidelines, federal funds which are advanced should be accounted for separately, and spent to ensure minimum time elapsing. Also, any interest earned on held funds should be remitted to the federal agency. The City did not compute interest earned over the fifteen months the City held the money, and none of the interest income was accumulated in the Cumulative Capital Improvement Fund.

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

City officials indicated they were in contact with the Empowerment Zone and their own Department of Redevelopment in attempts to provide an agreement for the grant funds. They also stated that it was their intent to spend the funds quickly; however, the declining economy placed the project on hold until 2009.

24 CFR Section § 85.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

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

- (7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

24 CFR § 85.37 states:

"(a) *States.* States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

- (1) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;
- (2) Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;
- (3) Ensure that a provision for compliance with §85.42 is placed in every cost reimbursement subgrant; and
- (4) Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.

(b) *All other grantees.* All other grantees shall follow the provisions of this part which are applicable to awarding agencies when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. Grantees shall:

- (1) Ensure that every subgrant includes a provision for compliance with this part;
- (2) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations; and
- (3) Ensure that subgrantees are aware of requirements imposed upon them by Federal statutes and regulations."

24 CFR § 85.21 states in part:

"(a) This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

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

(b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.

(c) *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee."

24 CFR § 85.25 states in part:

"(a) *General.* Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them.

(b) *Definition of program income.* Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. *During the grant period* is the time between the effective date of the award and the ending date of the award reflected in the final financial report."

We recommended that officials establish proper procedures and controls to account for federal funds received and disbursed. Such procedures and controls should ensure separately accounting for federal funds, and maintaining all reports, agreements and records pertaining to the grant. Furthermore, officials should contact the Empowerment Zone to determine how the repayment on the loan should be handled as well as the collection of any interest.

FINDING 2009-04, REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Award Numbers: B-07-MC-18-0004, B-08-MC-18-0004

Quarterly Federal Cash Transactions Reports are required to be submitted to the U.S. Department of Housing and Urban Development. The quarterly reports were due on April 21, July 22, and October 21, 2009, and January 22, 2010; however, the City submitted all four quarterly reports on May 26, 2010. Officials have not established procedures to ensure timely submission of required reports.

24 CFR 85.41(c) states in part:

"Federal Cash Transactions Report - (1) Form. (i) For grants paid by letter or credit, Treasury check advances or electronic transfer of funds, the grantee will submit the Standard Form 272, Federal Cash Transactions Report, and when necessary, its continuation sheet,

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

Standard Form 272a, unless the terms of the award exempt the grantee from this requirement. (ii) These reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees. The format of the report may be adapted as appropriate when reporting is to be accomplished with the assistance of automatic data processing equipment provided that the information to be submitted is not changed in substance. . . .

(4) Frequency and due date. Grantees must submit the report no later than 15 working days following the end of each quarter."

Failure to comply with the timely submission of required reports could cause the City to be ineligible for future federal awards.

We recommended officials establish procedures to ensure the timely submission of required reports.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. • East Chicago, Indiana 46312

George Pabey
Mayor

Charles Pacurar
City Controller
(219) 391-8220

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

In the 2008 audit the Department of Redevelopment was cited for its lack of timeliness in presenting requested documentation and for a lack of cooperation with auditors. The Department of Redevelopment has made the current audit a priority and has tried to ensure that all documents were submitted to the auditors in a timely fashion.

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

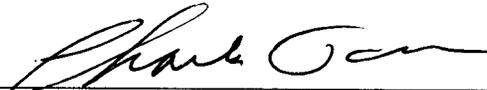
Pass-Through Entity: N/A

Auditee Contact Person: Charles Pacurar

Title of Contract Person: City Controller

Phone Number: (219) 391-8220

In the 2008 audit the City of East Chicago was cited for having vacant units listed on the HOME Participating Jurisdictions Vacant Units Report. Currently, the City is still working with HUD regarding the list of vacant properties.

Signed 

Date: 6-29-10



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 2009-01 FINANCIAL TRANSACTIONS NOT RECORDED

The City of East Chicago will submit all transactions associated with the 2009 Lake Front Redevelopment Area Tax Increment Revenue Bonds to the Redevelopment Commission for approval.

The City of East Chicago is currently working with Northtown Village Townhomes Limited Partnership to clarify the loan agreements and to record all transactions.

The City of East Chicago will begin to record the State Revolving Loan Fund activity in a Water Department Construction Fund.

FINDING 2009-02 AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Beginning September 1, 2010, the City of East Chicago will account for the COPS Hiring Recovery Program grant in the Local Law Enforcement Grants Fund (Fund 0276).

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-03 ACTIVITIES ALLOWED, ALLOWABLE COSTS, CASH MANAGEMENT, PERIOD OF AVAILABILITY, PROGRAM INCOME AND REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Empowerment Zones Program
CFDA Number: 14.244
Award Number: EZ-99-IN-0004
Pass-through Entity: Gary/Hammond/East Chicago Empowerment Zone

Auditee Contact Person: Charles Pacurar
Title of Contact Person: City Controller
Phone Number: (219) 391-8220

The City of East Chicago will work with the Empowerment Zone to clarify the grant agreement, as well as, the repayment of the loan and any interest due.

FINDING 2009-04 REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Award Numbers: B-07-MC-18-0004, B-08-MC-18-0004
Pass-through Entity: N/A
Auditee Contact Person: Charles Pacurar
Title of Contact Person: City Controller
Phone Number: (219) 391-8220

Effective immediately, the Department of Redevelopment will be required to submit documentation to the City Controller's Office at the end of each quarter verifying that required reports have been filed in a timely manner.

Signed: 

Date: 8-24-10

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on August 24, 2010, with Charles Pacurar, Controller; Kim Anderson, Deputy Controller; John Artis, Executive Director of Redevelopment; Augusto Flores, President of the Redevelopment Board; Richard Novak, Port Authority Director; Milton Reed Jr., President of the Port Authority Board; George Pabey, Mayor; and Richard Medina, President of the Common Council. The contents of this report were also discussed on August 25, 2010, with Aldolf Velez, Utilities Director; Ralph Fabbri, President of the Sanitary District Board of Commissioners; William Biller, Utilities Consultant; Brian Marciniak, Director of the Water Utility; Maria Dedinsky, Water Utility Office Manager; and John Bakota, President of the Water Utility. The official response has been made a part of this report and may be found on pages 92 through 98.



George P. Paboy
MAYOR

CITY OF EAST CHICAGO

EAST CHICAGO WATER DEPARTMENT

400 E. CHICAGO AVENUE
EAST CHICAGO, INDIANA 46312
OFFICE: 219-391-8468 FAX: 219-391-8499

September 7, 2010

Indiana State Board of Accounts
302 West Washington; Suite E418
Indianapolis, IN 46204

Please find below, the responses from the East Chicago Water Department/Sanitary District for the recent audit performed by the State Board of Accounts.

FINANCIAL TRANSACTIONS NOT RECORDED

The Water Utility agrees that the proceeds and disbursements of the State Revolving Loan Funds should be recorded in the Utility. The Water Utility will work with the Controller's Office to establish funds and to record the activity for past events. Once the funds are established by the Controller's Office, the Utility will also start to issue purchase orders.

The Water Department has taken steps to have the Board approve all prior SRF claims and current claims when issued.

INTERNAL CONTROLS AT WATER UTILITY AND SANITARY DISTRICT

A1, A2, A3. Customer deposits: This has been an ongoing area of concern for some time. The Utility has been working with the Controller's office to solve this problem. Controller's personnel have been working with MUNIS [billing software provider] to resolve the recording of customer deposits and refunds. The Water Utility will take a more active role to resolve during 2010. Customer meter deposits: The transfer of funds between bank accounts is a responsible of the controller's office.

A4. Customer refunds not approved by Board: The Water Board began to approve the refunds as of January 2010.

B. Aging reports: Both the Utility and District agrees that the detail aging should agree. It's been the practice that all account reconciliations have been perform by the Controller's office. During 2010 the Utility, District and Controller's office will take steps to start monthly reconciliations of the detail and control account.

C. Reconciliation of Sales Taxes Payable Account: Reconciliations have historically been the responsibility of the Controller's office. The Water Utility does not have access to the detail accounting information to be able to handle the reconciliation at this time. Additionally, the Sales Tax is remitted on a cash basis, not an accrual basis. The Sales Taxes Payable Account does not reflect sales tax received, rather sales tax billed.

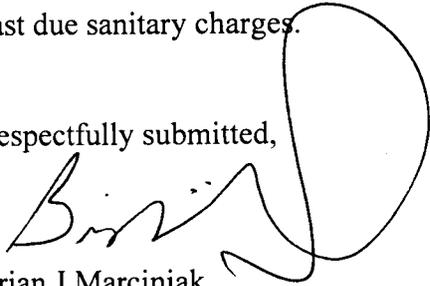
DELINQUENT WATER AND WASTEWATER ACCOUNTS

The Water Utility is aware of Resolution WD-03-01 and will follow said resolution. In July 2010 the Water Utility Board authorized the writing off of accounts for the period of 1985 – 2004 that were uncollectible.

The Water Utility is reviewing a contract for the collection of past due water and sanitary charges.

The Sanitary District at present is in discussion to have a company handle the filing of lien on past due sanitary charges.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brian J. Marciniak". The signature is written in a cursive style and is positioned to the right of the typed name below it.

Brian J Marciniak
Director of Waterworks

City of East Chicago
Audit Responses
For the Year Ended December 31, 2009

FINANCIAL TRANSACTIONS NOT RECORDED

All transactions associated with the 2009 Lake Front Redevelopment Area Tax Increment Revenue Bonds will be submitted to the Redevelopment Commission for approval.

In an effort to clarify the loan transactions between the City of East Chicago and Northtown Village Townhomes Limited Partnership please see the attached letter.

The City will begin to account for the State Revolving Loan Fund activity in a Water Department Construction Fund.

REDEVELOPMENT TAX INCREMENT FINANCING (TIF) RECEIPTS AND DISBURSEMENTS

The City will establish the necessary funds to account for each TIF district separately.

CUMULATIVE CAPITAL IMPROVEMENT FUND ACTIVITY

The City will work with the Empowerment Zone to clarify the grant agreement as well as the repayment of the loan and any interest due.

ANNUAL REPORT

The City ran into delays when completing the annual report, in the future the City will make every attempt to file it on time.

TEMPORARY LOANS BETWEEN FUNDS

The loan from Special Gaming Revenue Fund and the Marina Fund was repaid before the June 30, 2010 due date. The money was wired into the City's bank account in June however the transaction could not be recorded until the next regularly scheduled Port Authority meeting which was held in July.

NEGATIVE CASH BALANCES

Negative cash balances are the result of 2009 property tax revenues not being received until 2010, grant funds which are on a reimbursement basis and funds that have accounts receivables due.

PUBLIC WORKS PROJECTS

The City is working on developing a purchasing policy which will replace the existing ordinance.

The Board of Public Works and Safety will begin to obtain 3 quotes for any public works projects over \$25,000.

ACCOUNTS PAYABLE VOUCHERS

The Controller's Office will require original documentation for all future credit card reimbursements.

Erroneously the individual responsible for reporting the Council per diem amounts forgot to provide the numbers for inclusion on the W-2. This individual has been instructed to properly account for all future per diem transactions.

Elected Officials have been informed of the promotions guidelines so that in the future they may abide by them.

The Controllers Office has made significant improvements in the contract monitoring process and will continue to make necessary corrections.

Until the City's cell phone policy is changed, all reimbursements will be included as taxable income.

DISBURSEMENTS EXCEED APPROPRIATIONS

The funds cited for overspending their appropriations have the State Circuit Breaker payments withheld directly from their property tax distributions; however the Department of Local Government Finance does not allow the City to budget for the Circuit Breaker payment within these funds. The City is recording this transaction as a disbursement causing the appropriations of these funds to be overdrawn. If the City does not record this transaction as a disbursement property tax collections in these funds would be understated.

PAYROLL INCONSISTENCIES

The City is working with the payroll software vendor to correct the longevity calculation errors.

The various boards within the City will be instructed to forward their salary resolutions to the Common Council for approval.

In 2009 the Common Council approved the Elected Officials Salary Ordinance for 2010.

COMPENSATION OF ELECTED OFFICIALS

The City checked with the State Board of Accounts auditor on site before implementing the salary reduction of elected officials. It was agreed that the Elected Official Salary Ordinance could not be reduced but that the Elected Officials could voluntarily forego a portion of their compensation by making a written request.

The language in Ordinance 06-0047 was inadvertently omitted from the 2010 Elected Officials Salary Ordinance (09-0028).

HEALTH INSURANCE FOR TEAMSTERS MEMBERS

The City has advised the Teamsters Union that members must begin to pay a portion on their insurance premiums. The percentage has yet to be determined.

CONFLICT OF INTEREST DISCLOSURE STATEMENTS

The Director of Personnel has been instructed to obtain conflict of interest statements from all employees who have spouses or children employed by the City.

ECONOMIC DEVELOPMENT COMMISSION

The Economic Development Commission will be instructed to organize annually.

INTERNAL CONTROLS-PARK DEPARTMENT

The Controller's Office will work with the Park Department to ensure that proper internal controls are in place.

August 23, 2010



The Community Builders, Inc.

1 N. LaSalle St., Suite 1200
Chicago, IL 60602
Office: 312-697-6164
Fax: 312-348-7260
www.cbbinc.org

www.cbbinc.org

Patrick E. Clency
President & CEO

To whom it may concern:

This letter clarifies city loans made to Northtown Village Townhomes I (NVT I) and Northtown Village Townhomes II (NVT II). In summary, \$3,500,000 was loaned by the City of East Chicago for the construction of 125 townhomes and apartments, and 6200 sq ft of commercial space, including a community meeting space. NVT I is 75 townhomes and apartments. NVT II is 50 townhomes and apartments, and 6200 sq ft of commercial space. The two phases of development represent the first residential phases of the North Harbor Revitalization Initiative.

The general confusion and concern regarding the City loans centers on a \$3,000,000 loan made to NVT I, of which \$1,200,000 was reallocated to NVT II. In 2008, the City committed \$1,305,000 to NVT I as a predevelopment loan. But then in the middle of the equity market crisis additional funding was required and the final City loan was increased to a total of \$3,000,000 so that NVT I could move forward. Then in 2009, after NVT I construction had already begun, additional funding sources were awarded by the state to NVT I. This allowed NVT I to repay the City \$1,200,000 and reduce its outstanding loan to \$1,800,000. At the same time pre-development for NVT II was taking place. The City reallocated the \$1,200,000 payment from NVT I to a loan commitment for NVT II. The total loan to NVT II is \$1,700,000 and represents the \$1,200,000 reallocation of NVT I funds and an additional \$500,000 in City funds.

It is important to understand that the confusion is due in part to the ability of NVT I to reduce its debt to the City by taking advantage of additional state funding. While this has created some confusion, it also reduced the overall costs to the City of East Chicago.

Below is a more detailed outline of City loan transactions that took place for NVT I and NVT II.

Northtown Village Townhomes I (NVT I) Loan

1. City made a pre-development loan commitment for up to \$1,305,000 in Oct. '07. (Attachment 1)
 - a. \$619,558 was advanced and deposited into the NVT I account in Nov. '07.
2. City increases the loan amount and made a total loan commitment to NVT I for \$3,000,000 in Sept. '08.
 - a. \$380,442 was advanced by the City (check date 10/8/08) and deposited into the NVT I account in Oct. '08.
 - b. \$1,000,000 was advanced by the City (check date 11/28/08) and deposited into the NVT I account in Dec. '08.
 - c. \$1,000,000 was advanced by the City (check date 2/12/09) and deposited into the NVT I account in Apr. '09.
3. The Total amount deposited into the NVT I deposit is \$3,000,000 (Attachment 2)
 - a. \$550,000 was repaid to the City (wire transfer on 7/9/09) in Jul. '09. And then was loaned to NVT II as part of the City's predevelopment loan to NVT II.
 - b. \$650,000 was repaid to the City (wire transfer on 6/08/10) in Jun. '10. And then was loaned to NVT II as part of the City's loan to NVT II.

Northtown Village Townhomes II (NVT II) Loan

1. City made a predevelopment loan commitment for up to \$800,000 in Jun. '09. (Attachment 3)
 - a. \$550,000 was advanced by the City in Jul. '09. (This was a reallocation of the NVT I repayment to the City)
2. City made a total final loan commitment to NVT II for \$1,700,000 in Jun. '10. (Attachment 4)
 - a. \$500,000 was advanced by the City in Jun. '10. (This was new City funding for NVT II)
 - b. \$650,000 was advanced by the City in Jun. '10. (This was a reallocation of the NVT I repayment to the City)

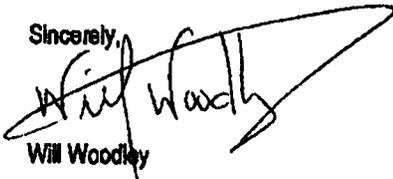
The loan agreements for all the above mentioned loans are attached to this letter. Evidence of all the transactions described are evidenced in the attached ledger (Attachment 5).

I hope that this letter along with its attachments clarify all concerns regarding the accuracy and validity of the loan transactions. NVT I and NVT II are important developments in the overall revitalization of the North Harbor community. Because of the market equity crisis, NVT I originally required a total loan commitment of \$3,000,000. Then additional state funding became available and NVT I was able to repay \$1,200,000 and reduce its outstanding loan balance to \$1,800,000. The City then reallocated that \$1,200,000 to NVT II and also provided an additional \$500,000 to NVTII. These are significant funding commitments from the City of East Chicago and we appreciate its dedication to the North Harbor's revitalization. As we continue into future phases of revitalization we will continue to work with the City to ensure that all financial transactions are properly recorded.

During this review of financial records The Community Builders, Inc has also become aware that interest due for NVT I's \$1,305,000 predevelopment loan was not paid. It appears that this interest due was not accounted for in the transfer from the \$1,305,000 predevelopment loan to the \$3,000,000 permanent loan. The Community Builders, Inc is now moving forward to correct this issue and repay all interest due for this predevelopment loan.

If there are any questions or concerns, please do not hesitate to contact me at 312-697-6164.

Sincerely,



Will Woodley

Project Manager
The Community Builders, Inc