

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

ANNUAL FINANCIAL REPORT

2010

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA



FILED
09/07/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Charles Pacurar Kimberly Anderson (Interim)	01-01-10 to 06-10-11 06-11-11 to 12-31-11
Mayor	George Pabey Charles Pacurar (Interim) Anthony Copeland	01-01-08 to 09-24-10 09-25-10 to 10-15-10 10-16-10 to 12-31-11
President of the Board of Public Works and Safety	Charles Pacurar	01-01-10 to 12-07-10
President of the Board of Public Works	Charles Pacurar Val Gomez	12-08-10 to 03-30-11 03-31-11 to 12-31-11
President of the Common Council	Richard Medina Adrian Santos	01-01-10 to 12-31-10 01-01-11 to 12-31-11
President of the Redevelopment Commission	Augusto Flores	01-01-10 to 12-31-11
Utilities Director	Adolfo Velez Peter Baranyai (Interim)	01-01-10 to 10-22-10 10-23-10 to 12-31-11
Water Utility Superintendent	Brian Marciniak	01-01-10 to 12-31-11
President of the Water Board	John Bakota	01-01-10 to 12-31-11
President of the Sanitary District Board of Commissioners	Ralph Fabbri	01-01-10 to 12-31-11
President of the Storm Water Board	Jose Garza Terrance Lay Anthony Galindo	01-01-10 to 12-31-10 01-01-11 to 02-23-11 02-24-11 to 12-31-11
Port Authority Director	Richard Novak Ruben Ramos (Interim)	01-01-10 to 10-24-10 10-25-10 to 12-31-11
President of the Port Authority Board of Directors	Milton Reed	01-01-10 to 12-31-11



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

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

We have audited the accompanying financial statement of the City of East Chicago (City), for the year ended December 31, 2010. This financial statement is the responsibility of the City's management. Our responsibility is to express opinions on this financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated July 21, 2011, 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 an opinion on the City's financial statement. 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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, 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 financial statement 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.

This report is intended solely for the information and use of the City's management, Common Council, Board of Public Works, Redevelopment Commissioners, Water Board, Sanitary District Board of Commissioners, Storm Water Board, 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

July 21, 2011



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

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

We have audited the financial statement of the City of East Chicago (City), for the year ended December 31, 2010, and have issued our report thereon dated July 21, 2011. 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 opinion on the financial statement, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01 to be material weaknesses.

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)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01.

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, Board of Public Works, Redevelopment Commissioners, Water Board, Sanitary District Board of Commissioners, Storm Water Board, 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

July 21, 2011

FINANCIAL STATEMENT

CITY OF EAST CHICAGO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments		Cash and Investments	
	01-01-10	Receipts	Disbursements	12-31-10
General	\$ (3,654,702)	\$ 45,674,824	\$ 46,300,860	\$ (4,280,738)
Motor Vehicle Highway	1,666,674	872,065	838,229	1,700,510
Local Road And Street	196,353	285,673	294,548	187,478
Health Maintenance	101,399	162,676	251,382	12,693
General Adult Probation	106,741	19,812	9,160	117,393
Economic Development Operating	2,684,473	6,999,429	5,721,504	3,962,398
Public Transportation	148,728	1,180,552	1,248,440	80,840
Federal Grants	(42,415)	568,416	645,387	(119,386)
Redevelopment	45,353	3,440,406	3,221,765	263,994
Law Enforcement Continuing Education	44,122	30,686	50,232	24,576
Clerk's Records Perpetuation	-	1,160	-	1,160
Unsafe Building	47,294	53,273	175	100,392
Riverboat	6,541,741	20,686,662	23,737,251	3,491,152
State Grants	(55,781)	798,483	751,184	(8,482)
Parks And Recreation Operating	(917,337)	2,921,744	2,748,415	(744,008)
Local Grants	210,763	109,390	107,931	212,222
Local Law Enforcement Grants	-	87,514	112,780	(25,266)
Levy Excess City	-	116,572	-	116,572
SSED Revolving Loans	308,891	1,516	-	310,407
Summer Youth Training Program	-	323,280	323,280	-
Property Improvement	6,000	-	-	6,000
Police Federal Forfeitures	(2,008)	40,192	15,000	23,184
Damage To City Property	70,474	2,095	-	72,569
Railroad Relocation	762,691	159,852	91,865	830,678
Vital Records	117,540	61,796	83,769	95,567
City Court Programs	92,241	15,843	26,438	81,646
Judgment Bonds Proceeds	133,887	-	-	133,887
Petty Cash	1,906	6,727	6,300	2,333
EC/Gary/Hammond Revolving Loan Fund Consortium	235,252	12,384	-	247,636
Redevelopment Rehabilitation Escrow	10,343	517,378	525,115	2,606
Lease Rental Payment	(893,186)	3,444,840	2,665,279	(113,625)
TIF Revenue Bonds Debt Service Reserve	630,015	1,567	-	631,582
Park District Bonds	(47,672)	47,672	-	-
Cumulative Capital Development	74,541	-	-	74,541
Fire Equipment	21,962	-	-	21,962
Park Bond Proceeds	306,537	-	306,537	-
Cumulative Capital Improvement	589,318	94,907	137,194	547,031
Capital Projects Construction	114,009	-	2,803	111,206
Self-Insurance	(1,398,247)	9,382,811	9,017,716	(1,033,152)
Communications Revolving	(126,332)	305,374	309,481	(130,439)
Gasoline Revolving	(74,670)	836,614	1,001,154	(239,210)
Police Pension	534,485	3,568,846	3,939,560	163,771
Fire Pension	299,433	2,641,623	3,031,563	(90,507)
EC Redevelopment Trust	396,106	582	308,060	88,628
City And Town Court Costs	-	37,603	35,431	2,172
Withholding	(401)	64,351,720	64,352,911	(1,592)
PERF	1,006,631	4,128,591	4,145,802	989,420
Health Insurance	23,680	2,580,806	2,578,620	25,866
Miscellaneous Employee Insurance	49,885	1,985	880	50,990
EC Property Tax Credit	219,598	-	-	219,598
Insurance Administration	108	298,344	297,185	1,267
Northwest Indiana Health Department Cooperative	42,303	1,223,438	1,223,275	42,466
Waterway Management District	90,764	414,115	194,799	310,080
Worker's Compensation	2,828	143,644	143,505	2,967
City Clerk	644,514	833,064	836,320	641,258
EC Marina	8,711	1,790,661	1,772,364	27,008
EC Marina Petty Cash	8,844	27,984	28,018	8,810
Utilities Revolving	-	718,476	718,476	-
Sanitary State Revolving	38,683	-	-	38,683
Solid Waste Operating	3,217,436	6,398,574	10,350,144	(734,134)
Solid Waste Bond And Interest	127,047	570,947	843,000	(145,006)
Solid Waste Revolving	1,904,411	193,750	-	2,098,161
Solid Waste Levy Excess	-	34,374	-	34,374
Storm Water Utility Operating	-	215,565	215,509	56
Wastewater Utility Operating	1,610,434	5,303,489	5,606,422	1,307,501
Wastewater Utility Replacement	157,432	325,001	233,962	248,471
Water Utility Operating	150,975	5,560,094	6,024,143	(313,074)
Water Utility Bond And Interest	1,041,854	1,395,253	1,397,340	1,039,767
Water Utility Replacement	558,223	66,560	13,897	610,886
Water Utility Customer Deposit	329,490	469	19,507	310,452
Water Utility Construction	7,816,665	21,938,317	24,694,961	5,060,021
Water Utility Change Fund	500	-	-	500
Water Utility Debt Reserve	1,129,269	250,483	-	1,379,752
Water Utility Grants	-	3,000,000	3,000,000	-
Water Utility Bond And Interest SRF09	-	2,138,989	-	2,138,989
Totals	\$ 29,466,806	\$ 229,417,532	\$ 236,556,828	\$ 22,327,510

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

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT

Note 1. 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 some or all of 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, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City (primary government), and does include financial information for any of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the City (primary government).

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

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

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize the City 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.

Note 5. Risk Management

The City may be 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.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement and replacement items purchased.

Note 6. Pension Plan(s)

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (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 members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan 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.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan 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.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under Indiana Code 5-10.3-11.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

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

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

Funding Policy

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

Note 7. Subsequent Events

Federal Grant Awards

On February 1, 2011, the City of East Chicago and the entire State of Indiana experienced a major winter storm or snow blizzard. The City incurred \$485,367 in additional costs for emergency protective measures. The City has requested from the Federal Emergency Management Agency (FEMA) reimbursement of these additional costs as eligible disbursements. As of June 30, 2011, the City has not received any reimbursement from FEMA.

Short Term Debt -- Loans Between Funds

Due to a delay in collecting revenue from water customer billing and marina slip rentals, the City made temporary loans between funds during 2009. These loans were not repaid during 2010. There were two outstanding loans between funds totaling \$900,000 as of December 31, 2010. The repayment of these temporary loans between funds was extended on December 16, 2010, by the Sanitary District Board of Commissioners after determining that an emergency existed. The new repayment due date is June 30, 2011.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

Short Term Debt – Tax Anticipation Warrants

Due to the delay in receiving general property tax distributions, the City issued tax anticipation warrants during 2010. There was \$8,299,343 in outstanding tax anticipation warrants in the General, Lease Rental Payment, and Parks and Recreation Funds as of December 31, 2010. These were repaid on January 25, 2011 with \$13,544 in interest.

On January 4, 2011, the City issued tax anticipation warrants for 2011 totaling \$14,767,965 in the General, Lease Rental Payment, and Parks and Recreation Funds. Principal of \$6,076,863 is due on June 30, 2011 and \$8,691,102 is due on December 30, 2011. The interest rate on these tax anticipation warrants is 2.76%.

Reassessment and Property Taxes

Due to errors in assessments of Calumet Township, 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 until August, 2010. A similar situation occurred in the prior two years. The County issued a provisional billing due May 10, 2010, based upon the 2008 pay 2009 tax rates. The final reconciliation billing with the tax rates for 2009 pay 2010 was due November 30, 2010. Distribution of the final settlement was received by the City on January 20, 2011. This situation has hampered the City's ability to appropriately budget and expend funds and has forced the City to extensively borrow between funds and issue tax anticipation warrants in anticipation of tax revenues.

Scheduled Unpaid Leave

On January 7, 2011, the Mayor signed Executive Order No. 11-01 establishing unpaid leave for full time employees, with the exception of certain public safety employees, in order to reduce the operating budget for 2011. By and through the Executive Order, full-time employees were ordered to take twelve scheduled unpaid leave days throughout 2011.

Note 8. Indiana Harbor Revitalization Project

The Community Builders, Inc. (TCB), Hispanic Housing Development Corp. (HHDC), and EDWA 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.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

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).

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

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

Note 9. 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, 2010, the City has drawn \$15,505,373, which leaves \$1,094,627 remaining to be drawn.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

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. In 2009, the project was increased by \$8,750,000 through a forgivable loan (see paragraph 3 below) and money from the Economic Development Commission Fund (see paragraph 4 below), making the total project \$35,950,000. As of December 31, 2010, the City has drawn \$24,194,233 which leaves \$11,755,767 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.

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 was subject to loan forgiveness and was deemed forgiven and discharged on November 12, 2010 for the entire amount of the loan, as permitted by the American Recovery and Reinvestment Act. During 2010, the City drew down the entire \$3,000,000 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. This fund is called Water Utility Construction (605) and \$2,408,376 was disbursed from this fund during 2010 on this project.
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.

Note 10. Contingent Liabilities and Lawsuits

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.

Corruption Lawsuits

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

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

On September 24, 2010, a federal jury found Former Mayor George Pabey and Former Supervisor of Engineering Jose Camacho guilty of conspiring to defraud the US government and converting City goods and City employee working hours to renovate Pabey's home in Gary. Indiana law required George Pabey to leave office on September 24, 2010, after the jury returned a guilty verdict on felony charges. City Controller Charles Pacurar was Acting Mayor until a caucus was held on October 16, 2010, to fill the vacancy in the office of Mayor of the City of East Chicago. Former City of East Chicago Supervisor of Engineering Jose Camacho was sentenced on April 15, 2011, to serve 30 months in federal prison along with paying \$60,000 in fines and a portion of \$14,405 in restitution. Camacho reported to prison May 16, 2011. Former City of East Chicago Mayor George Pabey was sentenced on May 5, 2011, to serve five years in federal prison along with paying a \$60,000 fine and a portion of \$14,405 in restitution. Pabey reported to prison on June 1, 2011. The City has been repaid \$14,405 in restitution for the City goods and City employee working hours used on Pabey's home in Gary.

Note 11. 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 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 \$400,000 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.

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.

CITY OF EAST CHICAGO, LAKE COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

Note 12. 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.

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.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City of East Chicago's Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	Motor Vehicle Highway	Local Road And Street	Health Maintenance	General Adult Probation	Economic Development Operating	Public Transportation
Cash and investments - beginning	\$ (3,654,702)	\$ 1,666,674	\$ 196,353	\$ 101,399	\$ 106,741	\$ 2,684,473	\$ 148,728
Receipts:							
Taxes	17,890,703	-	-	-	-	6,986,895	219,382
Licenses and permits	219,898	-	-	-	-	-	-
Intergovernmental	1,120,083	871,784	285,673	153,277	-	-	953,670
Charges for services	902,692	-	-	-	-	-	-
Fines and forfeits	106,741	-	-	-	19,812	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	25,434,707	281	-	9,399	-	12,534	7,500
Total receipts	<u>45,674,824</u>	<u>872,065</u>	<u>285,673</u>	<u>162,676</u>	<u>19,812</u>	<u>6,999,429</u>	<u>1,180,552</u>
Disbursements:							
Personal services	25,180,179	549,489	-	38,646	4,646	-	1,095,498
Supplies	793,158	165,476	-	11,348	3,526	-	93,092
Other services and charges	2,483,645	123,264	294,548	166,726	850	1,076,297	59,850
Debt service - principal and interest	-	-	-	-	-	2,230,199	-
Capital outlay	244	-	-	34,662	138	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	17,843,634	-	-	-	-	2,415,008	-
Total disbursements	<u>46,300,860</u>	<u>838,229</u>	<u>294,548</u>	<u>251,382</u>	<u>9,160</u>	<u>5,721,504</u>	<u>1,248,440</u>
Excess (deficiency) of receipts over disbursements	<u>(626,036)</u>	<u>33,836</u>	<u>(8,875)</u>	<u>(88,706)</u>	<u>10,652</u>	<u>1,277,925</u>	<u>(67,888)</u>
Cash and investments - ending	<u>\$ (4,280,738)</u>	<u>\$ 1,700,510</u>	<u>\$ 187,478</u>	<u>\$ 12,693</u>	<u>\$ 117,393</u>	<u>\$ 3,962,398</u>	<u>\$ 80,840</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Federal Grants	Redevelopment	Law Enforcement Continuing Education	Clerk's Records Perpetuation	Unsafe Building	Riverboat	State Grants
Cash and investments - beginning	\$ (42,415)	\$ 45,353	\$ 44,122	\$ -	\$ 47,294	\$ 6,541,741	\$ (55,781)
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	568,416	2,628,960	-	-	-	17,659,182	798,483
Charges for services	-	-	22,175	-	-	-	-
Fines and forfeits	-	-	8,511	1,160	31,010	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	811,446	-	-	22,263	3,027,480	-
Total receipts	<u>568,416</u>	<u>3,440,406</u>	<u>30,686</u>	<u>1,160</u>	<u>53,273</u>	<u>20,686,662</u>	<u>798,483</u>
Disbursements:							
Personal services	-	392,861	-	-	-	-	254,762
Supplies	1,113	-	-	-	-	95,608	9,613
Other services and charges	301,904	2,543,872	45,619	-	175	4,012,019	486,809
Debt service - principal and interest	-	-	-	-	-	1,958,917	-
Capital outlay	342,370	-	4,613	-	-	1,795,707	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	285,032	-	-	-	15,875,000	-
Total disbursements	<u>645,387</u>	<u>3,221,765</u>	<u>50,232</u>	<u>-</u>	<u>175</u>	<u>23,737,251</u>	<u>751,184</u>
Excess (deficiency) of receipts over disbursements	<u>(76,971)</u>	<u>218,641</u>	<u>(19,546)</u>	<u>1,160</u>	<u>53,098</u>	<u>(3,050,589)</u>	<u>47,299</u>
Cash and investments - ending	<u>\$ (119,386)</u>	<u>\$ 263,994</u>	<u>\$ 24,576</u>	<u>\$ 1,160</u>	<u>\$ 100,392</u>	<u>\$ 3,491,152</u>	<u>\$ (8,482)</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Parks And Recreation Operating	Local Grants	Local Law Enforcement Grants	Levy Excess City	SSED Revolving Loans	Summer Youth Training Program	Property Improvement
Cash and investments - beginning	\$ (917,337)	\$ 210,763	\$ -	\$ -	\$ 308,891	\$ -	\$ 6,000
Receipts:							
Taxes	1,065,709	-	-	116,572	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	37,582	42,297	87,514	-	-	22,931	-
Charges for services	36,084	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	1,782,369	67,093	-	-	1,516	300,349	-
Total receipts	<u>2,921,744</u>	<u>109,390</u>	<u>87,514</u>	<u>116,572</u>	<u>1,516</u>	<u>323,280</u>	<u>-</u>
Disbursements:							
Personal services	1,834,997	-	112,780	-	-	323,280	-
Supplies	240,051	14,509	-	-	-	-	-
Other services and charges	287,442	85,507	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	7,915	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	385,925	-	-	-	-	-	-
Total disbursements	<u>2,748,415</u>	<u>107,931</u>	<u>112,780</u>	<u>-</u>	<u>-</u>	<u>323,280</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>173,329</u>	<u>1,459</u>	<u>(25,266)</u>	<u>116,572</u>	<u>1,516</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ (744,008)</u>	<u>\$ 212,222</u>	<u>\$ (25,266)</u>	<u>\$ 116,572</u>	<u>\$ 310,407</u>	<u>\$ -</u>	<u>\$ 6,000</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Police Federal Forfeitures	Damage To City Property	Railroad Relocation	Vital Records	City Court Programs	Judgment Bonds Proceeds	Petty Cash
Cash and investments - beginning	\$ (2,008)	\$ 70,474	\$ 762,691	\$ 117,540	\$ 92,241	\$ 133,887	\$ 1,906
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	38,139	-	159,852	-	-	-	-
Charges for services	-	-	-	58,033	-	-	-
Fines and forfeits	-	-	-	3,763	15,365	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	2,053	2,095	-	-	478	-	6,727
Total receipts	40,192	2,095	159,852	61,796	15,843	-	6,727
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	10,143	378	-	-
Other services and charges	15,000	-	91,865	65,356	25,658	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	4,429	402	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	3,841	-	-	6,300
Total disbursements	15,000	-	91,865	83,769	26,438	-	6,300
Excess (deficiency) of receipts over disbursements	25,192	2,095	67,987	(21,973)	(10,595)	-	427
Cash and investments - ending	\$ 23,184	\$ 72,569	\$ 830,678	\$ 95,567	\$ 81,646	\$ 133,887	\$ 2,333

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	EC/Gary/Hammond Revolving Loan Fund Consortium	Redevelopment Rehabilitation Escrow	Lease Rental Payment	TIF Revenue Bonds Debt Service Reserve	Park District Bonds	Cumulative Capital Development	Fire Equipment
Cash and investments - beginning	\$ 235,252	\$ 10,343	\$ (893,186)	\$ 630,015	\$ (47,672)	\$ 74,541	\$ 21,962
Receipts:							
Taxes	-	-	1,730,023	-	47,672	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	52,754	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	12,384	517,378	1,662,063	1,567	-	-	-
Total receipts	<u>12,384</u>	<u>517,378</u>	<u>3,444,840</u>	<u>1,567</u>	<u>47,672</u>	<u>-</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	286,115	2,223,000	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	239,000	442,279	-	-	-	-
Total disbursements	<u>-</u>	<u>525,115</u>	<u>2,665,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>12,384</u>	<u>(7,737)</u>	<u>779,561</u>	<u>1,567</u>	<u>47,672</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 247,636</u>	<u>\$ 2,606</u>	<u>\$ (113,625)</u>	<u>\$ 631,582</u>	<u>\$ -</u>	<u>\$ 74,541</u>	<u>\$ 21,962</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Park Bond Proceeds	Cumulative Capital Improvement	Capital Projects Construction	Self-Insurance	Communications Revolving	Gasoline Revolving	Police Pension
Cash and investments - beginning	\$ 306,537	\$ 589,318	\$ 114,009	\$ (1,398,247)	\$ (126,332)	\$ (74,670)	\$ 534,485
Receipts:							
Taxes	-	-	-	-	-	-	48,421
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	94,907	-	-	-	-	3,520,425
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	9,382,811	305,374	836,614	-
Total receipts	-	94,907	-	9,382,811	305,374	836,614	3,568,846
Disbursements:							
Personal services	-	-	-	-	-	-	3,931,414
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	135,013	309,481	1,001,154	8,146
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	306,537	-	2,803	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	137,194	-	8,882,703	-	-	-
Total disbursements	306,537	137,194	2,803	9,017,716	309,481	1,001,154	3,939,560
Excess (deficiency) of receipts over disbursements	(306,537)	(42,287)	(2,803)	365,095	(4,107)	(164,540)	(370,714)
Cash and investments - ending	\$ -	\$ 547,031	\$ 111,206	\$ (1,033,152)	\$ (130,439)	\$ (239,210)	\$ 163,771

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Fire Pension	EC Redevelopment Trust	City And Town Court Costs	Withholding	PERF	Health Insurance	Miscellaneous Employee Insurance
Cash and investments - beginning	\$ 299,433	\$ 396,106	\$ -	\$ (401)	\$ 1,006,631	\$ 23,680	\$ 49,885
Receipts:							
Taxes	56,194	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	2,585,429	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	582	37,603	64,351,720	4,128,591	2,580,806	1,985
Total receipts	<u>2,641,623</u>	<u>582</u>	<u>37,603</u>	<u>64,351,720</u>	<u>4,128,591</u>	<u>2,580,806</u>	<u>1,985</u>
Disbursements:							
Personal services	3,025,026	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	6,537	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	308,060	35,431	64,352,911	4,145,802	2,578,620	880
Total disbursements	<u>3,031,563</u>	<u>308,060</u>	<u>35,431</u>	<u>64,352,911</u>	<u>4,145,802</u>	<u>2,578,620</u>	<u>880</u>
Excess (deficiency) of receipts over disbursements	<u>(389,940)</u>	<u>(307,478)</u>	<u>2,172</u>	<u>(1,191)</u>	<u>(17,211)</u>	<u>2,186</u>	<u>1,105</u>
Cash and investments - ending	<u>\$ (90,507)</u>	<u>\$ 88,628</u>	<u>\$ 2,172</u>	<u>\$ (1,592)</u>	<u>\$ 989,420</u>	<u>\$ 25,866</u>	<u>\$ 50,990</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	EC Property Tax Credit	Insurance Administration	Northwest Indiana Health Department Cooperative	Waterway Management District	Worker's Compensation	City Clerk	EC Marina
Cash and investments - beginning	\$ 219,598	\$ 108	\$ 42,303	\$ 90,764	\$ 2,828	\$ 644,514	\$ 8,711
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	52,252
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	2,700
Penalties	-	-	-	-	-	-	-
Other receipts	-	298,344	1,223,438	414,115	143,644	833,064	1,735,709
Total receipts	-	298,344	1,223,438	414,115	143,644	833,064	1,790,661
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	500,000
Capital outlay	-	-	-	-	-	-	84,631
Utility operating expenses	-	-	-	-	-	-	1,139,779
Other disbursements	-	297,185	1,223,275	194,799	143,505	836,320	47,954
Total disbursements	-	297,185	1,223,275	194,799	143,505	836,320	1,772,364
Excess (deficiency) of receipts over disbursements	-	1,159	163	219,316	139	(3,256)	18,297
Cash and investments - ending	\$ 219,598	\$ 1,267	\$ 42,466	\$ 310,080	\$ 2,967	\$ 641,258	\$ 27,008

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	EC Marina Petty Cash	Utilities Revolving	Sanitary State Revolving	Solid Waste Operating	Solid Waste Bond And Interest	Solid Waste Revolving	Solid Waste Levy Excess
Cash and investments - beginning	\$ 8,844	\$ -	\$ 38,683	\$ 3,217,436	\$ 127,047	\$ 1,904,411	\$ -
Receipts:							
Taxes	-	-	-	6,118,984	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	207,022	-	-	34,374
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	6,500	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	27,984	718,476	-	66,068	570,947	193,750	-
Total receipts	<u>27,984</u>	<u>718,476</u>	<u>-</u>	<u>6,398,574</u>	<u>570,947</u>	<u>193,750</u>	<u>34,374</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	700,000	843,000	-	-
Capital outlay	-	-	-	410,793	-	-	-
Utility operating expenses	-	718,476	-	7,828,998	-	-	-
Other disbursements	28,018	-	-	1,410,353	-	-	-
Total disbursements	<u>28,018</u>	<u>718,476</u>	<u>-</u>	<u>10,350,144</u>	<u>843,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(34)</u>	<u>-</u>	<u>-</u>	<u>(3,951,570)</u>	<u>(272,053)</u>	<u>193,750</u>	<u>34,374</u>
Cash and investments - ending	<u>\$ 8,810</u>	<u>\$ -</u>	<u>\$ 38,683</u>	<u>\$ (734,134)</u>	<u>\$ (145,006)</u>	<u>\$ 2,098,161</u>	<u>\$ 34,374</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Storm Water Utility Operating	Wastewater Utility Operating	Wastewater Utility Replacement	Water Utility Operating	Water Utility Bond And Interest	Water Utility Replacement	Water Utility Customer Deposit
Cash and investments - beginning	\$ -	\$ 1,610,434	\$ 157,432	\$ 150,975	\$ 1,041,854	\$ 558,223	\$ 329,490
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	4,736,566	-	4,527,553	-	-	-
Penalties	-	31,376	-	49,625	-	-	-
Other receipts	215,565	535,547	325,001	982,916	1,395,253	66,560	469
Total receipts	<u>215,565</u>	<u>5,303,489</u>	<u>325,001</u>	<u>5,560,094</u>	<u>1,395,253</u>	<u>66,560</u>	<u>469</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	400,000	-	400,000	1,384,320	-	-
Capital outlay	849	195,344	233,962	73,293	-	13,897	-
Utility operating expenses	212,231	4,400,915	-	3,248,100	-	-	13,279
Other disbursements	2,429	610,163	-	2,302,750	13,020	-	6,228
Total disbursements	<u>215,509</u>	<u>5,606,422</u>	<u>233,962</u>	<u>6,024,143</u>	<u>1,397,340</u>	<u>13,897</u>	<u>19,507</u>
Excess (deficiency) of receipts over disbursements	<u>56</u>	<u>(302,933)</u>	<u>91,039</u>	<u>(464,049)</u>	<u>(2,087)</u>	<u>52,663</u>	<u>(19,038)</u>
Cash and investments - ending	<u>\$ 56</u>	<u>\$ 1,307,501</u>	<u>\$ 248,471</u>	<u>\$ (313,074)</u>	<u>\$ 1,039,767</u>	<u>\$ 610,886</u>	<u>\$ 310,452</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Water Utility Construction	Water Utility Change Fund	Water Utility Debt Reserve	Water Utility Grants	Water Utility Bond And Interest SRF09	Totals
Cash and investments - beginning	\$ 7,816,665	\$ 500	\$ 1,129,269	\$ -	\$ -	\$ 29,466,806
Receipts:						
Taxes	-	-	-	-	-	34,280,555
Licenses and permits	-	-	-	-	-	219,898
Intergovernmental	-	-	-	-	-	31,975,006
Charges for services	-	-	-	-	-	1,018,984
Fines and forfeits	-	-	-	-	-	186,362
Utility fees	-	-	-	-	-	9,273,319
Penalties	-	-	-	-	-	81,001
Other receipts	21,938,317	-	250,483	3,000,000	2,138,989	152,382,407
Total receipts	<u>21,938,317</u>	<u>-</u>	<u>250,483</u>	<u>3,000,000</u>	<u>2,138,989</u>	<u>229,417,532</u>
Disbursements:						
Personal services	-	-	-	-	-	36,743,578
Supplies	-	-	-	-	-	1,438,015
Other services and charges	-	-	-	-	-	16,135,852
Debt service - principal and interest	-	-	-	-	-	8,416,436
Capital outlay	23,176,565	-	-	3,000,000	-	29,689,154
Utility operating expenses	-	-	-	-	-	17,561,778
Other disbursements	1,518,396	-	-	-	-	126,572,015
Total disbursements	<u>24,694,961</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>236,556,828</u>
Excess (deficiency) of receipts over disbursements	<u>(2,756,644)</u>	<u>-</u>	<u>250,483</u>	<u>-</u>	<u>2,138,989</u>	<u>(7,139,296)</u>
Cash and investments - ending	<u>\$ 5,060,021</u>	<u>\$ 500</u>	<u>\$ 1,379,752</u>	<u>\$ -</u>	<u>\$ 2,138,989</u>	<u>\$ 22,327,510</u>

CITY OF EAST CHICAGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2010

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	7,998,866
Capital assets, being depreciated (net of depreciation)	
Infrastructure	18,986,512
Buildings	37,651,803
Improvements other than buildings	1,683,915
Machinery and equipment	<u>4,439,196</u>
Total governmental activities, capital assets	<u>\$ 77,661,955</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 249,859
Construction in progress	36,497,825
Capital assets, being depreciated (net of depreciation)	
Buildings	520,588
Improvements and lines	2,707,679
Machinery and equipment	<u>34,243</u>
Total Water Utility capital assets	<u>40,010,194</u>
Sanitary District	
Capital assets, not being depreciated:	
Land	885,268
Capital assets, being depreciated (net of depreciation)	
Buildings	16,351,716
Improvements and lines	3,324,356
Machinery and equipment	<u>2,731,610</u>
Total Sanitary District capital assets	<u>23,292,950</u>
Total business-type activities capital assets	<u>\$ 63,303,144</u>
<u>Component Unit:</u>	
Port Authority	
Capital assets, not being depreciated:	
Land	\$ 1,020,000
Construction in progress	31,021
Capital assets, being depreciated (net of depreciation)	
Buildings	7,007,557
Improvements other than buildings	331,594
Machinery and equipment	<u>28,724</u>
Total component unit capital assets	<u>\$ 8,418,896</u>

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2010

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	\$ 21,360,000	\$ 2,223,000
Copiers (Police Department)	9,997	10,162
Notes and loans payable:		
2001 Rainy Day Loan	289,474	289,474
Bonds payable:		
General obligation bonds:		
Judgment Funding, 2008	335,000	344,631
Revenue bonds:**		
Redevelopment Tax Increment Financing Bonds, 1999	6,163,326	2,470,297
Taxable Economic Development, 2007 Riley Plaza Project	1,750,000	207,900
Lake Front Redevelopment Tax Increment Financing Bonds 2009	<u>5,830,000</u>	<u>1,221,925</u>
Total governmental activities debt	<u>\$ 35,737,797</u>	<u>\$ 6,767,389</u>
Business-type Activities:		
Water Utility		
Loans payable:		
2002 State Revolving Loan	\$ 1,430,000	\$ 130,165
2006 State Revolving Loan	14,950,000	1,250,460
2009 State Revolving Loan*	<u>27,200,000</u>	<u>1,485,718</u>
Total Water Utility	<u>43,580,000</u>	<u>2,866,343</u>
Sanitary District		
Loans payable:		
2001 Rainy Day Loan	100,000	100,000
1996 State Revolving Loan	<u>6,680,000</u>	<u>844,150</u>
Total Sanitary District	<u>6,780,000</u>	<u>944,150</u>
Total business-type activities debt	<u>\$ 50,360,000</u>	<u>\$ 3,810,493</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 REPORT

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

City Controller

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS NOT RECORDED

The activity and balances of the 11 funds listed below were reported on the Annual Report prepared by the City Controller; however, the activity and balances of these 11 funds were not recorded in the official Ledgers of the City. The transactions reported on the Annual Report were prepared by the City Controller based upon bank statement activity and balances for the various bank accounts.

SSED Revolving Loans
EC/Gary/Hammond Revolving Loan Fund Consortium
TIF Revenue Bonds Debt Service Reserve
EC Redevelopment Trust
Health Insurance
Insurance Administration
Worker's Compensation
Water Utility Bond and Interest
Water Utility Customer Deposit
Water Utility Debt Reserve
Water Utility Bond and Interest SRF09

Since the official records of the City do not reflect the above noted funds and the transactions of these funds, 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. The total transactions of these 11 funds not recorded in the official Ledgers of the City were \$6,824,037 in receipts, \$7,414,217 in disbursements, and \$6,177,313 in ending balances.

A similar audit result and comment appeared in the prior report.

Indiana Code 5-11-10-1.6(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
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 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

The City was awarded the following American Recovery and Reinvestment Act (ARRA) grants: \$365,575 Community Development Block Grant ARRA Entitlement Grant (CDBG-R) (Recovery Act Funded) and \$559,073 Homelessness Prevention and Rapid Re-Housing Program (HPRP) Recovery Act Funded Grant from the U.S. Department of Housing and Urban Development. Per the grant terms and conditions, the federal agency notified the City the grants were 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 2010 federal receipts and disbursements activity of \$67,496 for the CDBG-R ARRA Grant and \$343,012 for the HPRP ARRA grant were accounted for through the Redevelopment Fund (231) of the City and not separate grant funds or accounts within the Redevelopment 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

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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."

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)

OVERDRAWN CASH BALANCES

The following funds had negative cash balances at December 31, 2010:

Fund	Amount
General	\$ 4,280,738
Federal Grants	119,386
State Grants	8,482
Parks and Recreation Operating	744,008
Local Law Enforcement Grants	25,266
Lease Rental Payment	113,625
Self-Insurance	1,033,152
Communications Revolving	130,439
Gasoline Revolving	239,210
Fire Pension	90,507
Withholding	1,592
Solid Waste Operating	734,134
Solid Waste Bond and Interest	145,006
Water Utility Operating	313,074

A similar audit result and comment appeared in the prior report.

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)

DISBURSEMENTS

Of the claims reviewed, the following deficiencies were noted:

1. Claims were paid to the attorney for the Board of Public Works based on an outdated contract. The contract was approved in 2005.
2. The contract with the attorney for the Board of Public Works stated, "payments not to exceed" \$24,000. The accounts payable vouchers did not include itemized invoices with hours and rates per hour. The attorney simply charged a flat fee of \$2,000 per month.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

3. A contract for accounting and consulting services details wages by job title. Invoices for two claims detailed the hours worked and employees performing the work, but not the job title or the hourly rate to be charged. We could not determine if the correct rate was charged per the contract due to the omission of the job title.
4. For a majority of donations directed by elected officials, including the Mayor and Common Council, 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 ads in various souvenir books, such as the retirement of a pastor from a local church or tickets to events, such as a fashion show. It cannot be determined as to who benefited from these purchased items.

Indiana Code 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."

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.
- 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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

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)

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)

EMPLOYEE BONDS

The City does not have employee dishonesty insurance coverage for employees. The City's insurance policies do not cover employees that handle money in the following departments: Water Utility, Health, Park, Animal Control, and Transit. A blanket bond or a crime insurance policy covering all employees was not purchased.

Indiana Code 5-4-1-18 states in part:

- "(a) Except as provided in subsection (b), the following city . . . officers and employees shall file an individual surety bond: (1) City judges, controllers, clerks, and clerk-treasurers. . . . (5) Those employees directed to file an individual bond by the fiscal body of a city, town or county.
- (b) The fiscal body of a city, . . . may by ordinance, authorize the purchase of a blanket bond or a crime insurance policy. . . to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit including those officers described in subsection (a)".

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)

PAYROLL CLAIM APPROVALS

A payroll claim is submitted to and subsequently approved by the Common Council for the City's bi-weekly gross pay total and taxes. The payroll claim includes all departments of the City including the Park Department, Water Utility, Sanitary District, Storm Water Utility and Marina. However, the bi-weekly gross payroll and related taxes for the Park Department, Water Utility, Sanitary District, Storm Water Utility and Marina should be approved by the Park Board, Water Utility Service Board, Sanitary District Board of Commissioners, Storm Water Utility Board and Port Authority, respectively.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . . (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 . . ."

PAYROLL REPORTING ISSUE

Numerous City employees received a Wage and Tax Statement, Form W-2 for wages and a Form 1099-MISC, Miscellaneous Income, for other services provided to the City. Services provided and reported on a "1099 MISC" did not incur payroll tax withholdings and did not incur the related employer taxes. Examples of these are employees who were also paid for being board members, providing health related services (such as immunization clinics and cooling/warming shelter supervisors), and performing other miscellaneous duties outside of the employee's normal City employment.

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)

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)

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

HEALTH INSURANCE FOR TEAMSTERS MEMBERS

The City, including the Park Department, Water Utility, Sanitary District, and Port Authority, had entered in an agreement with the International Brotherhood of Teamsters. The contract duration per the agreement states: "This agreement, shall become effective on the 1st day of January 2004, upon its execution by the parties and shall continue in full force and effect until December 31, 2007, and will continue in full force and effect thereafter unless notice is given in writing by either Party at least sixty (60) days prior to December 31st of any year thereafter and thereafter as agreed upon by the parties." According to the union agreement, the City pays Central States Insurance for the entire cost of health insurance premiums for employees who are members of the Teamsters Union. Even though a new union agreement has yet to be negotiated, the City withheld \$6,442 from the December 2010 health insurance premiums due Central States so that the City would not have paid the entire cost of health insurance. However, employees still do not contribute to the cost of group health insurance.

A similar comment appeared in the prior report.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 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."

COMMON COUNCIL STIPENDS

The Elected Officials Salary Ordinance 09-0028, Section Three 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."

In 2010, the City, through the Common Council's general fund budget, disbursed a total of \$216,000, which represents a \$2,000 per month stipend to each council member. An invoice from the Common Council is attached to the claim for payment only noting the name of the council member and the corresponding month of the stipend. In addition to the stipends, the Common Council disbursed \$6,173 for travel expenses and \$34,451 for promotions.

First, the Elected Officials Salary Ordinance 09-0028 failed to address the dollar amount of the stipends either in total or per council member, thus bringing into question under what basis the stipend is set at \$2,000 monthly. Secondly, since the stipend should be used for "travel expenses . . . promotional expenses. . ." the City should have eliminated the travel and promotions from the council budget. As for January to June 2011, the council's travel and promotions budgets have yet to be used, even though council members continued to be paid \$2,000 per month stipend. Thirdly, documentation to support how the monthly stipends are spent is not maintained to ensure the stipends are used in accordance with the City's own policies over travel and promotional funds. In addition, the City did not include the \$24,000 taxable annual stipend (non-accountable plan) as supplemental wages and subject to the withholding and payment of income, social security, Medicare, and FUTA taxes. Instead, the council members are issued a Form 1099 Miscellaneous Income separately from their Form W-2 Wage and Tax Statement.

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)

Internal Revenue Service, Circular E, Employer's Tax Guide, provides direction to employers for wages, bonuses, and fringe benefits.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CREATION OF FUNDS

Two funds recorded in the official ledgers of the City were new in 2010. Ordinances that created these funds were not provided for audit. The two funds were: Local Law Enforcement Grants (276) and Water Utility Grants (650).

Two other funds recorded in the official ledgers of the City had activity during 2010 but had been dormant for many years prior to 2010. Ordinances that created these funds were not provided for audit. These two funds were: Levy Excess City (710) and Solid Waste Levy Excess (721).

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-1-3-6 states in part:

"(a) If there is a constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must do so in that manner.

(b) If there is no constitutional or statutory provision requiring a specific manner for exercising a power, a unit wanting to exercise the power must either:

- (1) . . . adopt an ordinance prescribing a specific manner for exercising the power; or
- . . . (3) comply with a statutory provision permitting a specific manner for exercising the power.

(c) An ordinance under subsection (b) (1) must be adopted as follows: (1) In a municipality, by the legislative body of the municipality."

The enabling ordinance should provide various types of information:

- (1) The ordinance should clearly indicate the type or types of revenue that is to go into the new fund.
- (2) The ordinance should list the purpose or purposes for which expenditures can be made from the new fund.
- (3) The ordinance should establish the life of the new fund and indicate if the fund balance is nonreverting at year end or perpetual until terminated either by the terms of the current ordinance or if another subsequent ordinance must be enacted.
- (4) The ordinance should provide guidance as to disposition of the fund balance on termination of the fund.
- (5) The ordinance should include any other terms or conditions the city or town attorney deems necessary.

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

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

FIRST OFFENDERS FEE

In 2006, the Common Council approved Ordinance 06-0016 allowing the city court judge to assess a \$220 first offenders fee to defendants who are charged with the first offense for dealing or possession of marijuana or hashish as a Class A Misdemeanor pursuant to Indiana Code 35-48-4-10 and 35-48-4-11. The \$220 fee is not an allowable fee under Indiana Code 33-37-4-1 and local units do not have the authority under Home Rule (Indiana Code 36-1-3-8) to prescribe such a penalty. A similar comment appeared in the prior report.

Indiana Code 36-1-3-8(a) governing Home Rule states in part: "a unit does not have the following: . . .

- (8) The power to prescribe a penalty for conduct constituting a crime or infraction under statute."

Indiana Code 33-37-4-1 states in part:

"(a) For each action that results in a felony conviction under IC 35-50-2 or a misdemeanor conviction under IC 35-50-3, the clerk shall collect from the defendant a criminal costs fee of one hundred twenty dollars (\$120). (b) In addition to the criminal costs fee collected under this section, the clerk shall collect from the defendant the following fees if they are required under IC 33-37-5:

- (1) A document fee (IC 33-37-5-1, IC 33-37-5-3, or IC 33-37-5-4).
- (2) A marijuana eradication program fee (IC 33-37-5-7).
- (3) An alcohol and drug services program user fee (IC 33-37-5-8(b)).
- (4) A law enforcement continuing education program fee (IC 33-37-5-8(c)).
- (5) A drug abuse, prosecution, interdiction, and correction fee (IC 33-37-5-9).
- (6) An alcohol and drug countermeasures fee (IC 33-37-5-10).
- (7) A child abuse prevention fee (IC 33-37-5-12).
- (8) A domestic violence prevention and treatment fee (IC 33-37-5-13).
- (9) A highway work zone fee (IC 33-37-5-14).
- (10) A deferred prosecution fee (IC 33-37-5-17).
- (11) A document storage fee (IC 33-37-5-20).
- (12) An automated record keeping fee (IC 33-37-5-21).
- (13) A late payment fee (IC 33-37-5-22).
- (14) A sexual assault victim's assistance fee (IC 33-37-5-23).

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (15) A public defense administration fee (IC 33-37-5-21.2).
- (16) A judicial insurance adjustment fee (IC 33-37-5-25).
- (17) A judicial salaries fee (IC 33-37-5-26).
- (18) A court administration fee (IC 33-37-5-27).
- (19) A DNA sample processing fee (IC 33-37-5-26.2).

(c) Instead of the criminal costs fee prescribed by this section, except for the automated record keeping fee (IC 33-37-5-21), the clerk shall collect a pretrial diversion program fee if an agreement between the prosecuting attorney and the accused person entered into under IC 33-39-1-8 requires payment of those fees by the accused person. The pretrial diversion program fee is:

- (1) an initial user's fee of fifty dollars (\$50); and
- (2) a monthly user's fee of ten dollars (\$10) for each month that the person remains in the pretrial diversion program."

ECONOMIC DEVELOPMENT COMMISSION

No minutes of the Economic Development Commission meetings for 2010 and 2011 were provided for audit. The Director of Economic and Business Development indicated that the Economic Development Commission has not met due to the lack of new appointments to the board. The Economic Development Commission should at least meet to reorganize in February each year. A similar comment appeared in the prior report.

The decision as to the disposition or destruction of any record rests entirely upon the commission (County Public Records Commission); however, there are certain records which appear to be of 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)

Indiana Code 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."

REDEVELOPMENT COMMISSION ANNUAL REPORT

The 2009 Redevelopment Commission's annual report to be filed by January 30, 2010, with the Mayor's office as required by Indiana Code 36-7-14-13 was not provided for audit. The 2010 annual report due January 30, 2011, was also not presented for audit. A similar comment appeared in the prior report.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 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."

APPROVAL OF REDEVELOPMENT ACCOUNTS PAYABLE VOUCHERS

The approval by the majority of the Redevelopment Commission Board Members was not obtained until after the checks were written. The Redevelopment Commission approves the disbursements (accounts payable vouchers) from all funds under its control. One Board Member reviews the vouchers on the date they are filed. At least two other Board Members sign their approval at a later board meeting date. For the 2010 disbursements tested, the date of other Board Member approval was between 15 and 62 days after the date of the check. Therefore, checks were issued before the approval of the majority of the Board.

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

REDEVELOPMENT COMMISSION LACK OF CONTRACT FOR PAYROLL SERVICES

The East Chicago Housing Authority prepares the payroll for the East Chicago Redevelopment Commission. The East Chicago Redevelopment employees work in a building where Housing Authority employees also work. For convenience, the East Chicago Housing Authority has been preparing the payrolls for both Housing Authority and Redevelopment. The Redevelopment Commission pays the East Chicago Housing Authority for these payroll services. A written payroll services contract outlining the services to be provided was not presented for audit. A similar comment appeared in the prior report.

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)

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 percent of the Parent CDE with the East Chicago Urban Enterprise Association, Inc., owning the remaining 0.001 percent. 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 June 2011. 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. Indiana Code 36-7-14-12.2 does not provide redevelopment commissions that authority.

A similar comment appeared in the prior report.

Indiana Code 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:

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (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:
 - (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.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- (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.
 - (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.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

(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."

PETTY CASH FUND - POLICE

The Police Department had a petty cash fund of \$1,000. Due to numerous issues in the past, the petty cash fund was closed in March 2011. When the petty cash fund was closed, both cash and receipts for purchases were remitted for reimbursement. A review of the receipts submitted revealed eight receipts in question. Three receipts for the purchase of Christmas decorations, totaling \$140.19, were listed in the prior report. Three other receipts were for the purchase of food for officers working the "operation pull-over" blitzes. The last two receipts were for the purchase of food, but did not specify a reason why. Neither the City nor the Police Department has a policy in place allowing for the purchase of food for the officers working these blitzes.

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

BUY MONEY - POLICE

Controls over the police "buy money" are insufficient. The Police Department did not have any defined standard operating procedures regarding the use of the buy money. The money was used to purchase various pieces of equipment used in these operations, which circumvented the claims process. This made it impossible for the Police Department to keep track of this equipment. When the current Bookkeeper took over, he went from using a manual book to using an excel spreadsheet to document the transactions. This spreadsheet did not include purchases of equipment, nor did it include any disbursements related to witness protection. When the Police Department officials requested the buy money be replenished by the City Controller, the money was deposited into a bank account. The spreadsheet did not detail the money being replenished, just when money was drawn from the bank account.

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)

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

- 1) Under IC 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
- 2) An appropriation for such purpose must be obtained in the manner authorized by state statutes;
- 3) Petty cash fund procedures are to be followed as authorized by IC 36-1-8-3; and
- 4) A minimum documentation procedure must be followed, similar to either:
 - a) "Guidelines for the Expenditure of Confidential Funds", published by the U.S. Department of Criminal Justice.
 - b) "Guidelines For Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations", (Revised S.O.P. PR – INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

INTERNAL CONTROLS - PARK

Collections

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.

Based upon inquiry of golf course employees, the amount of cash change fund at the golf course varies from day to day indicating that the cash fund change is not reconciled on a daily basis.

Collections received at the concession stand and golf course are remitted to the Main Park Office each morning; however, the employee remitting the money does not wait for the money to be counted or a receipt to be issued. Hypothetically, the Park Office employee could say the collections were never remitted and there would be no paper trail to dispute the claim.

A similar audit result and comment appeared in the prior report.

Concessions

Bottled beverages and snack foods, including hot dogs, are sold as concessions at the park locations. Items are purchased through Gordon Food Service and Hershey Creamery, but inventory records are not maintained. Maintaining inventory records can help reduce misappropriation of the bottled beverages and snack foods by assigning accountability to the employees at the various locations.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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)

SALES TAX NOT COLLECTED OR REMITTED - PARK

The East Chicago Park Department did not remit to the Indiana Department of Revenue, sales tax for concession sales, golf proceeds, and shelter rentals.

Collections by a city or town from the retail sale of tangible property, utility service, or commodities in the performance of private or proprietary activities are subject to sales tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPTS - PARK

Some items, such as money received for trips to Shipshewana and Gurnee Mills, were receipted in at the Park main office, but not posted to the Park Department records maintained at City Hall. The money was not remitted to the City Controller's office and was used to pay for transportation to the respective venue.

Of the receipts tested at the Park Department, one receipt was not remitted to the City Controller in a timely manner. The receipt was held for 33 days before it was remitted to the City Controller's office.

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)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS - 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 readings, 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, 2010, the operating fund's customer deposit payable account had a negative \$127,668 balance. As of December 31, 2010, the balance of the detail report of customer meter deposits was \$281,052.40.
- (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 had a balance of \$281,052.40 as of December 31, 2010. The separate bank account balance for customer meter deposits was \$310,452.11. In addition, \$11,050 and \$20,090 of meter deposit collections were receipted and deposited to the Water Operating Fund in 2009 and 2010, respectively. 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 2010 was not transferred from the customer meter deposits bank account to the operating bank account.
- (4) The December 2010 bank reconciliation for the customer meter deposit account includes reconciling items totaling \$4,347 dating back to 2004 without further investigation or timely posting to the City's ledger.

(B) The Water Utility aging accounts receivable report balance is greater than the City ledger accounts receivable balance by \$153,985. The Wastewater (Sanitary District) aging accounts receivable report balance is greater than the City ledger accounts receivable balance by \$40,876. One possible explanation for the continued difference in the detail customer accounts receivable report and general ledger is how the penalties and non-sufficient funds (NSF) charges and collections are posted to the MUNIS system. The Auditor determined that the water and wastewater penalties and NSF collections are posted directly to revenue accounts in the general ledger even though the penalties and NSF fees are posted to the customer accounts and included in the aging accounts receivable report balances. 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. The sales tax payable account on the City's general ledger posts the amounts of sales tax assessed and the amount collected and remitted to the State of Indiana. Thus, the difference between the sales tax payable account and the accounts receivable related to sales tax should agree to the payable amount at each month end. The amount remitted in January 2011 for

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

December 2010 was \$47,537; however, the City's general ledger sales tax payable account had a negative \$57,074 balance at year end and the accounts receivable balance related to sales tax was \$67,383, resulting in a negative \$124,457 payable balance. This results in a difference of \$171,994. 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 Utility has several customers that have material outstanding balances for private fire protection charged prior to the fee decrease which was effective as of November 2009. The Water Utility has not enforced any collection process on these accounts.

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

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

Indiana Code 36-9-23-33 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:
 - (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.
 - (C) The amount of the delinquent fees, together with the penalty.
- (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 . . .

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

(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. . . ."

UTILITY RECEIPTS TAX - WATER UTILITY

The Water Utility is subject to the 1.4 percent utility receipts tax imposed upon the gross receipts derived from the retail sale of water. The Water Utility is required to file and pay the Utility receipts tax on a quarterly basis. The Water Utility shall pay to the Indiana Department of Revenue 25 percent (25%) of the annual estimated tax or the exact amount of utility receipts tax that is due for the quarter. The Water Utility is required to file an annual utility receipts tax return, Form URT. The annual utility receipts tax return calculates the actual total utility receipts tax liability incurred by the Water Utility for the taxable year, minus the total estimated payments that were made for that taxable year. The Water Utility's annual utility receipts tax return is to be filed on or before April 15 of the immediately succeeding year.

A review of the Water Utility's 2010 annual utility receipt tax return noted that the Utility determined that \$5,363 was owed to the Indiana Department of Revenue. The tax return was filed by April 15, 2011; however, the tax liability was not paid. Furthermore, the 2009 \$3,556 overpayment of utility receipt tax was not taken into consideration during the preparation of the 2010 utility receipt tax return. If the \$3,556 was taken into consideration during the preparation of the 2010 utility receipt tax return, the water utility tax liability decreased to \$1,806 without any penalty or interest for underpayment of taxes. However, since the water utility's tax liability had not been paid by April 15, 2011, the Indiana Department of Revenue may assess penalties and interest for the late payment of taxes.

All questions concerning the law or procedure for paying the utility receipts tax should be directed to the Indiana Department of Revenue, Indiana Government Center North, Indianapolis, Indiana, 46204, telephone number (317) 615-2662. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

MARINA DIRECTOR'S FRINGE BENEFIT

In August 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 2010, the wet slip and winter storage fees totaling \$4,116 were waived for the former marina director. 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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

Compliance

We have audited the compliance of the City of East Chicago (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010. 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 Finding 2010-02.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-02. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the response.

This report is intended solely for the information and use of the City's management, Common Council, Board of Public Works, Redevelopment Commissioners, Water Board, Sanitary District Board of Commissioners, Storm Water Board, Port Authority Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 21, 2011

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2010

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 09-10 FY 10-11	\$ 217,644 <u>60,122</u>
Total for federal grantor agency			<u>277,766</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-08-MC-180004 B-09-MC-180004	649,030 <u>452,618</u>
Total for program			<u>1,101,648</u>
ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R)	14.253	B-08-MY-180004	<u>67,496</u>
Total for cluster			<u>1,169,144</u>
Pass-Through Indiana Housing and Community Development Authority CDBG - State-Administered Small Cities Program Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)	14.228	NSP1-0009-016	<u>272,950</u>
Direct Grants			
HOME Investment Partnerships Program	14.239	M-04-MC-18210 M-06-MC-18210 M-07-MC-18210 M-08-MC-18210 M-09-MC-18210	25,000 223,030 113,367 296,192 <u>89,651</u>
Total for program			<u>747,240</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	S-08-MY-180004	<u>343,012</u>
Pass-Through Gary/Hammond/East Chicago Empowerment Zone Empowerment Zones Program	14.244	Jet Prog07-08	<u>9,513</u>
Total for federal grantor agency			<u>2,541,859</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants			
Edward Byrne Memorial Formula Grant Program	16.579	Federal Forfeitures	15,000
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2009RKW0343	338,556
Pass-Through Indiana Criminal Justice Institute Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0049	<u>8,486</u>
Total for federal grantor agency			<u>362,042</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	DES#0200188	<u>159,852</u>
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit Formula Grants	20.507	IN-90-X467-00 FY10	<u>377,056</u>
Pass-Through Indiana Department of Transportation Federal Congestion Mitigation and Air Quality Funds (CMAQ)	20.519	A249-10320221A	<u>126,000</u>
Pass-Through Indiana Department of Transportation ARRA - Surface Transportation Discretionary Grants for Capital Investment	20.932	DES#0900061 DES#0900062 DES#0900063 DES#0900064 DES#0900066 DES#0600749 DES#0900473/0900474	121,673 54,612 28,673 99,211 58,274 93,745 <u>25,979</u>
Total for program			<u>482,167</u>
Total for federal grantor agency			<u>1,145,075</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, 2010
(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>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grants			
Employment Discrimination Title VII of the Civil Rights Act of 1964	30.001	EECCN080020-10 EECCN080020-00 5FPSP0155	15,600 4,100 <u>854</u>
Total for federal grantor agency			<u>20,554</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	1,769,115 5,956,496
ARRA - Capitalization Grants for Drinking Water	66.468	DW19911003 2009	<u>1,113,900</u>
Total for program			<u>8,839,511</u>
Pass-Through Indiana Department of Environmental Management			
Beach Monitoring and Notification Program Implementation Grants	66.472	A305-10-52	<u>13,768</u>
Total for federal grantor agency			<u>8,853,279</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 5U90TP517024-10 (BPRS 193-7) 5U90TP517024-10 CRI 1H75TP000339-01	208 7,966 16,162 <u>22,750</u>
Total for program			<u>47,086</u>
Pass-Through Indiana State Department of Health			
Immunization Grants	93.268	H23/CCH522522-06	<u>30,138</u>
Total for federal grantor agency			<u>77,224</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Homeland Security Cluster			
Homeland Security Grant Program	97.067	EDS#PSF-1-0-051	<u>4,000</u>
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR1795	<u>1,697</u>
Buffer Zone Protection Program (BZPP)	97.078	2007-BZ-T7-0003	<u>192,499</u>
Total for federal grantor agency			<u>198,196</u>
Total federal awards expended			<u>\$ 13,475,995</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

Note 1. 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 cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2010:

Program Title	Federal CFDA Number	2010
Community Development Block Grants/Entitlement Grants	14.218	\$ 197,337
Homelessness Prevention and Rapid Re-Housing	14.257	15,000

Note 3. Subsequent Events

Federal Grant for Blizzard Event

On February 1, 2011, the City of East Chicago and the entire State of Indiana experienced a major winter storm or snow blizzard. The City incurred \$485,367 in additional costs for emergency protective measures. The City has requested from the Federal Emergency Management Agency (FEMA) reimbursement of these additional costs as eligible disbursements. As of June 30, 2011, the City has not received any reimbursement from FEMA.

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	no
Noncompliance material to financial statements noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
--	CDBG – Entitlement Grants Cluster
14.239	HOME Investment Partnerships Program
20.932	ARRA – Surface Transportation Discretionary Grants for Capital Investment
66.468	Capitalization Grants for Drinking Water State Revolving Funds (ARRA and Non-ARRA)

Dollar threshold used to distinguish between Type A and Type B programs: \$404,280

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2010-01 - FINANCIAL TRANSACTIONS NOT RECORDED

The activity and balances of the 11 funds listed below were reported on the Annual Report prepared by the City Controller; however, the activity and balances of these 11 funds were not recorded in the official Ledgers of the City. The transactions reported on the Annual Report were prepared by the City Controller based upon bank statement activity and balances for the various bank accounts.

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

SSED Revolving Loans
EC/Gary/Hammond Revolving Loan Fund Consortium
TIF Revenue Bonds Debt Service Reserve
EC Redevelopment Trust
Health Insurance
Insurance Administration
Worker's Compensation
Water Utility Bond and Interest
Water Utility Customer Deposit
Water Utility Debt Reserve
Water Utility Bond and Interest SRF09

Since the official records of the City do not reflect the above noted funds and the transactions of these funds, 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. The total transactions of these 11 funds not recorded in the official Ledgers of the City were \$6,824,037 in receipts, \$7,414,217 in disbursements, and \$6,177,313 in ending balances.

A similar federal finding appeared in the prior report.

Indiana Code 5-11-10-1.6(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."

Indiana Code 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.

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

- (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.

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-02 - AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Federal Agency: U.S. Department of Housing and Urban Development
Cluster: CDBG - Entitlement Grants Cluster
Federal Programs: ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R)
(Recovery Act Funded)
CFDA Number: 14.253
Award Number: B-08-MY-18-0004

The City was awarded the following American Recovery and Reinvestment Act (ARRA) grants: \$365,575 Community Development Block Grant ARRA Entitlement Grant (CDBG-R) (Recovery Act Funded) and \$559,073 Homeless Prevention and Rapid Re-Housing Program (HPRP) Recovery Act Funded Grant from the U.S. Department of Housing and Urban Development. Per the grant terms and conditions, the federal agency notified the City the grants were 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 2010 federal receipts and disbursements activity of \$67,496 for the CDBG-R ARRA Grant and \$343,012 for the HPRP ARRA grant were accounted for through the Redevelopment Fund (231) of the City and not separate grant funds or accounts within the Redevelopment Fund.

The Redevelopment Department did maintain records to adequately track and account for the ARRA funds separately from other funds of the department. Since the information was available, this area is considered a significant deficiency of the controls over compliance with ARRA funds.

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.

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

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."

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.



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. • East Chicago, Indiana 46312

Charles Pacurar
City Controller
(219) 391-8220

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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)

Original SBA Audit Report Number:	B37586
Fiscal Year	2009
Auditee Contact Person	Charles Pacurar
Title of Contact Person	City Controller
Phone Number	(219) 391-8220

Status of Finding: This finding is still in the process of being corrected.

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

Original SBA Audit Report Number:	B37586
Fiscal Year	2009
Auditee Contact Person	Charles Pacurar
Title of Contact Person	City Controller
Phone Number	(219) 391-8220

Status of Finding: This finding has been corrected.

Signed: _____

Charles Pacurar

Dated: _____

4/19/11



City of East Chicago

Administrative Services Division

4525 Indianapolis Blvd. East Chicago, Indiana 46312

Phone: (219) 391-8220

Facsimile: (219) 391-8223

Anthony Copeland
Mayor

CORRECTIVE ACTION PLAN

Section II – Financial Statement Findings

FINDING 2010-01 FINANCIAL TRANSACTIONS NOT RECORDED

The City of East Chicago will bring the activity and balances of these funds onto the official ledgers of the City.

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-02, AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Federal Agency: U.S. Department of Housing and Urban Development
Cluster: CDBG – Entitlement Grants Cluster
Federal Program: ARRA – Community Development Block Grants ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
CFDA Number: 14.253
Award Number: B-08-MY-18-0004
Auditee Contact Person: Charles Pacurar
Title of Contact Person: City Controller
Phone Number: (219) 391-8220

The City of East Chicago will create two additional funds for the CDBG-R and HPRP ARRA Grants and account for their associated transactions within these funds.

Signed: Kimberly Anderson

Date: 7/15/11

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2011, with Kimberly Anderson, Interim Controller; Anthony Copeland, Mayor; Adrian Santos, President of the Common Council; Val Gomez, President of the Board of Public Works; Joe Allegretti, Corporation Counsel; Karl Cender, Financial Consultant for the Common Council; Mary Morris Leonard, City Clerk; Vivian Daniels, Chief Deputy Clerk; Peter Baranyai, Interim Utilities Director; Brian Marciniak, Water Utility Superintendent; John Bakota, President of the Water Board; Anthony Galindo, President of the Storm Water Board; William Biller, Utilities Consultant; Hector Rivera, Police Department Director of Human Resources; Augusto Flores, President of the Redevelopment Board and Police Chief; John Artis, Executive Director of Redevelopment; Lyvette Turk, Redevelopment Programs Manager; Richard Kubiszewski, Interim Park and Recreation Director; Milton Reed, President of the Port Authority Board of Directors; Ruben Ramos, Interim Port Authority Director; and Rosa Amaro, Office Manager for the Marina. The Official Response has been made a part of this report and may be found on pages 70 through 72.

City of East Chicago
Audit Responses
For the Year Ended December 31, 2010

FINANCIAL TRANSACTIONS NOT RECORDED

The City of East Chicago will bring the activity and balances of these funds onto the official ledgers of the City.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The City of East Chicago will create two additional funds for the CDBG-R and HPRP ARRA Grants and account for their associated transactions within these funds.

OVERDRAWN CASH BALANCES

Negative cash balances in the General Fund, Park and Recreation, Lease Rental Payment, Solid Waste Operating and Solid Waste Bond and Interest are the result of 2010 property tax revenues not being received until 2011. Negative cash balances in the Federal, State and Local Law Enforcement grant funds occur because these funds operate on a reimbursement basis. The Communications and Gasoline Revolving funds have an accounts receivable balance that is causing the overdrawn position. The City is preparing a list of these receivables and will ask the appropriate board to write it off.

DISBURSEMENTS

The City Clerk has discontinued the practice of reimbursing herself for donations made from promotional funds.

The City Controller's Office continues to monitor contracts and invoices for compliance.

EMPLOYEE BONDS

An ordinance allowing the City to purchase a blanket bond or crime insurance policy was approved by the Common Council in July of 2011. The City can now move forward with the paperwork to purchase this bond.

PAYROLL CLAIM APPROVALS

Beginning in 2011, in addition to being approved by the Common Council, all payroll claims have also been forwarded to the appropriate governing boards for approval.

PAYROLL REPORTING ISSUE

The City is currently in the process of correcting this issue.

HEALTH INSURANCE FOR TEAMSTER 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.

CREATION OF FUNDS

An ordinance creating or recreating these funds was approved by the Common Council in July of 2011.

FIRST OFFENDERS FEE

In 2006 the Common Council approved Ordinance 06-0016 allowing the City Court to assess a \$220 first offenders fee to defendants who are charged with the first offense for dealing or possession of marijuana or hashish as a Class A Misdemeanor pursuant to I.C. 35-48-4-10 and 35-48-4-11. Upon the adoption of this ordinance by the Common Council it was my duty as City Clerk to collect these fees. On July 21, 2011 we were advised that the \$220 fee is not an allowable fee under I.C. 33-37-4-1. It is my understanding that the East Chicago Common Council is presenting an ordinance/resolution to rescind Ordinance 06-0016. The adoption of this ordinance/resolution will correct this matter.

ECONOMIC DEVELOPMENT COMMISSION

The Economic Development Commission has been instructed to organize annually.

REDEVELOPMENT COMMISSION ANNUAL REPORT

The Redevelopment Commission's annual report will be filed with the Mayor's office within thirty (30) days after the close of each calendar year.

APPROVAL OF REDEVELOPMENT ACCOUNTS PAYABLE VOUCHERS

The Department of Redevelopment/Redevelopment Commission rectified this situation in early 2011 by having the Board meet on a bi-monthly basis to approve the checks before they are written and released.

COMMUNITY DEVELOPMENT ENTITY

The Redevelopment Commission will dissolve the CDE. The CDE is a required in order to receive New Markets Tax Credit funding. At a later time Redevelopment's legal counsel, who prepared the opinion stating that the Redevelopment Commission had the authority to form a CDE, will consult with the legal counsel for the State Board of Accounts.

PETTY CASH FUND-POLICE

The monies for the 5 receipts in question will be reimbursed by the Officer responsible for the petty cash fund.

BUY MONEY-POLICE

The Police Department is implementing a policy to guide the Narcotics Unit in the distribution and accounting of confidential funds. The use of a separate bank account will be discontinued and cash will be handled in smaller increments.

INTERNAL CONTROLS-PARK DEPARTMENT

The Controller's Office will continue to work with the Park Department to establish controls over its collections and concession sales. A cash change fund will be established for the Park Department Office.

SALES TAX NOT COLLECTED OR REMITTED-PARK

The Park Department is working on setting up procedures to ensure the accurate and timely payment of sales tax.

RECEIPTS-PARK

All monies collected for recreation trips will be forwarded to the City Controller's Office in a timely manner.

INTERNAL CONTROLS-WATER UTILITY AND SANITARY DISTRICT

A. Customer Deposits

The issue of the customer deposit bank account and the G/L has been ongoing. The Utility is very close to having the financial system track and refund the deposits automatically. This will eliminate the issues with the customer deposit payable account, bank account, transfers between the deposit bank account/operating bank account. The Utility will also address the reconciling items on the customer meter deposit bank account.

B.,C. Reconciling Receivables, Reconciling Sales Tax

The Utility had addressed their concerns with reconciling receivables to the software provider (Tyler Technologies). Just recently, they have provided us several documents on the reconciliation process. With their assistance the Utility will work to perform monthly reconciliations on the receivables and the sales tax.

DELINQUENT WATER AND WASTEWATER ACCOUNTS

The Water Board and Department staff are reviewing options to equitably resolve the issue.

The Utility has been mailing delinquent notices to customers on a monthly basis. This allows customers to come in and either pay the bill in full or allows a partial payment (as provided by 170 IAC Article 6). Recently, the Utility inquired with neighboring communities on their lien process. In mid-July, the Utility started the lien process.

UTILITY RECEIPTS TAX-WATER UTILITY

The issue of unpaid taxes has been corrected and the full amount remitted to the IDOR.

MARINA DIRECTOR'S FRINGE BENEFIT

The Marina Director noted in the report is no longer employed by the City of East Chicago. The former Marina Director was billed and paid \$1034 (prorated November 1 – March 30 as he was terminated late October) for 2010/2011 winter storage (rec#33870, 6/30/11).

To ensure that the City Controllers Office is aware of any relevant financial transactions the Office manager at the Marina will provide the City Controller with board packets.