

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

EXAMINATION REPORT
OF

EAST CHICAGO WATERWAY
MANAGEMENT DISTRICT
LAKE COUNTY, INDIANA

January 1, 2007 to December 31, 2009



FILED
12/14/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	(Vacant) Fernando Trevino	01-01-07 to 07-19-07 07-20-07 to 12-31-10
Fiscal Officer	Charles Pacurar	01-01-07 to 12-31-10
President of the Board	Ernest Jones	01-01-07 to 12-31-10



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE EAST CHICAGO WATERWAY
MANAGEMENT DISTRICT, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of the East Chicago Waterway Management District (District), for the period of January 1, 2007 to December 31, 2009. The District's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the District for the years ended December 31, 2007, 2008, and 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

August 3, 2010

EAST CHICAGO WATERWAY MANAGEMENT DISTRICT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL FUND TYPES
As Of And For The Years Ended December 31, 2007, 2008, And 2009

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 98,723	\$ 13,805	\$ 73,179	\$ 39,349
ECI Facilities Trust	<u>9,022,490</u>	<u>564,486</u>	<u>38,560</u>	<u>9,548,416</u>
Totals	<u>\$ 9,121,213</u>	<u>\$ 578,291</u>	<u>\$ 111,739</u>	<u>\$ 9,587,765</u>
	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ 39,349	\$ 453,740	\$ 304,151	\$ 188,938
ECI Facilities Trust	<u>9,548,416</u>	<u>2,386,077</u>	<u>2,463,148</u>	<u>9,471,345</u>
Totals	<u>\$ 9,587,765</u>	<u>\$ 2,839,817</u>	<u>\$ 2,767,299</u>	<u>\$ 9,660,283</u>
	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 188,938	\$ 279,177	\$ 377,351	\$ 90,764
ECI Facilities Trust	<u>9,471,345</u>	<u>51,164</u>	<u>2,788,196</u>	<u>6,734,313</u>
Totals	<u>\$ 9,660,283</u>	<u>\$ 330,341</u>	<u>\$ 3,165,547</u>	<u>\$ 6,825,077</u>

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

EAST CHICAGO WATERWAY MANAGEMENT DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District oversees the management, cleanup, development, and future planning of the waterways in the Indiana Harbor Ship Canal in Lake County, Indiana.

The District was created to manage and supervise the industrial, commercial, and recreational development of the waterways in East Chicago. The District has been coordinating the construction of the confined disposal facility (CDF) which is being constructed by the U.S. Army Corps of Engineers on property that once was a petroleum refinery. The CDF is being constructed to hold contaminated sediments dredged from the Indiana Harbor and Ship Canal.

Note 2. Fund Accounting

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

Note 3. Budgets

The operating budget is initially prepared at the local level but approved by Indiana Department of Environmental Management.

Note 4. Deposits and Investments

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

State statute (IC 5-13-9) authorizes the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units

EAST CHICAGO WATERWAY MANAGEMENT DISTRICT
NOTES TO FINANCIAL INFORMATION
(Continued)

The District financial statements include the activity of a trust account. The trust account was established under a Chapter 11 voluntary bankruptcy petition filed by Energy Cooperative Incorporated (ECI). ECI owned and operated a petroleum refinery along the waterway. The U.S. Environmental Protection Agency required the trust account to be established to clean up the ECI site. The EPA designated the East Chicago Water Management District as trustee, with Harris Bank as the custodian. The funds in the account are invested in U.S. obligations. They are reported in the financial statements at market value.

The custodian purchases certificates of deposit through the Harris Bank Certificate Depository Automated Receipts Services (CDARS). The purchases and sales of the certificates were eliminated from the activity of the trust.

Note 5. Army Corps of Engineers

The East Chicago Waterway Management District is the local sponsor that will help the U.S. Army Corps of Engineers dredge the Canal's Federal Navigation Channel and construct a proposed confined disposal facility (CDF). The 30-year project has an estimated cost of \$150 million. It involves dredging 4.6 million cubic yards of contaminated sediment from the harbor and canal and permanently storing the material in a disposal facility. The Army Corps has determined the local debt to be \$3.6 million. Dredging is scheduled to begin in 2011.

Note 6. Subsequent Event

In accordance with IC 8-10-9-8, the District Board adopted a resolution on August 20, 2008, to institute user fees for the use of waterways within the District. The fee is paid by property owners along the canal based on location or operating access to the canal. The East Chicago Waterway Management District began collecting user fees in 2010. The fees were due April 1, 2010. As of August 6, 2010, \$87,204.00 has been collected. The fees could net the Waterway Management district as much as \$500,000 per year.

EAST CHICAGO WATERWAY MANAGEMENT DISTRICT
EXAMINATION RESULTS AND COMMENTS

TRANSACTION RECORDING

The activity of the ECI Facilities Trust Fund is not recorded in the accounting records of the District, nor was the activity reported on the Special District Annual Report. The activity reported was abstracted from the trust statements provided for examination.

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 Special Districts, Chapter 10)

ITEMS NOT PRESENTED

The following policies and/or records were not presented for examination:

Capital Asset Records:

A formal written capitalization policy.

Detailed records of capital asset purchases and disposals.

A complete inventory of capital assets.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records.

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 16)

EAST CHICAGO WATERWAY MANAGEMENT DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on August 24, 2010, with Fernando Trevino, Executive Director; and Ernest Jones, President of the Board. The official response has been made a part of this report and may be found on page 9.



September 2, 2010

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2765

Subject: "OFFICIAL RESPONSE" by East Chicago Waterway Management District

To Whom It May Concern:

The East Chicago Waterway Management District (ECWMD) has received and reviewed the audit examinations results presented by the State Board of Accounts on August 24, 2010. The ECWMD plans to meet and resolve the issues referenced in the report in the near future. At minimum, we expect the changes to be implemented within our next budget year in 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Ernest Jones", is written over a light blue horizontal line.

Ernest Jones
President
East Chicago Waterway Management District

Cc: ECWMD Board of Directors
Attorney Carmen Fernandez
Steve West – Indiana Department of Environmental Management
Fernando M. Trevino – FMT Consulting, Inc.