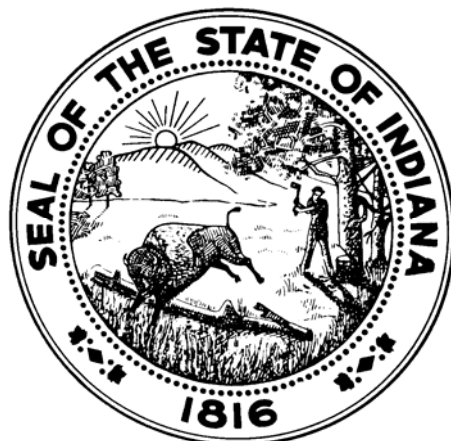


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

EXAMINATION REPORT  
OF  
TOWN OF NEW CHICAGO  
LAKE COUNTY, INDIANA  
January 1, 2003 to December 31, 2005



**FILED**  
7/21/06



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TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sherry L. Hall	01-01-03 to 12-31-07
President of the Town Council	Van Thompson	01-01-03 to 06-10-03
	Kenny Ewell	06-11-03 to 12-31-03
	Roger Pelfrey	01-01-04 to 09-29-04
	David Hall	09-30-04 to 12-31-05
	Kelly Vickery	01-01-06 to 12-31-06
Superintendent of Utilities	Robert Minarich	01-01-03 to 05-23-03
	Charlie Hardesty (Interim)	05-24-03 to 12-31-03
	Robert Minarich	01-01-04 to 10-18-04
	Howard Heckman	10-19-04 to 12-31-06



**STATE OF INDIANA**  
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STATE BOARD OF ACCOUNTS  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF NEW CHICAGO, LAKE COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of New Chicago (Town), for the period of January 1, 2003 to December 31, 2005. The Town's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

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

In our opinion, the schedules referred to above present fairly, in all material respects, the cash transactions of the Town for the years ended December 31, 2003, 2004, and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

June 13, 2006

TOWN OF NEW CHICAGO  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2003, 2004, And 2005

	Cash and Investments 01-01-03	Receipts	Disbursements	Cash and Investments 12-31-03
<b>Governmental Funds:</b>				
General	\$ 133,817	\$ 367,270	\$ 443,790	\$ 57,297
Motor Vehicle Highway	22,256	64,525	58,129	28,652
Local Road and Street	25,576	26,205	38,093	13,688
Park and Recreation	19,256	22,214	33,164	8,306
Law Enforcement Continuing Education	2,124	3,003	1,946	3,181
Indiana Gaming Revenue	65,734	27,530	65,664	27,600
Police Donation	1,845	2,890	3,878	857
Court Cost	2,804	-	-	2,804
Sanitation	2,796	51,638	51,009	3,425
Recycling	11,210	11,618	10,800	12,028
Assets From Evidence Room	870	-	-	870
Police Towing	993	1,440	1,886	547
Cops/UHP	-	35,384	31,903	3,481
Local Law Enforcement Block Grant	144	-	-	144
Economic Development	27,451	5,400	-	32,851
Cumulative Capital Improvement	52,078	47,458	40,000	59,536
<b>Proprietary Funds:</b>				
Water Utility - Operating	53,418	769,973	780,506	42,885
Water Utility - Depreciation	89,305	66,433	42,609	113,129
Water Utility - Customer Deposit	106,750	14,200	10,752	110,198
Wastewater Utility - Operating	30,358	164,961	164,942	30,377
Wastewater Utility - Depreciation	105,362	63,663	-	169,025
Wastewater Utility - Sinking	102,081	110,200	111,198	101,083
Wastewater Utility - Construction	45,389	-	-	45,389
<b>Fiduciary Funds:</b>				
Park Deposits	220	345	285	280
Police Officers' Pension	14,884	-	-	14,884
Payroll	-	421,193	417,703	3,490
<b>Totals</b>	<u>\$ 916,721</u>	<u>\$ 2,277,543</u>	<u>\$ 2,308,257</u>	<u>\$ 886,007</u>

The accompanying notes are an integral part of the schedules.

TOWN OF NEW CHICAGO  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2003, 2004, And 2005  
(Continued)

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
<b>Governmental Funds:</b>				
General	\$ 57,297	\$ 349,387	\$ 386,754	\$ 19,930
Motor Vehicle Highway	28,652	67,209	59,955	35,906
Local Road and Street	13,688	27,402	23,108	17,982
Park and Recreation	8,306	6,068	13,796	578
Law Enforcement Continuing Education	3,181	3,983	4,712	2,452
Indiana Gaming Revenue	27,600	40,693	42,317	25,976
Police Donation	857	5,346	2,873	3,330
Court Cost	2,804	-	-	2,804
Sanitation	3,425	55,984	51,577	7,832
Recycling	12,028	11,619	22,760	887
Assets From Evidence Room	870	-	870	-
Police Towing	547	2,670	2,902	315
Cops/UHP	3,481	80,100	78,659	4,922
Local Law Enforcement Block Grant	144	-	144	-
Economic Development	32,851	8,876	24,023	17,704
Cumulative Capital Improvement	59,536	7,699	59,500	7,735
Cumulative Building and Fire Fighting Equipment	-	5,000	702	4,298
<b>Proprietary Funds:</b>				
Water Utility - Operating	42,885	983,036	956,957	68,964
Water Utility - Depreciation	113,129	53,551	47,606	119,074
Water Utility - Customer Deposit	110,198	19,511	13,008	116,701
Wastewater Utility - Operating	30,377	165,112	173,968	21,521
Wastewater Utility - Depreciation	169,025	2,835	90,000	81,860
Wastewater Utility - Sinking	101,083	85,200	146,390	39,893
Wastewater Utility - Construction	45,389	153	-	45,542
<b>Fiduciary Funds:</b>				
Park Deposits	280	345	285	340
Police Officers' Pension	14,884	-	-	14,884
Payroll	3,490	476,755	477,447	2,798
	<u>\$ 886,007</u>	<u>\$ 2,458,534</u>	<u>\$ 2,680,313</u>	<u>\$ 664,228</u>

The accompanying notes are an integral part of the schedules.

TOWN OF NEW CHICAGO  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2003, 2004, And 2005  
(Continued)

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 19,930	\$ 727,058	\$ 699,847	\$ 47,141
Motor Vehicle Highway	35,906	76,958	87,675	25,189
Local Road and Street	17,982	27,363	20,236	25,109
Park and Recreation	578	33,743	20,351	13,970
Law Enforcement Continuing Education	2,452	4,358	3,778	3,032
Indiana Gaming Revenue	25,976	26,720	9,514	43,182
Police Donation	3,330	1,487	2,800	2,017
Deferred Prosecution Fund	-	15,312	4,685	10,627
Court Cost	2,804	2,500	2,500	2,804
Sanitation	7,832	60,001	63,054	4,779
Recycling	887	6,835	9,122	(1,400)
Police Towing	315	2,830	2,312	833
Cops/UHP	4,922	62,000	65,065	1,857
Economic Development	17,704	5,618	1,771	21,551
Cumulative Capital Improvement	7,735	41,377	29,519	19,593
Cumulative Building and Fire Fighting Equipment	4,298	1,730	646	5,382
Proprietary Funds:				
Water Utility - Operating	68,964	1,112,627	970,662	210,929
Water Utility - Depreciation	119,074	83,847	108,782	94,139
Water Utility - Customer Deposit	116,701	22,314	65,626	73,389
Wastewater Utility - Operating	21,521	162,210	180,246	3,485
Wastewater Utility - Depreciation	81,860	158,709	74,259	166,310
Wastewater Utility - Sinking	39,893	168,100	116,432	91,561
Wastewater Utility - Construction	45,542	673	46,215	-
Fiduciary Funds:				
Park Deposits	340	345	315	370
Police Officers' Pension	14,884	10,000	10,000	14,884
Payroll	2,798	530,865	533,663	-
	<u>\$ 664,228</u>	<u>\$ 3,345,580</u>	<u>\$ 3,129,075</u>	<u>\$ 880,733</u>

The accompanying notes are an integral part of the schedules.

TOWN OF NEW CHICAGO  
NOTES TO SCHEDULES

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

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

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

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

Note 5. Deposits and Investments

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

State statute (IC 5-13-9) authorizes the Town 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.

TOWN OF NEW CHICAGO  
NOTES TO SCHEDULES  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in 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 Town 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% 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:

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.

Note 7. Short-Term Liabilities

Interfund Balances and Activity

The composition of interfund balances as of December 31, 2004, is as follows:

Due From	Due To		Total
	Cumulative Capital Improvement Fund	Enterprise Fund	
General Fund	\$ 35,000	\$ 150,000	\$ 185,000

TOWN OF NEW CHICAGO  
 NOTES TO SCHEDULES  
 (Continued)

The composition of interfund balances as of December 31, 2005, is as follows:

<u>Due From</u>	<u>Due to Enterprise Fund</u>
General Fund	<u>\$ 80,000</u>

Interfund balances resulted from the time lag between the dates that (1) Interfund loans are repaid, (2) Interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) negative cash balances.

Note 8. Long-Term Debt

The Town has entered into various debt, including the Sewage Works Refunding Revenue Bonds of 2003 (formally Sewage Works Revenue Bonds of 1990) and a capital lease for a police car. The outstanding principal at December 31, 2005, was \$740,000 and \$6,671, respectively.

Note 9. Circuit Breaker Agreement

In 2004, the State provided to Lake County, for the benefit of various taxing units, a circuit breaker loan. The loan was to cover tax bill amounts in excess of 2% of the property's assessed valuation, subject to the property having a homestead exemption on file. On January 11, 2005, the County entered into an agreement with the Town of New Chicago and other taxing units receiving gaming tax distributions from Lake County for repayment of the loan. The Town will have its gaming distribution reduced by \$945 quarterly for 5 years, beginning in April 2005, to repay its share of the loan.

TOWN OF NEW CHICAGO  
EXAMINATION RESULTS AND COMMENTS

RECEIPTS AND COLLECTIONS

Receipts generated by the Town's computer software will only allow for one designation of the form of payment per receipt. Therefore, if a receipt is issued for the collection of a combination of cash and checks, the computer system will not allow a breakdown between the two amounts. As a result, the composition of monies collected could not be verified to the bank deposit.

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSETS

The Town and the Wastewater Utility do not record the purchase or deletion of any capital assets.

Every governmental unit should have a complete inventory of all fixed assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger, or properly approved form, as applicable. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BOND ORDINANCE

The Town is not complying with the Sewer Bond Ordinance which states in part: "There shall then be set apart and paid into a special fund hereby created and designated as the 'Depreciation and Replacement Fund' on the first day of the month not less than fifty (\$50) which shall be used solely to pay costs of replacements, improvements, repairs and extensions to the sewage system."

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)

CHART OF ACCOUNTS

The Water Utility generates annual operating revenues greater than \$200,000 and, therefore, is classified as a Class B utility; however, the Utility uses the Chart of Accounts for a Class C Water Utility.

Notwithstanding the above classifications, each utility should use the chart of accounts for the classification set by the Indiana Utility Regulatory Commission. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

TOWN OF NEW CHICAGO  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CUSTOMER DEPOSITS

The total customer deposits recorded in the detailed ledgers is \$112,551 which does not agree to the cash and investment balance of the customer deposit fund which is \$123,390 at December 31, 2005. This variance is partially attributable to interest earned on investments being allowed to accumulate in the fund and the redeposit of stale-dated refund checks.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROVAL OF FORMS

The Town is using a customer deposit receipt form which has not been approved for use in lieu of prescribed forms.

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

INTEREST ON INVESTMENTS

We noted some instances where interest earned on investments was automatically added to the principal and not recorded in the records. In addition, when investments are purchased and sold the activity is not recorded in the ledgers correctly, for example, the unit receipted the amount sold into the fund but there was no corresponding disbursement causing the balance in the fund to be overstated.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund.

A certificate of deposit may be renewed for an additional term if authorized by the governing board, without the original certificate of deposit being paid by the depository and a warrant being issued for the purchase of a new certificate of deposit. However, if renewed, the interest due the political subdivision shall be paid to the treasurer at each maturity date, so the records will reflect the true financial condition and the amount invested at all times. The interest shall not be added to the original deposit and reinvested by the depository. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF NEW CHICAGO  
EXIT CONFERENCE

The contents of this report were discussed on June 13, 2006, with Sherry L. Hall, Clerk-Treasurer.