

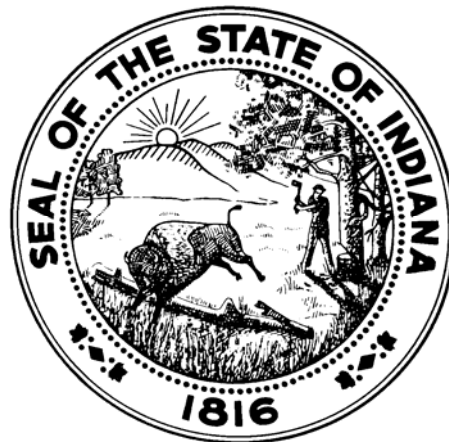
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF EAST CHICAGO

LAKE COUNTY, INDIANA



FILED
10/30/2006

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|------------------------|----------------------|
| Controller | Charles Pacurar | 01-01-05 to 12-31-06 |
| Mayor | George Pabey | 12-29-04 to 12-31-07 |
| President of the Board of Public Works and Safety | Charles Pacurar | 01-01-05 to 12-31-06 |
| President of the Common Council | Richard Medina | 01-01-05 to 12-31-06 |
| Director of Water Utility | Sondra Turner-Franklin | 02-09-05 to 12-31-06 |
| Director of Wastewater Utility | Adolfo Velez | 01-01-05 to 12-31-06 |
| Director of the Port Authority | Richard Novak | 02-01-05 to 12-31-06 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Chicago (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

The computerized accounting system used by the City posts receipts through batch reports. The batch reports, as well as the receipts, are numbered by the computerized accounting system in sequential order. Not all of the batch reports and receipts could be accounted for by the City.

In our opinion, except for the effects, if any, of the lack of accountability over the receipts and batch reports of receipts, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated October 5, 2006, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the table of contents, Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balance – Cash and Investment Basis – Discrete Component Unit, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules and Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balance – Cash and Investment Basis – Discrete Component Unit, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 5, 2006



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the City of East Chicago (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated October 5, 2006. The opinion to the financial statements was qualified due to the lack of accountability over receipts. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have discussed with management of the City on October 5, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2005-1, 2005-2, and 2005-3.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider items 2005-1, 2005-2, and 2005-3 to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the City on October 5, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the City's management 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

October 5, 2006

CITY OF EAST CHICAGO
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2005

| Functions/Programs | Program Receipts | | | | Net (Disbursement) Receipt and Changes in Net Assets | | | |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|----------------------|-------------------|
| | Disbursements | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Unit |
| | | | | | Governmental Activities | Business-Type Activities | Total | Port Authority |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 31,432,209 | \$ 499,647 | \$ 609,461 | \$ 100,201 | \$ (30,222,900) | \$ - | \$ (30,222,900) | \$ - |
| Public safety | 20,014,422 | 1,009,491 | 161,124 | - | (18,843,807) | - | (18,843,807) | - |
| Highways and streets | 1,477,131 | - | 1,013,570 | 328,830 | (134,731) | - | (134,731) | - |
| Sanitation | 188,458 | - | - | - | (188,458) | - | (188,458) | - |
| Health and welfare | 3,206,072 | 5,196 | 437,961 | - | (2,762,915) | - | (2,762,915) | - |
| Economic development | 112,650 | - | 2,312,779 | - | 2,200,129 | - | 2,200,129 | - |
| Culture and recreation | 4,583,169 | 500,444 | 117,376 | 25,000 | (3,940,349) | - | (3,940,349) | - |
| Urban redevelopment and housing | 1,836,346 | - | 846,547 | - | (989,799) | - | (989,799) | - |
| Principal and interest on long-term debt | 39,027,404 | - | - | - | (39,027,404) | - | (39,027,404) | - |
| Total governmental activities | 101,877,861 | 2,014,778 | 5,498,818 | 454,031 | (93,910,234) | - | (93,910,234) | - |
| Business-type activities: | | | | | | | | |
| Water | 3,618,530 | 3,897,126 | - | - | - | 278,596 | 278,596 | - |
| Sanitary District | 27,566,714 | 4,193,155 | - | - | - | (23,373,559) | (23,373,559) | - |
| Total business-type activities | 31,185,244 | 8,090,281 | - | - | - | (23,094,963) | (23,094,963) | - |
| Total primary government | \$ 133,063,105 | \$ 10,105,059 | \$ 5,498,818 | \$ 454,031 | (93,910,234) | (23,094,963) | (117,005,197) | - |
| Component unit: | | | | | | | | |
| Port Authority | \$ 1,538,362 | \$ 1,317,871 | \$ - | \$ - | - | - | - | (220,491) |
| General receipts: | | | | | | | | |
| Property taxes | | | | | 54,774,664 | 19,830,739 | 74,605,403 | - |
| Gaming taxes | | | | | 18,093,167 | - | 18,093,167 | - |
| Other local sources | | | | | 3,905,049 | 383,364 | 4,288,413 | - |
| Tax anticipation loan proceeds | | | | | 28,275,206 | 6,000,000 | 34,275,206 | - |
| Grants and contributions not restricted to specific programs | | | | | - | - | - | 1,032,995 |
| Unrestricted investment earnings | | | | | 444,312 | 2,114 | 446,426 | - |
| Transfers | | | | | (289,659) | 289,659 | - | - |
| Total general receipts, and transfers | | | | | 105,202,739 | 26,505,876 | 131,708,615 | 1,032,995 |
| Change in net assets | | | | | 11,292,505 | 3,410,913 | 14,703,418 | 812,504 |
| Net assets - beginning | | | | | 3,491,731 | 4,235,874 | 7,727,605 | (652,817) |
| Net assets - ending | | | | | \$ 14,784,236 | \$ 7,646,787 | \$ 22,431,023 | \$ 159,687 |
| Assets | | | | | | | | |
| Cash and investments | | | | | \$ 10,214,370 | \$ 1,783,908 | \$ 11,998,278 | \$ 159,687 |
| Restricted assets: | | | | | | | | |
| Cash and cash investments | | | | | 4,569,866 | 5,862,879 | 10,432,745 | - |
| Total assets | | | | | \$ 14,784,236 | \$ 7,646,787 | \$ 22,431,023 | \$ 159,687 |
| Net Assets | | | | | | | | |
| Restricted for: | | | | | | | | |
| Debt service | | | | | \$ 216,323 | \$ 235,307 | \$ 451,630 | \$ - |
| Capital projects | | | | | 662,218 | - | 662,218 | - |
| Other purposes | | | | | 3,691,325 | 5,627,572 | 9,318,897 | - |
| Unrestricted | | | | | 10,214,370 | 1,783,908 | 11,998,278 | 159,687 |
| Total net assets | | | | | \$ 14,784,236 | \$ 7,646,787 | \$ 22,431,023 | \$ 159,687 |

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

| | General | Gaming Special Revenue | Other Governmental Funds | Totals |
|--|-----------------------|------------------------------|--------------------------------|----------------------|
| Receipts: | | | | |
| Taxes | \$ 44,810,542 | \$ - | \$ 9,964,122 | \$ 54,774,664 |
| Licenses and permits | 199,949 | - | 3,870 | 203,819 |
| Intergovernmental | 829,401 | 18,093,167 | 4,578,731 | 23,501,299 |
| Charges for services | 177,361 | - | 1,559,352 | 1,736,713 |
| Fines and forfeits | 69,003 | - | - | 69,003 |
| Other | 545,979 | 695,406 | 1,439,873 | 2,681,258 |
| | <u>46,632,235</u> | <u>18,788,573</u> | <u>17,545,948</u> | <u>82,966,756</u> |
| Total receipts | | | | |
| Disbursements: | | | | |
| General government | 14,876,657 | 12,943,302 | 2,020,693 | 29,840,652 |
| Public safety | 19,712,294 | 123,222 | 178,906 | 20,014,422 |
| Highways and streets | - | - | 1,489,819 | 1,489,819 |
| Sanitation | - | - | 188,458 | 188,458 |
| Health and welfare | 2,770,787 | - | 435,285 | 3,206,072 |
| Economic development | - | 111,859 | 791 | 112,650 |
| Culture and recreation | - | 1,377,128 | 3,225,989 | 4,603,117 |
| Urban redevelopment and housing | - | - | 1,836,346 | 1,836,346 |
| Debt service: | | | | |
| Principal | - | - | 2,599,894 | 2,599,894 |
| Interest and fiscal charges | - | - | 2,065,306 | 2,065,306 |
| Capital outlay | - | - | 618,438 | 618,438 |
| | <u>37,359,738</u> | <u>14,555,511</u> | <u>14,659,925</u> | <u>66,575,174</u> |
| Total disbursements | | | | |
| Excess of receipts over disbursements | <u>9,272,497</u> | <u>4,233,062</u> | <u>2,886,023</u> | <u>16,391,582</u> |
| Other financing sources (uses) | | | | |
| Tax anticipation warrants received | 24,177,349 | - | 4,097,857 | 28,275,206 |
| Tax anticipation warrants repaid | (29,478,282) | - | (4,883,922) | (34,362,204) |
| Transfers in | 9,663,715 | 6,304,794 | 1,727,195 | 17,695,704 |
| Transfers out | - | (11,249,762) | (6,735,601) | (17,985,363) |
| | <u>4,362,782</u> | <u>(4,944,968)</u> | <u>(5,794,471)</u> | <u>(6,376,657)</u> |
| Total other financing sources (uses) | | | | |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 13,635,279 | (711,906) | (2,908,448) | 10,014,925 |
| Cash and investment fund balance - beginning | <u>(17,792,790)</u> | <u>17,108,279</u> | <u>5,820,363</u> | <u>5,135,852</u> |
| Cash and investment fund balance - ending | <u>\$ (4,157,511)</u> | <u>\$ 16,396,373</u> | <u>\$ 2,911,915</u> | <u>15,150,777</u> |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | | | |
| Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | | | | <u>(366,541)</u> |
| Net assets of governmental activities | | | | <u>\$ 14,784,236</u> |
| Cash and Investment Assets - December 31 | | | | |
| Cash and investments | \$ (4,157,511) | \$ 16,396,373 | \$ (1,657,951) | \$ 10,580,911 |
| Restricted assets: | | | | |
| Cash and investments | - | - | 4,569,866 | 4,569,866 |
| Total cash and investment assets - December 31 | <u>\$ (4,157,511)</u> | <u>\$ 16,396,373</u> | <u>\$ 2,911,915</u> | <u>\$ 15,150,777</u> |
| Cash and Investment Fund Balance - December 31 | | | | |
| Restricted for: | | | | |
| Debt service | \$ - | \$ - | \$ 216,323 | \$ 216,323 |
| Capital outlay | - | - | 662,218 | 662,218 |
| Other purposes | - | - | 3,691,325 | 3,691,325 |
| Unrestricted | <u>(4,157,511)</u> | <u>16,396,373</u> | <u>(1,657,951)</u> | <u>10,580,911</u> |
| Total cash and investment fund balance - December 31 | <u>\$ (4,157,511)</u> | <u>\$ 16,396,373</u> | <u>\$ 2,911,915</u> | <u>\$ 15,150,777</u> |

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

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2005

| | Water Utility | Sanitary District | Total | Internal Service Funds |
|--|-------------------|----------------------|---------------------|------------------------------|
| Operating receipts: | | | | |
| Residential sales | \$ 1,124,357 | \$ 1,620,680 | \$ 2,745,037 | \$ - |
| Commercial sales | 78,391 | 148,992 | 227,383 | - |
| Industrial sales | 1,858,275 | 2,314,499 | 4,172,774 | - |
| Public sales | 471,050 | 108,984 | 580,034 | - |
| Local tax distributions | - | 19,830,739 | 19,830,739 | - |
| Fire protection | 14,790 | - | 14,790 | - |
| Penalties | 6,735 | - | 6,735 | - |
| Charges for services - internal | - | - | - | 7,078,990 |
| Charges for services - other | - | - | - | 468,749 |
| Other | 343,528 | - | 343,528 | 780,112 |
| Total operating receipts | 3,897,126 | 24,023,894 | 27,921,020 | 8,327,851 |
| Operating disbursements: | | | | |
| Sanitary building maintenance | - | 1,372,579 | 1,372,579 | - |
| Trash and bulk collection | - | 1,343,631 | 1,343,631 | - |
| Street sweeping | - | 303,845 | 303,845 | - |
| Garbage collection | - | 1,331,814 | 1,331,814 | - |
| Sewer repair and service | - | 1,217,497 | 1,217,497 | - |
| Pump stations | - | 145,694 | 145,694 | - |
| Recycling | - | 593,945 | 593,945 | - |
| Officers and employees salaries and wages | 1,700,614 | 1,831,591 | 3,532,205 | - |
| Employee pensions and benefits | 580,838 | 535,283 | 1,116,121 | - |
| Sludge removal | - | 217,067 | 217,067 | - |
| Purchased power | 264,902 | 218,868 | 483,770 | - |
| Chemicals | 145,430 | 80,474 | 225,904 | - |
| Materials and supplies | 127,563 | 264,513 | 392,076 | - |
| Contractual services | 187,563 | 748,131 | 935,694 | - |
| Rents | 20,635 | 35,355 | 55,990 | - |
| Transportation | 3,465 | 14,091 | 17,556 | - |
| Miscellaneous expenses | 266,838 | 69,254 | 336,092 | - |
| Plant equipment | 53,451 | 44,970 | 98,421 | - |
| Refunds | 4,841 | 152 | 4,993 | - |
| Other disbursements | 128,821 | 697,869 | 826,690 | - |
| Cost of sales and services | - | - | - | 2,007,340 |
| Administration and general | - | 3,455,610 | 3,455,610 | 21,935 |
| Insurance claims and premiums | - | - | - | 5,022,403 |
| Total operating disbursements | 3,484,961 | 14,522,233 | 18,007,194 | 7,051,678 |
| Excess of receipts over disbursements | 412,165 | 9,501,661 | 9,913,826 | 1,276,173 |
| Nonoperating receipts (disbursements): | | | | |
| Proceeds from tax anticipation warrants | - | 6,000,000 | 6,000,000 | - |
| Principal paid on tax anticipation warrants | - | (12,000,000) | (12,000,000) | - |
| Interest and investment receipts | 1,634 | 480 | 2,114 | 1,407 |
| Debt service of principal | (80,000) | (755,000) | (835,000) | - |
| Debt service of interest and fiscal charges | (53,569) | (289,481) | (343,050) | - |
| Property rent | 39,690 | - | 39,690 | - |
| Miscellaneous receipts | 39,906 | 303,768 | 343,674 | - |
| Total nonoperating receipts (disbursements) | (52,339) | (6,740,233) | (6,792,572) | 1,407 |
| Excess of receipts over disbursements and nonoperating receipts (disbursements) | 359,826 | 2,761,428 | 3,121,254 | 1,277,580 |
| Transfers in | 478,117 | - | 478,117 | - |
| Transfers out | - | (188,458) | (188,458) | - |
| Excess of receipts, and transfers in over disbursements and transfers out | 837,943 | 2,572,970 | 3,410,913 | 1,277,580 |
| Cash and investment fund balance - beginning | 151,911 | 4,083,963 | 4,235,874 | (1,644,121) |
| Cash and investment fund balance - ending | <u>\$ 989,854</u> | <u>\$ 6,656,933</u> | <u>\$ 7,646,787</u> | <u>\$ (366,541)</u> |
| Cash and Investment Assets - December 31 | | | | |
| Cash and investments | \$ (142,770) | \$ 1,926,678 | \$ 1,783,908 | \$ (366,541) |
| Restricted assets: | | | | |
| Cash and investments | 1,132,624 | 4,730,255 | 5,862,879 | - |
| Total cash and investment assets - December 31 | <u>\$ 989,854</u> | <u>\$ 6,656,933</u> | <u>\$ 7,646,787</u> | <u>\$ (366,541)</u> |
| Cash and Investment Fund Balance - December 31 | | | | |
| Restricted for: | | | | |
| Debt service | \$ 94,959 | \$ 140,348 | \$ 235,307 | \$ - |
| Other purposes | 1,037,665 | 4,589,907 | 5,627,572 | - |
| Unrestricted | (142,770) | 1,926,678 | 1,783,908 | (366,541) |
| Total cash and investment fund balance - December 31 | <u>\$ 989,854</u> | <u>\$ 6,656,933</u> | <u>\$ 7,646,787</u> | <u>\$ (366,541)</u> |

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

CITY OF EAST CHICAGO
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

| | Pension Trust Funds | Agency Funds |
|--|---------------------------|---------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 3,997,046 | \$ - |
| State | 3,658,887 | - |
| Plan members | <u>4,277</u> | <u>-</u> |
| Total contributions | <u>7,660,210</u> | <u>-</u> |
| Investment earnings: | | |
| Interest | <u>151,759</u> | <u>-</u> |
| Agency fund additions | <u>-</u> | <u>27,777,143</u> |
| Total additions | <u>7,811,969</u> | <u>27,777,143</u> |
| Deductions: | | |
| Benefits | 7,357,428 | - |
| Administrative and general | 81,294 | - |
| Agency fund deductions | <u>-</u> | <u>27,585,590</u> |
| Total deductions | <u>7,438,722</u> | <u>27,585,590</u> |
| Excess of total additions over total deductions | <u>373,247</u> | <u>191,553</u> |
| Other financing sources (uses) | | |
| Tax anticipation warrants received | 1,800,000 | - |
| Tax anticipation warrants repaid | <u>(738,605)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>1,061,395</u> | <u>-</u> |
| Excess of additions and other financing sources over disbursements and other financing uses | 1,434,642 | 191,553 |
| Cash and investments - beginning | <u>(1,722,171)</u> | <u>1,351,992</u> |
| Cash and investments - ending | <u>\$ (287,529)</u> | <u>\$ 1,543,545</u> |

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

| | |
|--------------------------------------|-----------------------------|
| Primary Government: | City of East Chicago |
| Discretely Presented Component Unit: | East Chicago Port Authority |

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

| Component Unit | Description/Inclusion Criteria |
|-----------------------------|---|
| East Chicago Port Authority | The East Chicago Port Authority is a significant discretely presented component unit of the City. The primary government appoints a voting majority of the East Chicago Port Authority's board and a financial benefit/burden relationship exists between the City and the East Chicago Port Authority. |

Related Organizations

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The gaming special revenue fund is a special revenue fund. It accounts for the financial resources received from the State of Indiana as gambling admissions and resources received directly from the gambling boat based upon an agreement between the government and the gambling boat. The resources, which are locally appropriated, may be used for debt retirement, infrastructure and improvements, economic development, and general government.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The sanitary district fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

Additionally, the City reports the following fund types:

The internal service funds account for a telephone communication system, a data processing system, gasoline usage, utilities administration costs, employees medical, life, and workman's compensation insurances, and a government services cooperative provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for federal, state, and other local governmental entities, as well as some private entities.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City, the Sanitary District, and the Water Utility. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

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

CITY OF EAST CHICAGO
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

On or before August 31, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

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

B. Cash and Investment Balance Deficits

At December 31, 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

| Fund | 2005 |
|-------------------------------|--------------|
| General | \$ 4,157,511 |
| Special revenue funds: | |
| Parks and Recreation | 995,496 |
| Public Transportation | 378,570 |
| State Grants | 62,812 |
| Summer Youth Training Program | 368,323 |

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

| Fund | 2005 |
|---|---------|
| Capital projects fund: | |
| Cumulative Capital Development | 36,756 |
| Internal service funds: | |
| Communication Revolving | 92,733 |
| Gasoline Revolving | 286,064 |
| Pension trust funds: | |
| 1925 Police Pension | 213,956 |
| 1937 Firefighters' Pension | 73,573 |
| Agency fund: | |
| Northwest Indiana Health Department Cooperative | 94,399 |

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

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

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

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, were as follows:

| Transfer From | Transfer To | 2005 |
|------------------------|---|--------------------------------------|
| Gaming special revenue | General Fund Other governmental Water Utility | \$ 9,663,715 1,107,930 478,117 |
| Other governmental | Gaming special revenue Other governmental | 6,304,794 430,807 |
| Sanitary District | Other governmental | 188,458 |
| Total | | \$ 18,173,821 |

The City typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the debt service fund for current-year debt service requirements. The City transferred money from the gaming special revenue fund to various funds for the purpose of eliminating prior year cash deficit balances.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of, theft of, damage to, and destruction of buildings and equipment purchased in 2005 and later; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents,
and Job Related Illness or Injuries to Employees

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits), and job related illnesses or injuries to employees. The risk financing fund is accounted for in the Employees Hospital, Life, and Workman's Compensation Fund, an internal service fund, where assets are set aside for claim settlements. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Holding Corporation

The City has entered into a capital lease with the City of East Chicago Facilities Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$2,417,000.

C. Subsequent Events

Property Taxes

Property tax rates and levies for 2004 taxes, payable in 2005, were not established by February 15, 2005, as required by state statute due to the delay in the completion of the reassessment of Lake County. The 2005 property tax rates and levies were not established until October 2004; thus, the property taxes were not billed or collected timely. The final settlement of the 2004 taxes, payable in 2005, was just being distributed to the various governmental entities in March 2006. The 2005 pay 2006 tax rates and levies were also not established when required. The 2005, pay 2006, property tax bills were mailed on August 1, 2006, with the spring installment due by August 29, 2006, and the fall installment due by November 14, 2006.

On June 28, 2005, the Lake County Council adopted Ordinance 1264I, which establishes a credit for the excessive residential property taxes. The credit will apply to "qualified residential property" in Lake County for 2004 taxes due and payable in 2005. A "qualified residential property" is defined as a

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

property that is eligible for a homestead credit as defined in Indiana Code 6-1.1-20.9-1. The amount of the credit is the amount by which the person's property tax liability attributable to the person's "qualified residential property" for property taxes first due and payable in the calendar years provided in the Ordinance exceeds 2% of the gross assessed value of that same property.

On August 23, 2005, the County Council adopted Ordinance 1266F, which allows the County Treasurer to borrow money repayable over a term not to exceed five years in an amount sufficient to compensate the political subdivisions located wholly or in part in the County for the reduction of property tax collections due and payable in 2005 that results from the application of the 2% credit authorized by Ordinance 1264I.

Water Utility – Loan

In March, 2006, the Water Utility closed on a State Revolving Loan in the amount of \$16,000,000. The proceeds of the loan will be used to improve the water plant. The interest on the amounts drawn down will be payable beginning in April 2006. Principal repayments are scheduled to begin in January 2007. The interest rate on the loan has been determined to be 4.65%.

City – Capital Lease

In 2006, the capital lease with the City of East Chicago Facilities Building Corporation (the lessor) was refinanced as a result of the Building Corporation's refinancing of the related bonds. The balances presented in the Supplementary Information – Schedule of Long-Term Debt are based upon the refinanced debt service agreement.

D. Pending Litigation

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

The City is named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages cannot be determined.

E. Gaming Tax Distribution Reduction

Indiana Code 6-3.1-20-7 requires the Auditor of State's Office to deduct from the Riverboat Admissions Tax Distributions to the City one-sixth of the previous year's tax credits paid to Lake County income taxpayers under Indiana Code 6-3.1-20-5. Credits reported were not being deducted. Thus, in 2005, credits given in the years 2001 through 2004 were deducted in the amount of \$1,639,559. In 2006, the same dollar amount of credits will be deducted, and in 2007, the final amount due on the credits given in the years 2001 through 2003 will be deducted in the amount of \$1,077,742.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Conduit Debt Obligation

From time to time, the City has issued Pollution Control, Solid Waste Disposal, and Economic Development Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying notes to the financial statements.

As of December 31, 2005, there were eleven series of Pollution Control, Solid Waste Disposal, and Economic Development Revenue Bonds outstanding. The aggregate principal amount payable for the eleven series issued prior to and after July 1, 1995, could not be determined; however, their original issue amounts totaled \$139,200,000.

G. Postemployment Benefits

Police and Firefighters

In addition to the pension benefits described below, the City provides postemployment health care benefits, as authorized by Indiana Code 5-10-8, to all police and firefighters who retire from the City on or after attaining age requirements and years of service set forth in the various union agreements. Currently, 163 retirees meet these eligibility requirements. The retirees pay \$50 and \$112.50 per month for single and family coverage, respectively. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2005, disbursements of \$400,362 were recognized for postemployment benefits.

City Employees

In addition to the pension benefits described below, the City provides postemployment health care benefits, as authorized by Indiana Code 5-10-8, to all employees, except Teamster Union Members, who retire from the City on or after attaining age 50 with at least 15 years of service. Currently, 64 retirees meet these eligibility requirements. The retirees pay anywhere from \$50 to \$399 per month for single and family coverage. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2005, disbursements of \$143,708 were recognized for postemployment benefits.

H. Loans Receivable – Indiana Department of Commerce

The City redevelopment and economic development departments loan money to local businesses and individuals. The funding for these loans comes from grants from the U.S. Department of Housing and Urban Development and the U.S. Department of Commerce. The loans are accounted for in the Community Development, SSED Revolving Loan, and the East Chicago, Gary, Hammond Revolving Loan Consortium Special Revenue Funds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

At December 31, 2005, outstanding loans were as follows:

| | Balance Receivable |
|---|-----------------------|
| Special revenue funds: | |
| Community Development | \$ 2,652,595 |
| SSED Revolving Loan | 48,438 |
| East Chicago, Gary, Hammond Revolving Loan Consortium | 114,974 |
| Total loans receivable | \$ 2,816,007 |

I. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on November 9, 2005, with an immediate effect date; however, it was put into effect on January 1, 2006.

Wastewater Utility

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

J. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

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

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

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Sanitary District is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

| | PERF City, Sanitary District and Port Authority | PERF Water Utility | 1925 Police Officers' Pension | 1937 Firefighters' Pension |
|---|--|-----------------------|-------------------------------------|----------------------------------|
| Annual required contribution | \$ 1,095,197 | \$ 104,601 | \$ 6,568,600 | \$ 5,032,500 |
| Interest on net pension obligation | (48,075) | (6,108) | 957,500 | 582,000 |
| Adjustment to annual required contribution | <u>54,786</u> | <u>6,961</u> | <u>(1,597,400)</u> | <u>(970,900)</u> |
| Annual pension cost | 1,101,908 | 105,454 | 5,928,700 | 4,643,600 |
| Contributions made | <u>1,029,071</u> | <u>132,199</u> | <u>2,339,879</u> | <u>2,149,456</u> |
| Increase (decrease) in net pension obligation | 72,837 | (26,745) | 3,588,821 | 2,494,144 |
| Net pension obligation, beginning of year | <u>(663,109)</u> | <u>(84,253)</u> | <u>14,185,014</u> | <u>8,621,556</u> |
| Net pension obligation, end of year | <u>\$ (590,272)</u> | <u>\$ (110,998)</u> | <u>\$ 17,773,835</u> | <u>\$ 11,115,700</u> |

| | PERF | 1925 Police Officers' Pension | 1937 Firefighters' Pension |
|---------------------------------|--|--|--|
| Contribution rates: | | | |
| City | 4.5% | 1,253% | 2,304% |
| Plan members | 3% | 6% | 6% |
| Actuarial valuation date | 07-01-05 | 01-01-04 | 01-01-04 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level percentage of projected payroll, closed | Level percentage of projected payroll, closed | Level percentage of projected payroll, closed |
| Amortization period | 40 years | 30 years | 30 years |
| Amortization period (from date) | 07-01-97 | 01-01-05 | 01-01-05 |
| Asset valuation method | 75% of expected actuarial value plus 25% of market value | 4 year phase in of unrealized and realized capital | 4 year phase in of unrealized and realized capital |

Actuarial Assumptions

| | | | |
|------------------------------------|-------|----------|----------|
| Investment rate of return | 7.25% | 6% | 6% |
| Projected future salary increases: | | | |
| Total | 5% | 4% | 4% |
| Attributed to inflation | 4% | 4% | 4% |
| Attributed to merit/seniority | 1% | 0% | 0% |
| Cost-of-living adjustments | 2% | 2.75/4%* | 2.75/4%* |

*2.75% converted members; 4% nonconverted members

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

| | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---------------------------------------|----------------|---------------------------------|-------------------------------------|------------------------------|
| PERF (City and Sanitary District) | 06-30-03 | \$ 884,676 | 96% | \$ (420,584) |
| | 06-30-04 | 751,719 | 132% | (663,109) |
| | 06-30-05 | 1,101,908 | 137% | (590,272) |
| PERF (Water Utility) | 06-30-03 | 115,900 | 100% | (47,941) |
| | 06-30-04 | 93,711 | 139% | (84,253) |
| | 06-30-05 | 105,454 | 141% | (110,998) |
| 1925 Police Officers' Pension Plan | 12-31-01 | 5,752,100 | 96% | 11,946,023 |
| | 12-31-02 | 5,802,400 | 61% | 14,185,014 |
| | 12-31-03 | 5,928,700 | 39% | 17,773,835 |
| 1937 Firefighters' Pension Plan | 12-31-01 | 4,158,000 | 103% | 7,096,049 |
| | 12-31-02 | 4,443,000 | 66% | 8,621,556 |
| | 12-31-03 | 4,643,600 | 46% | 11,115,700 |

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2005, was comprised of the following:

| | 1925 Police Officers' Pension | 1937 Firefighters' Pension |
|--|-------------------------------------|----------------------------------|
| Retires and beneficiaries currently receiving benefits | 160 | 121 |
| Current active employees | 3 | - |

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

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$1,811,539, \$1,742,274, and \$1,657,922, respectively, equal to the required contributions for each year.

CITY OF EAST CHICAGO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

| Public Employees' Retirement Fund | | | | | | |
|-----------------------------------|--|---|--|--------------------------|---------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets Over (Unfunded) AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c) |
| 07-01-03 | \$ 18,406,259 | \$ 18,117,914 | \$ 288,345 | 102% | \$ 17,741,353 | 2% |
| 07-01-04 | 18,718,661 | 20,410,796 | (1,692,135) | 92% | 21,852,904 | (8%) |
| 07-01-05 | 19,537,719 | 21,672,115 | (2,134,396) | 90% | 20,299,090 | (11%) |

| 1925 Police Pension Plan | | | | | | |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c) |
| 01-01-99 | \$ (287,078) | \$ 63,514,900 | \$ (63,801,978) | (0%) | \$ 709,000 | (8,999%) |
| 01-01-00 | (699,584) | 63,036,600 | (63,736,184) | (1%) | 647,800 | (9,839%) |
| 01-01-01 | 200,336 | 60,204,000 | (60,003,664) | 0% | 495,400 | (12,112%) |
| 01-01-02 | 3,524,214 | 59,087,100 | (55,562,886) | 6% | 480,200 | (11,571%) |
| 01-01-03 | 3,314,661 | 57,321,400 | (54,006,739) | 6% | 672,300 | (8,033%) |
| 01-01-04 | (143,499) | 58,601,300 | (58,744,799) | (0%) | 524,100 | (11,209%) |

| 1937 Fire Pension Plan | | | | | | |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c) |
| 01-01-99 | \$ (495,949) | \$ 45,469,400 | \$ (45,965,349) | (1%) | \$ 485,100 | (9,475%) |
| 01-01-00 | (465,002) | 45,675,300 | (46,140,302) | (1%) | 419,200 | (11,007%) |
| 01-01-01 | 336,382 | 43,131,800 | (42,795,418) | 1% | 381,100 | (11,229%) |
| 01-01-02 | 2,754,924 | 44,694,300 | (41,939,376) | 6% | 280,100 | (14,973%) |
| 01-01-03 | 2,671,516 | 43,253,700 | (40,582,184) | 6% | 462,300 | (8,778%) |
| 01-01-04 | (259,778) | 44,531,100 | (44,790,878) | (1%) | 218,400 | (20,509%) |

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

| 1925 Police Officers' Pension Plan | | | | |
|------------------------------------|----------------|---|----------------------------------|-------|
| | Year Ending | Annual Required Contribution (ARC) | Percentage of ARC Contributed | |
| | | | City | State |
| 1925 Police Officers' Pension Plan | 12-31-98 | \$ 5,973,100 | 17% | 27% |
| | 12-31-99 | 6,180,100 | 24% | 28% |
| | 12-31-00 | 6,299,500 | 35% | 33% |
| | 12-31-01 | 6,180,600 | 28% | 62% |
| | 12-31-02 | 6,287,500 | 19% | 38% |
| | 12-31-03 | 6,568,600 | 2% | 33% |
| 1937 Firefighters' Pension Plan | | | | |
| | Year Ending | Annual Required Contribution (ARC) | Percentage of ARC Contributed | |
| | | | City | State |
| 1937 Firefighters' Pension Plan | 12-31-98 | \$ 4,308,500 | 19% | 27% |
| | 12-31-99 | 4,403,200 | 34% | 30% |
| | 12-31-00 | 4,537,200 | 41% | 36% |
| | 12-31-01 | 4,422,100 | 30% | 67% |
| | 12-31-02 | 4,731,400 | 21% | 40% |
| | 12-31-03 | 5,032,500 | 7% | 35% |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - NONMAJOR FUNDS BY FUND TYPE
 For The Year Ended December 31, 2005

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Total Nonmajor Funds |
|---|-----------------------------|--------------------------|------------------------------|----------------------------|
| Receipts: | | | | |
| Taxes | \$ 5,375,798 | \$ 4,161,592 | \$ 426,732 | \$ 9,964,122 |
| Licenses and permits | 3,870 | - | - | 3,870 |
| Intergovernmental | 4,426,181 | 47,319 | 105,231 | 4,578,731 |
| Charges for services | 585,376 | - | 973,976 | 1,559,352 |
| Other | 1,438,639 | - | 1,234 | 1,439,873 |
| | <u>11,829,864</u> | <u>4,208,911</u> | <u>1,507,173</u> | <u>17,545,948</u> |
| Disbursements: | | | | |
| General government | 2,020,693 | - | - | 2,020,693 |
| Public safety | 178,906 | - | - | 178,906 |
| Highways and streets | 1,489,819 | - | - | 1,489,819 |
| Sanitation | 188,458 | - | - | 188,458 |
| Health and welfare | 435,285 | - | - | 435,285 |
| Economic development | 791 | - | - | 791 |
| Culture and recreation | 3,225,989 | - | - | 3,225,989 |
| Urban redevelopment and housing | 1,836,346 | - | - | 1,836,346 |
| Debt service: | | | | |
| Principal | 1,395,276 | 1,204,618 | - | 2,599,894 |
| Interest and fiscal charges | 166,906 | 1,898,400 | - | 2,065,306 |
| Capital outlay | - | - | 618,438 | 618,438 |
| | <u>10,938,469</u> | <u>3,103,018</u> | <u>618,438</u> | <u>14,659,925</u> |
| Excess of revenue over disbursements | <u>891,395</u> | <u>1,105,893</u> | <u>888,735</u> | <u>2,886,023</u> |
| Other financing sources (uses) | | | | |
| Tax anticipation warrants received | 2,423,504 | 1,674,353 | - | 4,097,857 |
| Tax anticipation warrants repaid | (2,545,420) | (2,174,353) | (164,149) | (4,883,922) |
| Transfers in | 1,727,195 | - | - | 1,727,195 |
| Transfers out | (6,735,601) | - | - | (6,735,601) |
| | <u>(5,130,322)</u> | <u>(500,000)</u> | <u>(164,149)</u> | <u>(5,794,471)</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (4,238,927) | 605,893 | 724,586 | (2,908,448) |
| Cash and investment fund balance - beginning | <u>6,309,057</u> | <u>(389,570)</u> | <u>(99,124)</u> | <u>5,820,363</u> |
| Cash and investment fund balance - ending | <u>\$ 2,070,130</u> | <u>\$ 216,323</u> | <u>\$ 625,462</u> | <u>\$ 2,911,915</u> |
| <u>Cash and Investment Assets - December 31</u> | | | | |
| Cash and investments | \$ (1,621,195) | \$ - | \$ (36,756) | \$ (1,657,951) |
| Restricted assets: | | | | |
| Cash and investments | <u>3,691,325</u> | <u>216,323</u> | <u>662,218</u> | <u>4,569,866</u> |
| Total cash and investment assets - December 31 | <u>\$ 2,070,130</u> | <u>\$ 216,323</u> | <u>\$ 625,462</u> | <u>\$ 2,911,915</u> |
| <u>Cash and Investment Fund Balance - December 31</u> | | | | |
| Restricted for: | | | | |
| Debt service | \$ - | \$ 216,323 | \$ - | \$ 216,323 |
| Capital projects | - | - | 662,218 | 662,218 |
| Other purposes | 3,691,325 | - | - | 3,691,325 |
| Unrestricted | <u>(1,621,195)</u> | <u>-</u> | <u>(36,756)</u> | <u>(1,657,951)</u> |
| Total cash and investment fund balance - December 31 | <u>\$ 2,070,130</u> | <u>\$ 216,323</u> | <u>\$ 625,462</u> | <u>\$ 2,911,915</u> |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2005

| | Motor Vehicle Highway | Local Road and Street | Parks and Recreation | Health Maintenance | General Adult Probation | Economic Development Commission | Public Transportation |
|---|-----------------------------|-----------------------------|----------------------------|-----------------------|-------------------------------|---------------------------------------|--------------------------|
| Receipts: | | | | | | | |
| Taxes | \$ 216,188 | \$ - | \$ 3,369,668 | \$ - | \$ - | \$ 856,560 | \$ 933,382 |
| Licenses and permits | - | - | - | - | - | - | - |
| Intergovernmental | 1,015,356 | 328,830 | 40,628 | 112,940 | - | - | 495,472 |
| Charges for services | - | - | 489,644 | - | 20,288 | - | - |
| Other | 980 | 2,793 | 9,430 | - | - | - | 70 |
| Total receipts | 1,232,524 | 331,623 | 3,909,370 | 112,940 | 20,288 | 856,560 | 1,428,924 |
| Disbursements: | | | | | | | |
| General government | - | - | - | - | 4,369 | - | 1,358,953 |
| Public safety | - | - | - | - | - | - | - |
| Highways and streets | 899,193 | 466,531 | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - | - |
| Health and welfare | - | - | - | 106,868 | - | - | - |
| Economic development | - | - | - | - | - | 791 | - |
| Culture and recreation | - | - | 3,081,939 | - | - | - | - |
| Urban redevelopment and housing | - | - | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - | - |
| Total disbursements | 899,193 | 466,531 | 3,081,939 | 106,868 | 4,369 | 791 | 1,358,953 |
| Excess (deficiency) of revenue over disbursements | 333,331 | (134,908) | 827,431 | 6,072 | 15,919 | 855,769 | 69,971 |
| Other financing sources (uses) | | | | | | | |
| Tax anticipation warrants received | - | - | 2,010,118 | - | - | - | 413,386 |
| Tax anticipation warrants repaid | - | - | (1,892,816) | - | - | - | (652,604) |
| Transfers in | - | - | 282,691 | - | - | - | 230,000 |
| Transfers out | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | 399,993 | - | - | - | (9,218) |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 333,331 | (134,908) | 1,227,424 | 6,072 | 15,919 | 855,769 | 60,753 |
| Cash and investment fund balance - beginning | 595,648 | 582,328 | (2,222,920) | 54,449 | 27,467 | 1,601 | (439,323) |
| Cash and investment fund balance - ending | \$ 928,979 | \$ 447,420 | \$ (995,496) | \$ 60,521 | \$ 43,386 | \$ 857,370 | \$ (378,570) |
| <u>Cash and Investment Assets - December 31</u> | | | | | | | |
| Cash and investments | \$ - | \$ - | \$ (995,496) | \$ - | \$ - | \$ - | \$ (378,570) |
| Restricted assets: | | | | | | | |
| Cash and investments | 928,979 | 447,420 | - | 60,521 | 43,386 | 857,370 | - |
| Total cash and investment assets - December 31 | \$ 928,979 | \$ 447,420 | \$ (995,496) | \$ 60,521 | \$ 43,386 | \$ 857,370 | \$ (378,570) |
| <u>Cash and Investment Fund Balance - December 31</u> | | | | | | | |
| Restricted for: | | | | | | | |
| Other purposes | \$ 928,979 | \$ 447,420 | \$ - | \$ 60,521 | \$ 43,386 | \$ 857,370 | \$ - |
| Unrestricted | - | - | (995,496) | - | - | - | (378,570) |
| Total cash and investment fund balance - December 31 | \$ 928,979 | \$ 447,420 | \$ (995,496) | \$ 60,521 | \$ 43,386 | \$ 857,370 | \$ (378,570) |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2005
 (Continued)

| | Federal Grants | Community Development | Law Enforcement Continuing Education | Unsafe Building | State Grants | Summer Youth Training Program | Grants |
|---|-------------------|--------------------------|---|--------------------|--------------------|--|------------------|
| Receipts: | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and permits | - | - | 3,870 | - | - | - | - |
| Intergovernmental | 35,962 | 1,969,558 | - | - | 306,114 | 90,000 | - |
| Charges for services | - | - | 8,025 | 7,640 | - | - | 15,980 |
| Other | - | 452,694 | - | - | - | - | 121,010 |
| Total receipts | 35,962 | 2,422,252 | 11,895 | 7,640 | 306,114 | 90,000 | 136,990 |
| Disbursements: | | | | | | | |
| General government | 24,392 | - | - | - | - | 611,894 | 3,968 |
| Public safety | - | - | 24,063 | - | 41,700 | - | 27,580 |
| Highways and streets | - | - | - | - | - | - | - |
| Sanitation | - | - | - | - | - | - | - |
| Health and welfare | - | - | - | - | 319,925 | - | - |
| Economic development | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | 15,471 | - | 128,579 |
| Urban redevelopment and housing | - | 1,448,628 | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal | - | 1,395,276 | - | - | - | - | - |
| Interest and fiscal charges | - | 166,906 | - | - | - | - | - |
| Total disbursements | 24,392 | 3,010,810 | 24,063 | - | 377,096 | 611,894 | 160,127 |
| Excess (deficiency) of revenue over disbursements | 11,570 | (588,558) | (12,168) | 7,640 | (70,982) | (521,894) | (23,137) |
| Other financing sources (uses) | | | | | | | |
| Tax anticipation warrants received | - | - | - | - | - | - | - |
| Tax anticipation warrants repaid | - | - | - | - | - | - | - |
| Transfers in | 30,545 | 430,807 | - | - | 72,276 | 153,571 | 95,864 |
| Transfers out | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 30,545 | 430,807 | - | - | 72,276 | 153,571 | 95,864 |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 42,115 | (157,751) | (12,168) | 7,640 | 1,294 | (368,323) | 72,727 |
| Cash and investment fund balance - beginning | 13,809 | 949,393 | 44,691 | 15,370 | (64,106) | - | (46,928) |
| Cash and investment fund balance - ending | \$ 55,924 | \$ 791,642 | \$ 32,523 | \$ 23,010 | \$ (62,812) | \$ (368,323) | \$ 25,799 |
| <u>Cash and Investment Assets - December 31</u> | | | | | | | |
| Cash and investments | \$ - | \$ - | \$ - | \$ - | \$ (62,812) | \$ (368,323) | \$ 25,799 |
| Restricted assets: | | | | | | | |
| Cash and investments | 55,924 | 791,642 | 32,523 | 23,010 | - | - | - |
| Total cash and investment assets - December 31 | \$ 55,924 | \$ 791,642 | \$ 32,523 | \$ 23,010 | \$ (62,812) | \$ (368,323) | \$ 25,799 |
| <u>Cash and Investment Fund Balance - December 31</u> | | | | | | | |
| Restricted for: | | | | | | | |
| Other purposes | \$ 55,924 | \$ 791,642 | \$ 32,523 | \$ 23,010 | \$ - | \$ - | \$ - |
| Unrestricted | - | - | - | - | (62,812) | (368,323) | 25,799 |
| Total cash and investment fund balance - December 31 | \$ 55,924 | \$ 791,642 | \$ 32,523 | \$ 23,010 | \$ (62,812) | \$ (368,323) | \$ 25,799 |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2005
 (Continued)

| | Local Law Enforcement Block Grant | Property Improvement | Police Federal Forfeitures | Damage to City Property | Community Health Center | Railroad Relocation | Redevelopment Rehabilitation Escrow |
|---|--|-------------------------|----------------------------------|-------------------------------|-------------------------------|------------------------|---|
| Receipts: | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and permits | - | - | - | - | - | - | - |
| Intergovernmental | - | - | 31,321 | - | - | - | - |
| Charges for services | - | - | - | - | - | - | - |
| Other | 375 | - | 1,940 | 478 | - | - | 813,646 |
| Total receipts | 375 | - | 33,261 | 478 | - | - | 813,646 |
| Disbursements: | | | | | | | |
| General government | - | - | - | 17,117 | - | - | - |
| Public safety | 43,012 | - | 42,551 | - | - | - | - |
| Highways and streets | - | - | - | - | - | 124,095 | - |
| Sanitation | - | - | - | - | - | - | - |
| Health and welfare | - | - | - | - | - | - | - |
| Economic development | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - |
| Urban redevelopment and housing | - | - | - | - | - | - | 387,718 |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - | - |
| Total disbursements | 43,012 | - | 42,551 | 17,117 | - | 124,095 | 387,718 |
| Excess (deficiency) of revenue over disbursements | (42,637) | - | (9,290) | (16,639) | - | (124,095) | 425,928 |
| Other financing sources (uses) | | | | | | | |
| Tax anticipation warrants received | - | - | - | - | - | - | - |
| Tax anticipation warrants repaid | - | - | - | - | - | - | - |
| Transfers in | 11,704 | - | - | - | 231,279 | - | - |
| Transfers out | - | - | - | - | - | - | (430,807) |
| Total other financing sources (uses) | 11,704 | - | - | - | 231,279 | - | (430,807) |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (30,933) | - | (9,290) | (16,639) | 231,279 | (124,095) | (4,879) |
| Cash and investment fund balance - beginning | 32,444 | 6,000 | 71,151 | 78,393 | (231,279) | 175,833 | 8,156 |
| Cash and investment fund balance - ending | \$ 1,511 | \$ 6,000 | \$ 61,861 | \$ 61,754 | \$ - | \$ 51,738 | \$ 3,277 |
| Cash and Investment Assets - December 31 | | | | | | | |
| Cash and investments | \$ - | \$ 6,000 | \$ - | \$ 61,754 | \$ - | \$ 51,738 | \$ 3,277 |
| Restricted assets: | | | | | | | |
| Cash and investments | 1,511 | - | 61,861 | - | - | - | - |
| Total cash and investment assets - December 31 | \$ 1,511 | \$ 6,000 | \$ 61,861 | \$ 61,754 | \$ - | \$ 51,738 | \$ 3,277 |
| Cash and Investment Fund Balance - December 31 | | | | | | | |
| Restricted for: | | | | | | | |
| Other purposes | \$ 1,511 | \$ - | \$ 61,861 | \$ - | \$ - | \$ - | \$ - |
| Unrestricted | - | 6,000 | - | 61,754 | - | 51,738 | 3,277 |
| Total cash and investment fund balance - December 31 | \$ 1,511 | \$ 6,000 | \$ 61,861 | \$ 61,754 | \$ - | \$ 51,738 | \$ 3,277 |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 For The Year Ended December 31, 2005
 (Continued)

| | Vital Statistics | SSED Revolving Loan | East Chicago, Gary, Hammond Revolving Loan Consortium | Stormwater Management | Harrah's Trust | Totals |
|---|---------------------|---------------------------|--|--------------------------|--------------------|---------------------|
| Receipts: | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,375,798 |
| Licenses and permits | - | - | - | - | - | 3,870 |
| Intergovernmental | - | - | - | - | - | 4,426,181 |
| Charges for services | 43,799 | - | - | - | - | 585,376 |
| Other | 131 | 18,643 | 16,449 | - | - | 1,438,639 |
| Total receipts | 43,930 | 18,643 | 16,449 | - | - | 11,829,864 |
| Disbursements: | | | | | | |
| General government | - | - | - | - | - | 2,020,693 |
| Public safety | - | - | - | - | - | 178,906 |
| Highways and streets | - | - | - | - | - | 1,489,819 |
| Sanitation | - | - | - | 188,458 | - | 188,458 |
| Health and welfare | 8,492 | - | - | - | - | 435,285 |
| Economic development | - | - | - | - | - | 791 |
| Culture and recreation | - | - | - | - | - | 3,225,989 |
| Urban redevelopment and housing | - | - | - | - | - | 1,836,346 |
| Debt service: | | | | | | |
| Principal | - | - | - | - | - | 1,395,276 |
| Interest and fiscal charges | - | - | - | - | - | 166,906 |
| Total disbursements | 8,492 | - | - | 188,458 | - | 10,938,469 |
| Excess (deficiency) of revenue over disbursements | <u>35,438</u> | <u>18,643</u> | <u>16,449</u> | <u>(188,458)</u> | <u>-</u> | <u>891,395</u> |
| Other financing sources (uses) | | | | | | |
| Tax anticipation warrants received | - | - | - | - | - | 2,423,504 |
| Tax anticipation warrants repaid | - | - | - | - | - | (2,545,420) |
| Transfers in | - | - | - | 188,458 | - | 1,727,195 |
| Transfers out | - | - | - | - | (6,304,794) | (6,735,601) |
| Total other financing sources (uses) | - | - | - | 188,458 | (6,304,794) | (5,130,322) |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>35,438</u> | <u>18,643</u> | <u>16,449</u> | <u>-</u> | <u>(6,304,794)</u> | <u>(4,238,927)</u> |
| Cash and investment fund balance - beginning | <u>-</u> | <u>231,659</u> | <u>120,427</u> | <u>-</u> | <u>6,304,794</u> | <u>6,309,057</u> |
| Cash and investment fund balance - ending | <u>\$ 35,438</u> | <u>\$ 250,302</u> | <u>\$ 136,876</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,070,130</u> |
| <u>Cash and Investment Assets - December 31</u> | | | | | | |
| Cash and investments | \$ 35,438 | \$ - | \$ - | \$ - | \$ - | \$ (1,621,195) |
| Restricted assets: | | | | | | |
| Cash and investments | - | 250,302 | 136,876 | - | - | 3,691,325 |
| Total cash and investment assets - December 31 | \$ 35,438 | \$ 250,302 | \$ 136,876 | \$ - | \$ - | \$ 2,070,130 |
| <u>Cash and Investment Fund Balance - December 31</u> | | | | | | |
| Restricted for: | | | | | | |
| Other purposes | \$ - | \$ 250,302 | \$ 136,876 | \$ - | \$ - | \$ 3,691,325 |
| Unrestricted | 35,438 | - | - | - | - | (1,621,195) |
| Total cash and investment fund balance - December 31 | \$ 35,438 | \$ 250,302 | \$ 136,876 | \$ - | \$ - | \$ 2,070,130 |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS
 For The Year Ended December 31, 2005

| | Lease Rental Payment | Park Bond and Interest 1999 | Totals |
|--|----------------------------|-----------------------------------|----------------------|
| Receipts: | | | |
| Taxes | \$ 3,296,912 | \$ 864,680 | \$ 4,161,592 |
| Intergovernmental | 37,451 | 9,868 | 47,319 |
| Total receipts | <u>3,334,363</u> | <u>874,548</u> | <u>4,208,911</u> |
| Disbursements: | | | |
| Debt service: | | | |
| Principal | 699,618 | 505,000 | 1,204,618 |
| Interest and fiscal charges | 1,755,791 | 142,609 | 1,898,400 |
| Total disbursements | <u>2,455,409</u> | <u>647,609</u> | <u>3,103,018</u> |
| Excess of revenue over disbursements | <u>878,954</u> | <u>226,939</u> | <u>1,105,893</u> |
| Other financing sources (uses) | | | |
| Tax anticipation warrants received | 1,674,353 | - | 1,674,353 |
| Tax anticipation warrants repaid | (2,174,353) | - | (2,174,353) |
| Total other financing sources (uses) | <u>(500,000)</u> | <u>-</u> | <u>(500,000)</u> |
| Excess of receipts and other financing sources over disbursements and other financing uses | 378,954 | 226,939 | 605,893 |
| Cash and investment fund balance - beginning | <u>(320,473)</u> | <u>(69,097)</u> | <u>(389,570)</u> |
| Cash and investment fund balance - ending | <u>\$ 58,481</u> | <u>\$ 157,842</u> | <u>\$ 216,323</u> |
| <u>Cash and Investment Assets - December 31</u> | | | |
| Restricted assets: | | | |
| Cash and investments | <u>\$ 58,481</u> | <u>\$ 157,842</u> | <u>\$ 216,323</u> |
| <u>Cash and Investment Fund Balance - December 31</u> | | | |
| Restricted for: | | | |
| Debt service | <u>\$ 58,481</u> | <u>\$ 157,842</u> | <u>\$ 216,323</u> |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS
 For The Year Ended December 31, 2005

| | Cumulative Capital Improvement | Cumulative Capital Development | Fire Equipment | Public Safety Facility | Construction | Park District Bonds 1999 | Totals |
|---|--------------------------------------|--------------------------------------|-------------------|------------------------------|-------------------|-----------------------------------|-------------------|
| Receipts: | | | | | | | |
| Taxes | \$ - | \$ 426,732 | \$ - | \$ - | \$ - | \$ - | \$ 426,732 |
| Intergovernmental | 100,201 | 5,030 | - | - | - | - | 105,231 |
| Charges for services | - | - | - | 973,976 | - | - | 973,976 |
| Other | - | - | 1,234 | - | - | - | 1,234 |
| Total receipts | 100,201 | 431,762 | 1,234 | 973,976 | - | - | 1,507,173 |
| Disbursements: | | | | | | | |
| Capital outlay | 194,569 | 302,322 | - | - | 114,507 | 7,040 | 618,438 |
| Excess (deficiency) of revenue over disbursements | (94,368) | 129,440 | 1,234 | 973,976 | (114,507) | (7,040) | 888,735 |
| Other financing uses: | | | | | | | |
| Tax anticipation warrants repaid | - | (164,149) | - | - | - | - | (164,149) |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (94,368) | (34,709) | 1,234 | 973,976 | (114,507) | (7,040) | 724,586 |
| Cash and investment fund balance - beginning | 246,396 | (2,047) | 12,980 | (973,976) | 303,946 | 313,577 | (99,124) |
| Cash and investment fund balance - ending | <u>\$ 152,028</u> | <u>\$ (36,756)</u> | <u>\$ 14,214</u> | <u>\$ -</u> | <u>\$ 189,439</u> | <u>\$ 306,537</u> | <u>\$ 625,462</u> |
| <u>Cash and Investment Assets - December 31</u> | | | | | | | |
| Cash and investments | \$ - | \$ (36,756) | \$ - | \$ - | \$ - | \$ - | \$ (36,756) |
| Restricted assets: | | | | | | | |
| Cash and investments | 152,028 | - | 14,214 | - | 189,439 | 306,537 | 662,218 |
| Total cash basis assets - December 31 | <u>\$ 152,028</u> | <u>\$ (36,756)</u> | <u>\$ 14,214</u> | <u>\$ -</u> | <u>\$ 189,439</u> | <u>\$ 306,537</u> | <u>\$ 625,462</u> |
| <u>Cash Investment Fund Balance - December 31</u> | | | | | | | |
| Restricted for: | | | | | | | |
| Capital projects | \$ 152,028 | \$ - | \$ 14,214 | \$ - | \$ 189,439 | \$ 306,537 | \$ 662,218 |
| Unrestricted | - | (36,756) | - | - | - | - | (36,756) |
| Total and investment fund balance - December 31 | <u>\$ 152,028</u> | <u>\$ (36,756)</u> | <u>\$ 14,214</u> | <u>\$ -</u> | <u>\$ 189,439</u> | <u>\$ 306,537</u> | <u>\$ 625,462</u> |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS
 As of and for the Year Ended December 31, 2005

| | Government Services Cooperative | Communication Revolving | Health, Life and Workers Compensation | Gasoline Revolving | Utilities Administration Revolving | Total |
|--|---------------------------------------|----------------------------|---|-----------------------|--|---------------------|
| Operating receipts: | | | | | | |
| Charges for services - internal | \$ 144,972 | \$ 367,783 | \$ 5,185,600 | \$ 739,373 | \$ 641,262 | \$ 7,078,990 |
| Charges for services - other | - | - | 468,749 | - | - | 468,749 |
| Other | - | 528 | 779,584 | - | - | 780,112 |
| Total operating receipts | <u>144,972</u> | <u>368,311</u> | <u>6,433,933</u> | <u>739,373</u> | <u>641,262</u> | <u>8,327,851</u> |
| Operating disbursements: | | | | | | |
| Administrative and general | - | - | 21,935 | - | - | 21,935 |
| Costs of sales and services | - | 389,197 | - | 976,881 | 641,262 | 2,007,340 |
| Insurance claims and premiums | - | - | 5,022,403 | - | - | 5,022,403 |
| Total operating disbursements | <u>-</u> | <u>389,197</u> | <u>5,044,338</u> | <u>976,881</u> | <u>641,262</u> | <u>7,051,678</u> |
| Excess (deficiency) of receipts over disbursements | <u>144,972</u> | <u>(20,886)</u> | <u>1,389,595</u> | <u>(237,508)</u> | <u>-</u> | <u>1,276,173</u> |
| Nonoperating receipts: | | | | | | |
| Interest and investment receipts | - | - | 1,407 | - | - | 1,407 |
| Excess (deficiency) of receipts over disbursements and nonoperating receipts | 144,972 | (20,886) | 1,391,002 | (237,508) | - | 1,277,580 |
| Cash and investment fund balance - beginning | <u>(144,491)</u> | <u>(71,847)</u> | <u>(1,379,227)</u> | <u>(48,556)</u> | <u>-</u> | <u>(1,644,121)</u> |
| Cash and investment fund balance - ending | <u>\$ 481</u> | <u>\$ (92,733)</u> | <u>\$ 11,775</u> | <u>\$ (286,064)</u> | <u>\$ -</u> | <u>\$ (366,541)</u> |
| <u>Cash and Investment Assets - December 31</u> | | | | | | |
| Cash and Investments | <u>\$ 481</u> | <u>\$ (92,733)</u> | <u>\$ 11,775</u> | <u>\$ (286,064)</u> | <u>\$ -</u> | <u>\$ (366,541)</u> |
| <u>Cash and Investment Fund Balance - December 31</u> | | | | | | |
| Unrestricted | <u>\$ 481</u> | <u>\$ (92,733)</u> | <u>\$ 11,775</u> | <u>\$ (286,064)</u> | <u>\$ -</u> | <u>\$ (366,541)</u> |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2005

| | 1925 Police Pension | 1937 Firefighters' Pension | Total |
|---|---------------------------|----------------------------------|---------------------|
| Additions: | | | |
| Contributions: | | | |
| Employer | \$ 2,249,305 | \$ 1,747,741 | \$ 3,997,046 |
| State | 2,009,343 | 1,649,544 | 3,658,887 |
| Plan members | <u>4,277</u> | <u>-</u> | <u>4,277</u> |
| Total contributions | <u>4,262,925</u> | <u>3,397,285</u> | <u>7,660,210</u> |
| Investment earnings: | | | |
| Interest | <u>85,491</u> | <u>66,268</u> | <u>151,759</u> |
| Total additions | <u>4,348,416</u> | <u>3,463,553</u> | <u>7,811,969</u> |
| Deductions: | | | |
| Benefits | 4,160,501 | 3,196,927 | 7,357,428 |
| Administrative and general | <u>46,929</u> | <u>34,365</u> | <u>81,294</u> |
| Total deductions | <u>4,207,430</u> | <u>3,231,292</u> | <u>7,438,722</u> |
| Excess of total additions over total deductions | <u>140,986</u> | <u>232,261</u> | <u>373,247</u> |
| Other financing sources (uses) | | | |
| Tax anticipation warrants received | 1,200,000 | 600,000 | 1,800,000 |
| Tax anticipation warrants repaid | <u>(634,402)</u> | <u>(104,203)</u> | <u>(738,605)</u> |
| Total other financing sources (uses) | <u>565,598</u> | <u>495,797</u> | <u>1,061,395</u> |
| Excess of additions and other financing sources over disbursements and other financing uses | 706,584 | 728,058 | 1,434,642 |
| Cash and investments - beginning | <u>(920,540)</u> | <u>(801,631)</u> | <u>(1,722,171)</u> |
| Cash and investments - ending | <u>\$ (213,956)</u> | <u>\$ (73,573)</u> | <u>\$ (287,529)</u> |

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2005

| | PERF | Payroll Withholdings | Miscellaneous Employees Insurance | Northwest Indiana Health Department Cooperative | Waterway Management District | Court Costs Due County | City Clerk | Total |
|---|---------------------|-------------------------|---|--|------------------------------------|------------------------------|-------------------|---------------------|
| Additions: | | | | | | | | |
| Agency fund additions | \$ 4,154,929 | \$ 21,206,866 | \$ 30,907 | \$ 1,365,011 | \$ 86,836 | \$ 21,878 | \$ 910,716 | \$ 27,777,143 |
| Deductions: | | | | | | | | |
| Agency fund deductions | 4,222,672 | 21,172,670 | 28,903 | 1,164,479 | 110,861 | 23,596 | 862,409 | 27,585,590 |
| Excess (deficiency) of total additions over total deductions | (67,743) | 34,196 | 2,004 | 200,532 | (24,025) | (1,718) | 48,307 | 191,553 |
| Cash and investments - beginning | 1,126,664 | 175,738 | 42,828 | (294,931) | 76,772 | 1,718 | 223,203 | 1,351,992 |
| Cash and investments - ending | <u>\$ 1,058,921</u> | <u>\$ 209,934</u> | <u>\$ 44,832</u> | <u>\$ (94,399)</u> | <u>\$ 52,747</u> | <u>\$ -</u> | <u>\$ 271,510</u> | <u>\$ 1,543,545</u> |

CITY OF EAST CHICAGO
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCE - CASH AND INVESTMENT BASIS
DISCRETE COMPONENT UNIT
As of and for the Year Ended December 31, 2005

| | <u>Port Authority</u> |
|---|---------------------------|
| Operating receipts: | |
| Slip rentals | \$ 554,925 |
| Boat storage | 279,558 |
| Rentals | 38,159 |
| Marina fees | 30,130 |
| Services | 13,431 |
| Gas and oil | 356,213 |
| Other | <u>45,455</u> |
| Total operating receipts | <u>1,317,871</u> |
| Operating disbursements: | |
| Operation and maintenance | 317,313 |
| Officers and employees salaries and wages | 463,694 |
| Employee pensions and benefits | 116,162 |
| Utilities | 60,535 |
| Contractual services | 186,305 |
| Gasoline and oil | 320,351 |
| Administration and general | <u>74,002</u> |
| Total operating disbursements | <u>1,538,362</u> |
| Deficiency of receipts under disbursements | <u>(220,491)</u> |
| Contributions from City | <u>1,032,995</u> |
| Excess of receipts, and contributions over disbursements | 812,504 |
| Cash and investment fund balance - beginning | <u>(652,817)</u> |
| Cash and investment fund balance - ending | <u>\$ 159,687</u> |
| <u>Cash and Investment Assets - December 31</u> | |
| Cash and investments | <u>\$ 159,687</u> |
| <u>Cash and Investment Fund Balance - December 31</u> | |
| Unrestricted fund balance - December 31 | <u>\$ 159,687</u> |

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

| <u>Primary Government</u> | <u>Ending Balance</u> |
|--|---------------------------|
| Governmental activities: | |
| Capital assets, not being depreciated: | |
| Land | \$ 4,555,969 |
| Rights of Way | 1,724,781 |
| Capital assets, being depreciated (net of depreciation) | |
| Infrastructure | 25,892,522 |
| Buildings | 33,912,147 |
| Improvements other than buildings | 2,047,988 |
| Machinery and equipment | <u>4,318,619</u> |
| Total governmental activities, capital assets not being depreciated | <u>\$ 72,452,026</u> |

| <u>Primary Government</u> | <u>Ending Balance</u> |
|---|---------------------------|
| Business-type activities: | |
| Water Utility: | |
| Capital assets, not being depreciated: | |
| Land | \$ 249,859 |
| Capital assets, being depreciated (net of depreciation) | |
| Buildings | 1,088,900 |
| Improvements and Lines | 2,161,757 |
| Machinery and equipment | <u>100,317</u> |
| Total Water Utility capital assets | <u>3,600,833</u> |
| Sanitary District: | |
| Capital assets, not being depreciated: | |
| Land | 885,268 |
| Capital assets, being depreciated (net of depreciation) | |
| Buildings | 18,864,300 |
| Improvements and Lines | 3,971,938 |
| Machinery and equipment | <u>2,822,189</u> |
| Total Sanitary District capital assets | <u>26,543,695</u> |
| Total business-type activities capital assets | <u>\$ 30,144,528</u> |

Discretely Presented Component Unit:

| | |
|--|-------------------------|
| Port Authority: | |
| Capital assets, not being depreciated: | |
| Land | \$ 1,020,000 |
| Capital assets, being depreciated (net of depreciation) | |
| Buildings | <u>8,355,166</u> |
| Total discretely presented component unit capital assets | <u>\$ 9,375,166</u> |

CITY OF EAST CHICAGO
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

CAPITAL LEASES

The City has entered into the following capital leases:

| Description of Asset | Present Value of Net Minimum Lease Payments | Ending Balance | Due Within One Year |
|--------------------------------------|--|-------------------|---------------------------|
| Public Safety Facility | \$ 26,316,629 | \$ 40,952,500 | \$ 2,312,500 |
| Six 1999 Dump Trucks with Snow Plows | 76,743 | 79,623 | 79,623 |

OTHER LONG-TERM DEBT

| | Ending Balance | Due Within One Year | Matured and Unpaid |
|---|----------------------|---------------------------|-----------------------|
| Governmental Activities: | | | |
| Notes and loans payable: | | | |
| Tax Anticipation Warrants | \$ 12,261,395 | \$ 12,261,395 | \$ - |
| 2001 Rainy Day Loan | 3,184,211 | 578,947 | - |
| Community Redevelopment Loan | 1,613,527 | 567,712 | - |
| Circuit Breaker Loan | 970,817 | 162,629 | - |
| Bonds payable: | | | |
| General obligation bonds: | | | |
| Park District Bonds, 1999 | 2,290,000 | 525,000 | - |
| Revenue bonds: | | | |
| Redevelopment Tax Increment Financing Bonds, 1999 | 8,358,366 | 256,896 | 283,227 |
| Total governmental activities long-term debt | \$ 28,678,316 | \$ 14,352,579 | \$ 283,227 |
| Business-type Activities: | | | |
| Water Utility | | | |
| Loans payable: | | | |
| 2002 State Revolving Loan | \$ 1,767,205 | \$ 80,000 | \$ - |
| Wastewater Utility | | | |
| Loans payable: | | | |
| 2001 Rainy Day Loan | 1,100,000 | 200,000 | - |
| 1996 State Revolving Loan | 9,704,600 | 570,000 | - |
| Total Wastewater Utility | 10,804,600 | 770,000 | - |
| Total business-type activities | \$ 12,571,805 | \$ 850,000 | \$ - |

CITY OF EAST CHICAGO
OTHER REPORT

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

City Court

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH AND INVESTMENT BALANCES

The following funds had overdrawn cash and investment balances at December 31, 2005:

| Fund | 2005 |
|--|--------------|
| General | \$ 4,157,511 |
| Special revenue funds: | |
| Parks and Recreation | 995,496 |
| Public Transportation | 378,570 |
| State Grants | 62,812 |
| Summer Youth Training Program | 368,323 |
| Capital projects fund: | |
| Cumulative Capital Development | 36,756 |
| Internal service funds: | |
| Communication Revolving | 92,733 |
| Gasoline Revolving | 286,064 |
| Pension trust funds: | |
| 1925 Police Pension | 213,956 |
| 1937 Firefighters' Pension | 73,573 |
| Agency fund: | |
| Northwest Indiana Health Department Cooperative | 94,399 |

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SEPARATE BANK ACCOUNTS

As stated in the prior report, funds of the East Chicago Sanitary District, East Chicago Water Utility, East Chicago Port Authority, the Northwest Indiana Health Department Cooperative and the East Chicago Waterway Management District were accounted for in the same general bank account of the City of East Chicago in 2005. The Controller has opened new accounts in 2006.

A single bank account should be provided for all city or town funds, separate bank accounts for the funds belonging to each utility, and possibly a separate bank account for other funds if required by ordinance or regulation. Some bond ordinances and federal regulations require separate bank accounts for various funds and must be followed. Funds of other entities held by the city or town's fiscal officer must be accounted for in separate bank accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

When two or more governmental units are authorized by statute to have the same fiscal officer, there should be separate bank accounts and accounting records for each governmental unit unless authorized by statute, appropriate federal or state rule or regulation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPUTERIZED RECEIPTS AND CONTROLS

The City uses a computerized accounting system for all departments, including the utilities. The computer system automatically assigns the receipt number in sequential order. Receipts are then summarized by the system on batch reports. The batches, which are by department, are assigned a sequential number by the system. Each batch also identifies the clerk who entered those receipts.

No one at the City is responsible for assuring that all batches are accounted for within the system. We observed 48 batches out of 241 for February 2006, which could not be accounted for by the City. Upon inquiry of officials regarding these missing batch numbers, the software vendor was contacted. The software vendor stated that these batches were considered dead by the system, and cannot be printed or brought up by the system. Officials indicated that once a batch is open, that batch number cannot be deleted from the system. The system, however, will not print a batch that does not have any type of transaction (receipt) associated with it.

No one at the City is responsible for assuring that all receipts are accounted for within the system. When the receipts were accumulated in numerical order, many were not documented on any type of batch or other report. Through system inquiries, some of the receipts were found to have been used by the system during the billing phase in applying credit balances to the amounts being billed, and the majority of the remaining receipts were the equivalent of a voided receipt; however, eight receipts could not be located. The receipts used to apply the credit balances were identified to batch "0." For the voided receipts, clerks explained that if an error is noted on a receipt prior to posting that receipt, they can "cancel" the receipt. When the receipt is viewed through the system, the receipt may or may not be identified with a batch, and the words, "Receipt Not Finished" appear on the receipt. There is nothing else to indicate what the error was with the receipt.

The system allows the clerk entering the receipt to determine the "Effective Date" of the receipt. By allowing the clerk to enter the effective date of the receipt, the clerk can, for example, enter receipts in August for money received in January. The system also allows the clerk to work on more than one batch at a time. Even after a batch has been closed by a clerk, it can still be reopened by that clerk. It isn't until the batch is posted by the deputy controller that the batch is truly closed. Currently, there is not a policy in place setting up time limit constraints on holding batches open. As an example, we observed receipt number 66623, with an effective receipt date of January 24 being deposited on March 29 as part of a January batch, but the receipts surrounding it were part of a batch with effective receipt dates of March 29.

The same batch number was used twice and by two different clerks either on the same day or the following day. For example, batch number 2324 was used by a clerk on February 13, 2006; then, on February 14, 2006, this same batch number had four different receipts posted to it by a different clerk. A similar situation occurred with batch number 2329.

Deposits were observed as being made prior to the effective date of the receipt. For example, deposits were dated on January 25 and January 27, for receipts issued with an effective date of February 1, 2006. Handwritten receipts were issued prior to entering the information on the computerized receipts, but the computerized receipts do not identify the handwritten receipts.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

Deposits were observed which were not timely. For example, receipts dated February 10 and February 21 were not deposited until February 23 and March 8, respectively.

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)

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

RECEIPTS AND TRAINING

The computerized accounting system used by the City allows users to practice by going into a "training" module. When in this training module, receipts can be generated. The receipts that are generated have a different numeric sequence number than that used by the system for the City overall, but that is the only difference observed. There is nothing on the receipt to indicate that it is not a valid receipt.

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.

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

ADJUSTMENTS AND RECEIPT REVERSALS

The Water Utility does not have a written policy establishing authority for adjustments to customer accounts or receipt reversals. A receipt reversal is done to make a correction to a posted account; the receipt is entered as a negative amount. When receipt reversals are made, no explanations are required as to the reason for the reversal. When a reason was provided in the system, it usually stated, "Administrative Adjustment" or "Admin 2000." Water Utility officials provided documentation as to why some adjustments were made, but documentation was not maintained for all adjustments. Some adjustments were made due to meter reading errors, but others were due to a customer bringing in either a receipt or cancelled check, or both, to show a payment was made but not applied to the account. For one such case, the receipt (number 26853) indicated a cash payment in the amount of \$41.18. On the same batch, the receipt was reversed with receipt number 27107. Then, the customer came into the Water Utility office on April 11, 2006, with the original receipt, and an adjustment was made to give her credit for the \$41.18 payment. Other explanations included copies of checks in which the customer was only given a partial credit for a payment.

For the majority of the receipt reversal entries made, a subsequent receipt was entered; however, there were a few in which customers brought in proof of payment. When this was the case, and the utility maintained the documentation, the customer's account was adjusted for the amount of the payment made. These totaled \$168.88.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

APPROVAL OF COMPUTERIZED FORMS

In November 2003, the City of East Chicago began using new software from the vendor MUNIS, a division of Tyler Technologies in Falmouth, Maine. All the City's financial reports are produced using this new software. Computerized forms are being used that have not been approved for use in lieu of prescribed forms; however, the receipts generated by the City have wording indicating they were approved.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

The billing and receipts used at the Water Utility were submitted for approval. The water bill approved for use included previous balances due, current charges, and amounts "now" due; however, this information was subsequently removed from the bill. Current bills only show the current charges billed.

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

RECEIPT ISSUANCE

The City Controller's office installed and began using a new financial computer system in November 2003. The system, as installed, does not have the ability to print quietuses for each receipt transaction. The City Controller's office has issued "interim" prescribed handwritten receipts to customers, but not all receipts posted to the system can be easily identified back to the interim receipts. We were informed that the City officials are attempting to obtain the necessary computer software to enable official quietuses to be printed.

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)

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.

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)

COPY FEES

A City ordinance establishes the copy fee at \$0.25 per copy. Officials could not provide any documentation as to how this fee was derived. Based upon the lease agreement, the City pays \$0.07 per copy, not including paper and staples, but all other costs are included. Allowing for about \$0.01 each for a sheet of paper and a staple, we would estimate the cost per copy to be about \$0.09.

The governing board shall establish a fee schedule for the certification, copying, or facsimile machine transmission of documents. The fee may not exceed the actual cost of certifying, copying, or facsimile transmission of the document by the agency and the fee must be uniform throughout the public agency and uniform to all purchasers. "Actual Cost" means the cost of paper and the per-page cost for use of copying or facsimile equivalent, and does not include labor costs or overhead costs. [IC 5-14-3-8(d)] (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

BUDGETS FOR GAMING FUNDS

The City maintained two funds for gaming revenues, the Harrah's Trust Fund (725), and the Gaming Special Revenue Fund (242). The Harrah's Trust Fund was appropriated through an additional appropriation passed in May 2005, in the amount of \$5,000,000. Disbursements were made from this fund, but an adjustment was made in December 2005 to post those disbursements to the Gaming Special Revenue Fund, and transfer the receipts from the Harrah's Trust Fund to the Gaming Special Revenue Fund.

The Gaming Special Revenue Fund was budgeted through two additional appropriations. One was approved on May 19, 2005, in the amount of \$5,000,000 to cover the amount of money being disbursed to the Lake County Auditor to provide for tax relief for East Chicago Residents. The second additional appropriation ordinance was approved on November 18, 2005, in the amount of \$24,252,671. Upon review of expenditures from both funds, amounts were being spent prior to the budgets being approved. As of October 31, 2005, \$9,832,551 was spent from the Gaming Special Revenue Fund. At this date, the City had an appropriation in the amount of \$5,000,000, and had prior year encumbrances totaling \$3,292,088; thus, the City had spent \$1,540,463 over what had been appropriated to that date.

Indiana Code 36-4-8-2 states in part:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

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

STIPENDS AND REIMBURSEMENTS

Members of the City Council receive a monthly stipend in the amount of \$2,000. The enabling ordinance states the following:

"In addition to the amount 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."

The claims submitted for the monthly stipends simply indicate the council member, the month, and the amount, in the form of an invoice.

Additionally, the City is reimbursing council members for travel, and promotional items, as well as paying such expenses directly (council as a whole) as indicated below.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

| <u>Council Person</u> | <u>Promotional</u> | <u>Travel</u> | <u>Total</u> |
|-----------------------|-------------------------|-------------------------|-------------------------|
| Adrian Santos | \$ 8,029.36 | \$ 2,981.56 | \$ 11,010.92 |
| Anthony Copeland | 5,325.00 | 4,503.85 | 9,828.85 |
| Chinta Lindsay | 75.00 | - | 75.00 |
| Christine Vasquez | 5,434.95 | - | 5,434.95 |
| Frank Kollintzas | 200.00 | - | 200.00 |
| Gus Kouros | 1,958.00 | 415.00 | 2,373.00 |
| Jesse Gomez | 797.95 | 2,487.43 | 3,285.38 |
| Joe De La Cruz | 14,395.00 | - | 14,395.00 |
| Levones Tolbert | 3,537.50 | - | 3,537.50 |
| Randall Artis | 1,450.00 | 3,727.76 | 5,177.76 |
| Richard Medina | 4,100.00 | 4,734.89 | 8,834.89 |
| Robert Garcia | 8,544.34 | 3,347.02 | 11,891.36 |
| Council as a Whole | <u>11,250.40</u> | <u>835.44</u> | <u>12,085.84</u> |
| Totals | <u>\$ 65,097.50</u> | <u>\$ 23,032.95</u> | <u>\$ 88,130.45</u> |

Some of the more significant reimbursements included:

1. A trip to Puerto Rico for two of the council members to attend the National Association of Latino Elected and Appointed Officials – 22nd Annual Conference.
2. Donations to the National Association for the Advancement of Colored People – East Chicago Branch, of which one of the council members is the President.
3. Donations to an individual to relocate to a "warmer" climate for medical reasons from two council members.
4. Donations by one council members to two individuals as "contestant" of Miss Puerto Rico of Northwest Indiana Tiny Pageant.
5. Donation by one council members "for contestants" pedicure and manicure for pageant for Miss Puerto Rico of Northwest Indiana".
6. Donation by Council as a Whole for "Annual Tiny Beauty Pageant Hall Rental."

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;

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

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

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYMENTS FOR SERVICES

Payments were made for attorney services, coaching fees, and security which were not supported by a written contract.

"Services" means the furnishing of labor, time, or effort by a person, not involving the delivery of specific supplies other than printed documents or other items that are merely incidental to the required performance. [IC 5-22-2-30]

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)

POSTEMPLOYMENT BENEFITS

Ordinance No. 01-0035 and Ordinance No. 04-0031 offered voluntary retirement to City employees (excluding police and fire). These ordinances offered health insurance benefits at the same health insurance premium offered to current city employees.

Ten of the seventeen employees accepting voluntary retirement under the above ordinances were not charged the health insurance premium currently offered to City employees.

Additionally, two former police officers are not paying the same rate as other police and fire retirees. \$112.50 is withheld from all police and fire retirees except for two for which only \$100 is withheld.

No ordinance was provided to substantiate the health insurance premiums charged to 25 individuals also being covered by the health insurance plan. The ordinances provided by the City only address employees being covered through an early retirement buy out program. These 25 individuals were not participants in the two buy out programs.

Also, individuals who have reached age 65 or above continue on the health insurance plan.

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AUDIT RESULTS AND COMMENTS
(Continued)

Ordinance No. 04-0031 states in part: "Continue their medical insurance, on the same terms and conditions as active employees, until they reach age 65 or until they find other employment which provides health insurance, whichever occurs first. If a person remains insured until age 65, they will continue to receive the same medical insurance as are then current City Retirees on the same terms and conditions, including the co-payment of premiums."

Indiana Code 5-10-8-2.6 subsection (g) states in part: "A retired employee's eligibility to continue insurance under subsection (e) ends when the employee becomes eligible for Medicare coverage as prescribed by 42 U.S.C. 1395 et seq."

OFFICIAL BONDS

The superintendents of the Sanitary District and the Water Utility did not file official bonds for 2005. Also, the pension secretaries for the Fire Pension Fund and the Police Pension Fund were not bonded in 2005.

Indiana Code 8-1.5-3-5(c) states: "The superintendent shall give bond in the sum not less than double the estimated amount of money that may be in his hands at any time. The bond shall be conditioned upon the faithful discharge of his duties and the payment to the proper person of all money in his hands. The bond is subject to the approval of the executive of the municipality."

Indiana Code 36-8-6-3 (e) states in part: "The secretary shall, in a manner prescribed by IC 5-4-1, execute a bond conditioned upon the faithful discharge of his duties."

ACCRUAL RECORDS

The Water Utility and Wastewater Utility are Class A Utilities, with annual operating revenues of \$1,000,000 or more. The Water Utility and Sanitary District Officials did not maintain accrual records in 2005.

Water and Wastewater Utilities are divided into three classes, A, B, and C, depending on the amount of annual operating revenues. The Uniform System of Accounts pertaining to any particular class may be obtained by writing to the National Association of Regulatory Utility Commissioners, P.O. Box 684, Washington, D.C., 20044.

Classes A and B must use the double-entry accrual accounting system prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

ACCOUNTS RECEIVABLE

In September, the City converted utility accounts receivable records from its old computerized accounting system to a new system. At the time of the conversion, an accounts receivable report was generated from the old system. A comparison was made to the new system's accounts receivable records in which discrepancies were noted. The discrepancies, as explained by officials, were due to the application of penalties on delinquent customer accounts; however, none of the reports were maintained for audit. Requests were made for accounts receivable reports from the old and new systems as of the date of conversion, but none were provided for audit.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

The governing board is charged with the duty to preserve, keep, maintain, or file all the official records of the political subdivision pursuant to IC 5-15-1-1. The final decision as to the destruction or disposition of such records rests with the local public records commission. A local public records commission is established in each county pursuant to IC 5-15-6-1.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission." (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FEES

The Water Department Rate Ordinance currently sets the late payment fee at three percent (3%) of the outstanding amount. The ordinance for the Sanitary District sewage billings does not address a late penalty. Through inquiry of officials and review of billings, it was determined that late fees or penalties are not being assessed. Additionally, a water rate increase was passed on November 9, 2005, but this increase was not put into effect until January 1, 2006.

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 36-9-23-31 states as follows:

"If fees assessed against real property under this chapter or any statute repealed by IC 19-2-5-30 are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees. The amount of the fee, the penalty, and a reasonable attorney's fee may be recovered by the board in a civil action in the name of the municipality." (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT ACCOUNTS

According to Water Utility officials, a notice is posted that non-payment of a water bill will result in the water being shut-off; however, this notice is not enforced, nor has it been addressed by the board in the form of a written policy. Many customers are delinquent in paying their water and sanitary district bills, some of whom are employees of the City. None of the delinquent sanitary bills have been certified to the County for payment enforcement.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-9-23-32 states:

"(a) Fees assessed against real property under this chapter or under any statute repealed by IC 19-2-5-30 constitutes a lien against the property assessed. The lien is superior to all other liens except tax liens. Except as provided in subsections (b) and (c), the lien attaches when notice of the lien is filed in the county recorder's office under section 33 [36-9-23-33] of this chapter.

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

(b) A fee is not enforceable as a lien against a subsequent owner of property unless the lien for the fee was recorded with the county recorder before the conveyance to the subsequent owner. If the property is conveyed before the lien can be filed, the municipality shall notify the person who owned the property at the time the fee became payable. The notice must inform the person that payment, including penalty fees for delinquencies, is due not less than fifteen (15) days after the date of the notice. If payment is not received within one hundred eighty (180) days after the date of the notice, the amount due may be expensed as a bad debt loss.

(c) A lien attaches against real property occupied by someone other than the owner only if the utility notified the owner within twenty (20) days after the time the utility fees became sixty (60) days delinquent. However, the utility is required to give notice to the owner only if the owner has given the general office of the utility written notice of the address to which his notice is to be sent.

(d) The municipality shall release: (1) Liens filed with the county recorder after the recorded date of conveyance of the property; and (2) Delinquent fees incurred by the seller; upon receipt of a verified demand in writing from the purchaser. The demand must state that the delinquent fees were not incurred by the purchaser as a user, lessee, or previous owner, and that the purchaser has not been paid by the seller for the delinquent fees." (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND BAD DEBTS

The Utility does not have a written policy concerning bad debts. An allowance for doubtful accounts has been established based on inactive accounts at year end.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CASH OVERAGE AND/OR SHORTAGE POLICY

No written policy addressing cash overages or shortages was provided.

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)

CONDITION OF RECORDS

At December 31, 2005, the deposit register reflected a liability of \$495,520. The reconciled balance of the related bank account was \$720,539.

Fifteen customer deposits received in 2005 were tested to determine if they were posted to the deposit register. Two of these deposits could not be located in the deposit register.

At all times, the manual and/or 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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REFUNDS

The Water Utility had, in the past, paid accrued interest on customer deposit refunds. However, in March 2002, the Water Utility quit paying interest on refunds. As in the last Audit Report, a resolution was not presented for audit addressing the payment or nonpayment of accrued interest on customer deposit refunds.

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)

LEASE RENTAL

The Water Utility leased property to the Foundations of East Chicago (a not-for-profit entity). The lease agreement, dated September 28, 2000, required a monthly payment of \$2,205 for 12 months after which the payment increased by 20% to \$2,646. Rent due for the space for 2005 totaled \$13,230. No payments were received in 2005. A balance of \$33,075 remains unpaid from prior years.

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)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS

As stated in the prior Audit Report, receipts for accident reports, tow releases, and arrest reports were remitted to the controller for deposit between 4 to 36 days after their receipt. Sixty-two percent (62%) of items tested were deposited over 7 days late.

Sixty-seven percent (67%) of receipts for handgun permits were deposited with the controller over 7 days late.

All collections made by any department or person connected with a city or town shall be turned in to the Clerk-Treasurer at least weekly. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

HANDGUN PERMIT FEE

Ordinance Number 05-0030 prescribing and establishing a fee schedule for the Police Department was passed and adopted on September 26, 2005. The ordinance establishes the local handgun permit fee at \$15.

Indiana Code 35-47-2-3 section (b) states: "The law enforcement agency which accepts an application for a handgun license shall collect a ten dollar (\$10) application fee, five dollars (\$5) of which shall be refunded if the license is not issued."

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

HEALTH DEPARTMENT FEES

Vital record fees for the Health Department were established by the Health Officer as of October 1, 2001. These fees have not been approved by the City Board of Health Commissioners.

The fees for paternity affidavits and amended affidavits were set at \$11. Currently, the Health Department is only assessing a \$6 fee for these affidavits.

Indiana Code 16-20-1-27 states: "The board of each local health department may, with the approval of the county or city executive, establish and collect fees for specific services and records established by local ordinances and state law. However, fees may not exceed the cost of services provided. The fees shall be accounted for and transferred to the health fund of the taxing jurisdiction."

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CORONER'S CONTINUING EDUCATION FEES

A \$1 fee for the Coroner's Continuing Education Fund is included in the charge for death certificates at the Health Department. The fee is to be remitted to the Lake County Auditor monthly. Because the fees were being submitted directly by the former local health officer and did not pass through City accounts, we were unable to determine if payment was made for February, 2005. This totaled \$296.

Indiana Code 16-37-1-9 states in part: "(a) A local health department may make a charge under IC 16-20-1-27 for each certificate of birth, death, or stillbirth registration. (b) If the local department of health makes a charge for a certificate of death under subsection (a), a one dollar (\$1) coroners continuing education fee must be added to the rate established under IC 16-20-1-27. The local department of health shall deposit any coroners continuing education fees with the county auditor within thirty (30) days after collection."

ANIMAL CONTROL

The fee schedule the health department presented for audit, for animal control fees, has not been approved by the board. In 2005, animal control did not charge in accordance with its fee schedule, but simply gave pets away, without charging a fee.

Also, animal control has received money from the City of Whiting, Town of Highland, and Indiana University for the disposal of animals; however, no agreements were available to support the fees charged.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

CITY OF EAST CHICAGO
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES AND INTEREST

The Port Authority paid penalties and interest to the Indiana Department of Revenue totaling \$701.49 for the months of June and September 2005. The penalties were incurred for payments received by the Department of Revenue that were postmarked after the due date. We requested payment from the City Controller for reimbursement of these penalties. (See Summary, page 74)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CAPITAL ASSET POLICY

The Port Authority does not have a capital assets policy which addresses capitalization thresholds and depreciation.

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

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

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

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

Compliance

We have audited the compliance of the City of East Chicago (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. 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; 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, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management 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

October 5, 2006

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2005

| 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 Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | FY 04 FY 05 | \$ 231,365 <u>53,571</u> |
| Total for program | | | <u>284,936</u> |
| Pass-Through Indiana Department of Natural Resources Urban and Community Forestry Program | 10.675 | FY 04 FY 05 | 6,366 <u>5,573</u> |
| Total for program | | | <u>11,939</u> |
| Total for federal grantor agency | | | <u>296,875</u> |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| Direct Grants | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | M-03-MC-18004 M-04-MC-18004 | 920 <u>1,587,523</u> |
| Total for program | | | <u>1,588,443</u> |
| HOME Investment Partnerships Program | 14.239 | M-03-MC-18210 M-04-MC-18210 | 142,560 <u>238,544</u> |
| Total for program | | | <u>381,104</u> |
| Total for federal grantor agency | | | <u>1,969,547</u> |
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | |
| Direct Grants | | | |
| Law Enforcement Assistance - Narcotics and Dangerous Drugs - Registration of Manufacturers, Distributors, and Dispensers of Controlled Substances DEA-Gang Response Investigation Team OT (NWI Task Force) | 16.220 | FY 05 | <u>13,790</u> |
| Byrne Formula Grant Program | 16.579 | FY 00 FY 04 FY 05 | 10,886 344 <u>31,321</u> |
| Total for program | | | <u>42,551</u> |
| Local Law Enforcement Block Grants Program | 16.592 | 2003LBBX2390 2004LBBX1582 | 3 <u>38,650</u> |
| Total for program | | | <u>38,653</u> |
| Pass-Through Lake County, Indiana | | | |
| Law Enforcement Assistance - Narcotics and Dangerous Drugs - Registration of Manufacturers, Distributors, and Dispensers of Controlled Substances DEA-Gang Response Investigation Team OT | 16.220 | FY 05 | <u>105,268</u> |
| Juvenile Mentoring Program Lake County Juvenile Court Operation Enhancement Program | 16.726 | FY 05 | <u>18,025</u> |
| Total for federal grantor agency | | | <u>218,287</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, 2005
(Continued)

| Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title | Federal CFDA Number | Pass-Through Entity (or Other) Identifying Number | Total Federal Awards Expended |
|--|---------------------------|--|-------------------------------------|
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u> | | | |
| Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit - Formula Grants | 20.507 | IN-90-X446-00FY05 | <u>291,034</u> |
| Pass-Through Indiana Criminal Justice Institute State and Community Highway Safety Operation Pullover | 20.600 | | <u>2,667</u> |
| Total for federal grantor agency | | | <u>293,701</u> |
| <u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u> | | | |
| Direct Grant Employment Discrimination - Title VII of Civil Rights Act of 1964 | 30.001 | | <u>12,174</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Pass-Through School City of East Chicago Twenty-First Century Community Learning Centers | 84.287 | | <u>12,038</u> |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Pass-Through Indiana Department of Health Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | 93.197 | | <u>57,648</u> |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | U90/CCU517024-04-05 U90/CCU517024-05-06 | <u>36,163</u> <u>20,169</u> |
| Total for program | | | <u>56,332</u> |
| Preventive Health and Health Services Block Grant | 93.991 | #2003-B1-IN-PRVS | <u>1,567</u> |
| Bioterrorism Training and Curriculum Development Program | 93.996 | BPRS-A 45E | <u>911</u> |
| Total for federal grantor agency | | | <u>116,458</u> |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | | |
| Pass-Through Indiana Department of Homeland Security State Domestic Preparedness Equipment Support Program | 97.004 | | <u>41,700</u> |
| Total federal awards expended | | | <u>\$ 2,960,780</u> |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF EAST CHICAGO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of East Chicago (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

II. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2005:

| Program Title | Federal CFDA Number | 2005 |
|---|---------------------------|------------|
| Community Development Block Grants/Entitlement Grants | 14.218 | \$ 206,336 |

III. Loans Outstanding

The City had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

| Program Title | Federal CFDA Number | 2005 |
|---|---------------------------|------------|
| Community Development Block Grants/Entitlement Grants | 14.218 | \$ 440,866 |

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

| | |
|---|---------------|
| Material weaknesses identified? | yes |
| Reportable conditions identified that are not considered to be material weaknesses? | none reported |

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

| | |
|---|---------------|
| Material weaknesses identified? | no |
| Reportable conditions identified that are not considered to be material weaknesses? | none reported |

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 |
|----------------|---|
| 14.218 | Community Development Block Grants/Entitlement Grants |
| 14.239 | HOME Investment Partnerships Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2005-1, COMPUTERIZED RECEIPTS AND CONTROLS

The City uses a computerized accounting system for all departments, including the utilities. The computer system automatically assigns the receipt number in sequential order. Receipts are then summarized by the system on batch reports, which are by department. The batches are also assigned a sequential number by the system. Each batch also identifies the clerk who entered those receipts.

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

No one at the City is responsible for assuring that all batches are accounted for within the system. The deputy controller is responsible for posting the batches, but she only reviews for open batches. We observed 48 batches out of 241 for February, 2006, which could not be accounted for by the City. Upon inquiry of officials regarding these missing batch numbers, the software vendor was contacted. The software vendor stated that these batches were considered dead by the system, and cannot be printed or brought up by the system. Officials indicated that once a batch is open, that batch number cannot be deleted from the system. The system, however, will not print a batch that does not have any type of transaction (receipt) associated with it; thus, officials stated accounting for all of the receipt numbers is most important.

No one at the City is responsible for assuring that all receipts are accounted for within the system. When the receipts for February 2006 were accumulated in numerical order, many were not documented on any type of batch or other report. Through system inquiries, some of the receipts were found to have been used by the system during the billing phase in applying credit balances to the amounts being billed, and the majority of the remaining receipts were the equivalent of a voided receipt; however, eight receipts could not be located. The receipts used to apply the credit balances were identified to batch "0", which was not printed. For the voided receipts, clerks explained that if an error is noted on a receipt prior to posting that receipt, they can "cancel" the receipt. When the receipt is viewed through the system, the receipt may or may not be identified with a batch, and the words, "Receipt Not Finished" appear on the receipt. There is nothing else to indicate what the error was with the receipt. As for the eight remaining receipts, officials have contacted the software vendor for assistance.

The system allows the clerk entering the receipt to determine the "Effective Date" of the receipt. By allowing the clerk to enter the effective date of the receipt, the clerk can, for example, enter receipts in August for money received in January. The system also allows the clerk to work in more than one batch at a time. Even after a batch has been closed by a clerk, it can still be reopened by that clerk. It isn't until the batch is posted by the deputy controller that the batch is truly closed. Currently, there is not a policy in place setting up time limit constraints on holding batches open. As an example, we observed receipt number 66623, with an effective receipt date of January 24, being deposited on March 29 as part of a January batch, but the receipts surrounding it were part of a batch with effective receipt dates of March 29.

Even though the system is supposed to assign batch numbers by user, we observed the same batch number was used twice and by two different clerks either on the same day or the following day. For example, batch number 2324 was used by a clerk on February 13, 2006; then, on February 14, 2006, this same batch number had four different receipts posted to it by a different clerk. A similar situation occurred with batch number 2329.

Deposits were observed as being made prior to the effective date of the receipt. For example, deposits were dated on January 25 and January 27, for receipts issued with an effective date of February 1, 2006. Handwritten receipts were issued prior to entering the information on the computerized receipts, but the computerized receipts do not identify the handwritten receipts.

Deposits were observed which were not timely. For example, receipts dated February 10 and February 21 were not deposited until February 23 and March 8, respectively.

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)

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, that information is entered into the system only once, and that all information entered into the system is authorized by management. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

We recommended that the City begin accounting for all of the receipt numbers, as well as the batch numbers. Missing receipt numbers and batch numbers should be documented and investigated. Policies should be written, authorized, and put in place to eliminate maintaining open batches, and to ensure timely posting of all transactions.

FINDING 2005-2, RECEIPTS AND TRAINING

The computerized accounting system used by the City allows users to practice by going into a "training" module. When in this training module, receipts can be generated. The receipts that are generated have a different numeric sequence number than that used by the system for the City overall, but that is the only difference observed. There is nothing on the receipt to indicate that it is not a valid receipt.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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

We recommended that officials contact the software vendor so that the "training" module can be changed. When any type of City record is printed from the "training" module it needs to be identified as "INVALID," so that it cannot be mistaken for an official record of the City.

FINDING 2005-3, ADJUSTMENTS AND RECEIPT REVERSALS

The Water Utility does not have a written policy establishing authority for adjustments to customer accounts or receipt reversals. A receipt reversal is done to make a correction to a posted account; the receipt is entered as a negative amount. When receipt reversals are made, no explanations are required as to the reason for the reversal. When a reason was provided in the system, it usually stated, "Administrative Adjustment" or "Admin 2000". Water Utility officials provided documentation as to why some adjustments were made, but documentation was not maintained for all adjustments. Some adjustments were made due to meter reading errors, but others were due to a customer bringing in either a receipt or cancelled check, or both to show a payment was made but not applied to the account. For one such case, the receipt (number 26853) indicated a cash payment in the amount of \$41.18. On the same batch, the receipt was reversed with receipt number 27107. Then, the customer came into the water utility office on April 11, 2006, with the original receipt, and an adjustment was made to give her credit for the \$41.18 payment. Other explanations included copies of checks in which the customer was only given a partial credit for a payment.

For the majority of the receipt reversal entries made, a subsequent receipt was entered; however, there were a few in which customers brought in proof of payment. When this was the case, and the utility maintained the documentation, the customer's account was adjusted for the amount of the payment made. These totaled \$168.88.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

We recommended that officials establish a formal policy for adjusting accounts or portions of accounts. Such policy should indicate who can make the adjustments, who can approve the adjustments, and the type of documentation that should be maintained to justify the adjustment. Then, user identification codes and passwords for the computer software should be reviewed to ensure that only those who have been given the authority to make adjustments have those rights within the computer system.

Section III – Federal Award Findings and Questioned Costs

No matters were reportable.

CITY OF EAST CHICAGO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reportable.

**City of East Chicago
Schedule of Findings
Corrective Action Plan
For the Year Ended December 31, 2005**

FINDING NO. 2005-1 COMPUTERIZED RECEIPTS AND CONTROLS

Corrective Action:

The City of East Chicago has contacted its software vendor to request a program modification that will ensure that its cash receipts program will account for receipts and batches in the manner prescribed by the State Board of Accounts.

The City of East Chicago will put in place a written policy that requires batches to be entered, proofed, and posted on a daily basis.

FINDING NO. 2005-2 RECEIPTS AND TRAINING

Corrective Action:

In order to differentiate between actual receipts generated in the live database and test receipts generated by the training database, the training receipts will now contain the language "Void this is a Test Receipt" in the place of the Controller's signature that currently appears.

FINDING NO. 2005-3 ADJUSTMENTS AND RECEIPT REVERSALS

Corrective Action:

The Water Utility will adopt a written policy regarding who can make adjustments to customer accounts and will maintain the required documentation regarding the reasons the adjustments were made.

The City of East Chicago will ensure that only users that are authorized to make adjustments to customer accounts will have access to that component of the system's software.



Charles Pacurar
City Controller

CITY OF EAST CHICAGO
EXIT CONFERENCE

The contents of this report were discussed on September 28, 2006, with Charles Pacurar, Controller.

The contents of this report were discussed on October 5, 2006, with James Bennett, Financial Advisor; Theodore J. Sommer, and Pamela Sue Sargent Haase, Consultants; Kimberly Anderson, Deputy Controller; Richard Medina, President of the Common Council; and George Pabey, Mayor. 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, 2005**

Overdrawn Cash and Investment Balances

Most of the overdrawn cash positions were either the result of the shortfall in property tax collections or grants that are funded on a reimbursement basis.

The overdrawn position in the Summer Youth Training Program was an error by the City and it has been corrected in 2006.

Separate Bank Accounts

Separate Bank Accounts have since been opened for the East Chicago Sanitary District, East Chicago Water Utility, East Chicago Port Authority, and the Northwest Indiana Health Department Cooperative.

The City will open a separate bank account for the East Chicago Waterway Management District.

Computerized Receipts and Controls

The City has contacted the software vendor regarding the necessary changes for the accounting of receipts and batches. The software company has indicated that any system modification required by the State will be accommodated.

The City will approve a written policy regarding batch entry, batch proofing, and batch posting.

Receipts and Training

In order to differentiate between actual and test receipts the receipts generated by the training database will now contain the language "Void this is a Test Receipt" as opposed to the Controller's signature that appears on the actual receipts.

Adjustments and Receipt Reversals

The Water Utility will approve a written policy regarding who can make adjustments to customer accounts and will maintain documentation regarding the reasons these adjustments were made.

Approval of Computerized Forms

All computerized forms will be submitted or resubmitted for approval.

Receipt Issuance

The financial system currently has the ability to print receipts for each receipt transaction and Controller's Office staff will be instructed to discontinue the use of hand written receipts.

Copy Fees

The Common Council has since decreased the copy fee from \$0.25 to \$0.15.

Budgets for Gaming Funds

The City has since discontinued the use of the Harrah's Trust Fund and now uses the Gaming Special Revenue Fund exclusively. This fund will be budgeted annually by the Common Council.

Stipends and Reimbursements

The Common Council will be notified that the State Board of Accounts has taken exception to their monthly stipend and the matter will be addressed by that body.

Payments for Services

The City is currently working to obtain contracts for all service vendors.

Post Employment Benefits

The City is currently in the process of drafting a revised personnel handbook that will address post employment benefits. All other discrepancies will be corrected in an effort to abide by the appropriate ordinance.

Official Bonds

The City has corrected this oversight and the appropriate bonds have since been filed.

Accrual Records

The City has engaged the services of a consulting firm to assist with the accrual accounting needs of the Water Utility and the Wastewater Utility.

Accounts Receivable

The accounts receivable reports were misplaced by the Water Utility during their move to a new location. The City will take precautions so that this does not happen again.

Fees

The City will instruct the Water Utility to resume the assessment of late fees.

Delinquent Accounts

The Water Utility will approve a written policy addressing delinquent accounts and shut off policies.

The Wastewater Utility will be instructed to certify to the County the delinquent Sanitary Bills.

Allowance for Doubtful Accounts and Bad Debts

The Water Utility will approve a written policy addressing bad debts.

Cash Overage/Shortage Policy

The Water Utility will approve a written policy addressing cash overages or shortages.

Condition of Records

The customer deposit ledger will be reconciled to the bank account balance. Customer deposits will be maintained in the Utility's computer system.

Customer Deposit Refunds

The Water Utility will address a resolution regarding the nonpayment of interest on customer deposits.

Lease Rental

The City will submit a letter to the Foundations of East Chicago requesting payment of the past due rent.

Deposits

The City will instruct the Police Department to submit deposits to the Controller's Office daily and the Controller's Office will monitor those receipts for compliance.

Handgun Permit Fee

The City will amend its ordinance to reduce the amount the Police Department charges for a handgun permit from \$15 to \$10.

Health Department Fees

Vital record fees will be submitted to the Board of Health Commissioners at the next scheduled meeting for their approval.

The amount being charged for paternity affidavits and amended affidavits has since been corrected.

Coroner's Continuing Education Fees

The current Health Officer's appointment began March 10, 2005. Due to the fact that the fees were submitted directly to the previous local health officer, we can neither confirm nor deny that the payment was made to the Lake County Auditor.

Animal Control

The fee schedule for Animal Control will be presented to the Board of Health Commissioners at their next scheduled meeting for their approval.

Penalties and Interest

Port Authority personnel have been instructed to file taxes in a timely fashion.

Capital Asset Policy

A copy of the City's capital asset policy will be presented to the Port Authority Board for their approval.

CITY OF EAST CHICAGO
SUMMARY

| | <u>Charges</u> | <u>Credits</u> | <u>Balance Due</u> |
|--|-----------------------------|------------------|-------------------------------|
| Charles Pacurar, Controller: Penalties and Interest, page 56 | \$ 701.49 | \$ | \$ |
| Paid by Charles Pacurar, August 22, 2006, receipt number 134240 | <u> </u> | <u>701.49</u> | <u> </u> - |
| Totals | <u>\$ 701.49</u> | <u>\$ 701.49</u> | <u>\$</u> - |