

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF EAST CHICAGO
LAKE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
09/21/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Kimberly Anderson (Vacant) Valeriano Gomez	01-01-14 to 01-03-14 01-04-14 to 01-05-14 01-06-14 to 12-31-15
Mayor	Anthony Copeland	01-01-12 to 12-31-15
President of the Board of Public Works	Valeriano Gomez	01-01-14 to 12-31-15
President of the Common Council	Lenny Franciski	01-01-14 to 12-31-15
Director of Utilities	Greg Crowley	01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of East Chicago (City), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement as listed in the Table of Contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2014.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2014, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

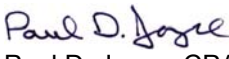
Other Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 4, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

August 4, 2015



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

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

We have audited, 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, the financial statement of the City of East Chicago (City), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement, and have issued our report thereon dated August 4, 2015, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

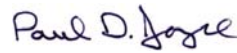
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

August 4, 2015

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF EAST CHICAGO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Year Ended December 31, 2014

Fund	Cash and Investments 01-01-14	Receipts	Disbursements	Cash and Investments 12-31-14
General	\$ 1,809,134	\$ 35,257,263	\$ 30,503,778	\$ 6,562,619
Motor Vehicle Highway	2,904,649	1,074,743	912,469	3,066,923
Local Road And Street	512,167	304,894	74,251	742,810
Park Nonreverting Operating	15,422	8,121	11,595	11,948
Health Maintenance	42,863	102,050	98,828	46,085
Economic Development Operating	3,576,492	2,540,404	3,090,431	3,026,465
Building Demolition	-	146,000	9,900	136,100
Transportation	5,310	1,533,429	1,251,879	286,860
CDBG	(250,592)	1,820,272	1,652,003	(82,323)
Law Enforcement Continuing Ed	121,126	48,966	53,775	116,317
Clerk's Records Perpetuation	16,188	4,194	10,480	9,902
Unsafe Building	449,493	198,424	289,025	358,892
Riverboat	9,189,399	18,107,514	20,018,284	7,278,629
Parks And Recreation	470,715	2,838,419	1,860,831	1,448,303
Cumulative Capital Development	19,872	-	19,872	-
Park Nonreverting Capital	279,979	154,000	15,263	418,716
Redevelopment Capital	-	1,257,034	13,680	1,243,354
Fire Equipment (Not Debt Service)	21,962	10,920	21,797	11,085
Co Economic Development Income Tax Capital	-	2,466,070	1,094,017	1,372,053
Cumulative Capital Improvement	5,996	78,555	84,551	-
Self-Insurance	(1,819,185)	8,882,365	9,185,751	(2,122,571)
Police Pension	177,234	3,578,066	3,466,192	289,108
Fire Pension	10,697	2,758,200	2,727,541	41,356
City And Town Court Costs	4,879	33,341	34,270	3,950
LOIT Public Safety	-	2,641,302	2,053,130	588,172
Local Development Agreement	12,474,880	3,569,964	5,919,376	10,125,468
TIF US Gypsum	421,615	824,469	856,316	389,768
TIF Riley Plaza	46,087	97,356	94,765	48,678
Local Police Forfeitures	4,982	2,777	-	7,759
Harborside Apartments	932,372	2,591,344	2,248,617	1,275,099
TIF Northtown Village Townhomes	186,058	159,196	300,163	45,091
Home Investment Partnership Program	50,259	116,621	121,732	45,148
Local Law Enforcement Grants	-	246,256	246,256	-
General Adult Probation	165,076	19,431	43,239	141,268
Federal Grants	-	275,758	271,430	4,328
State Grant	(112,306)	533,485	413,628	7,551
Grant Misc	591,835	37,414	30,361	598,888
SSED Revolving Loan	311,802	529	357	311,974
Summer Youth Training Program	-	183,552	183,552	-
EC Property Improvement	6,000	-	6,000	-
Police Federal Forfeitures	64,154	4,071	20,469	47,756
Damage To City Property	100,647	51,944	49,568	103,023
Railroad Relocation	440,803	-	440,803	-
Vital Records	145,770	48,324	16,534	177,560
City Court Programs	83,776	18,276	50,818	51,234
Judgment Bonds Proceeds	133,137	-	133,137	-
EC Petty Cash Accts	1,750	756	503	2,003
EC/Gary/Hammond RLF	266,087	4,045	3,818	266,314
Redevelopment Rehab Escrow	4,967	102,034	102,652	4,349
Lease Rental Payment	769,159	2,208,269	2,223,001	754,427
Redevelopment Bond and Interest	630,272	2,349,044	2,979,316	-
Communications Revolving	(4,866)	125,002	127,528	(7,392)
Gasoline Revolving	(128,933)	1,060,528	1,005,255	(73,660)
EC Redevelopment	1,452,944	1,500,202	2,458,248	494,898
Payroll Withholding	-	61,577,938	61,581,863	(3,925)
Health Insurance	78,616	5,864,619	5,865,061	78,174
Misc Employee Ins	55,858	1,921	817	56,962
EC Property Tax Credit	225,034	-	225,034	-
Worker's Compensation	2,550	215,043	214,780	2,813
City Clerk	583,095	562,268	593,512	551,851
ECSDWW Petty Cash	5,000	2	2	5,000
Sewage Utility Construction	-	6,000,000	3,813,431	2,186,569
Wastewater Utility-Operating	983,229	6,150,502	6,358,060	775,671
Wastewater Replacement Reserve	526,249	325,000	117,805	733,444
Storm Water Utility-Operating	230,072	1,242,047	882,946	589,173
Solid Waste-Operating	2,415,387	8,811,375	6,667,042	4,559,720
Solid Waste-Bond And Interest	654,666	846,606	844,120	657,152
Sanitary District Revolving	1,097,313	254,066	306,639	1,044,740
Utilities Revolving	-	551,586	551,586	-
Sanitary State Revolving	38,683	-	-	38,683
Water Utility Meter Deposit	278,325	12,380	13,280	277,425
Water Utility-Operating	407,272	6,454,031	6,406,774	454,529
Water Tank Refurbishment	505,438	366,560	825,414	46,584
Water Utility-Construction	297,595	5	163,230	134,370
Change Fund	500	-	-	500
Water Utility-Debt Reserve	1,388,040	-	-	1,388,040
Water Utility-Bond and Interest	3,427,624	2,502,771	3,246,387	2,684,008
EC Marina	124,000	891,332	841,432	173,900
EC Marina Petty Cash Accts	1,050	2,479	2,529	1,000
Totals	\$ 49,927,723	\$ 204,607,724	\$ 198,422,779	\$ 56,112,668

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

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

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

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

Penalties which include fees received for late payments.

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

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

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

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

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

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

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

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

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

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

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

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

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

C. 1937 Firefighters' Pension Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

On Behalf Payments

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

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

Plan Description

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

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS 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:

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

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

Note 7. Cash Balance Deficits

The financial statement contains funds with deficits in cash. This is a result of some of the funds being set up for reimbursable grants and as internal service funds. The deficit in the Self-Insurance fund was due to disbursements exceeding receipts.

Note 8. Holding Corporation

The City has entered into a capital lease with the East Chicago Municipal Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during 2014 totaled \$2,223,000.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 9. Subsequent Events

Short-Term Debt - Loans Between Funds

Due to a delay in collecting revenue from water customer billing and marina slip rentals, the City made temporary loans between funds during 2014. These loans were not repaid during 2014. As of December 31, 2014, two loans totaling \$350,000 were still outstanding. They were repaid on June 30, 2015. In addition, temporary loans between funds in the amount of \$925,000 were approved in 2015.

Short-Term Debt - Tax Anticipation Warrants

On January 6, 2015, the City issued tax anticipation warrants for 2015 totaling \$7,706,798 in the General fund. Principal of \$1,506,798 and interest of \$14,638.54 was paid on June 30, 2015, with the remaining principal of \$6,200,000 and interest of \$122,889.17 due on December 31, 2015. Interest rate on these tax anticipation warrants is 2.01 percent.

Termination of City Department

The City's Department of Human Rights was established by ordinance adopted on February 18, 2000. In recent years, the Department has had decreased activity as evidenced by fewer number of complaints processed by the Department (2 as of July 1 for calendar year 2015). The state has discontinued its funding of the City's Department as of January 2015. Indiana Code 36-4-9-4(d) empowers the Common Council to terminate City departments previously established upon recommendation of the City Executive. Ordinance No.15-0009 terminating the City's Department of Human Rights, was adopted on July 27, 2015.

Note 10. Other Postemployment Benefits

The City provides to eligible retirees and their spouses health benefits. These benefits pose a liability to the City for this year and in future years. Information regarding the benefits can be obtained by contacting the City.

Note 11. Contingent Liabilities and Lawsuits

The City has been named as defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

Note 12. Tax Incremental Receipts Pledged

The City has pledged a portion of tax incremental finance property tax receipts to repay \$9,065,040 in tax increment finance revenue bonds issued in 1999 to finance the acquisition of processing and production equipment for high capacity wallboard manufacturing facility (U.S. Gypsum Company). The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property taxes received in 2014 were not enough to cover the 2014 payments due.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

The City has pledged a portion of tax incremental finance property tax receipts to repay \$1,750,000 in tax increment finance revenue bonds issued in 2007 to finance the costs of converting an existing retail structure located in Riley Plaza into a supermarket facility. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property tax receipts received in 2014 were not enough to cover the 2014 payments due.

The City has pledged a portion of tax incremental finance property tax receipts to repay \$6,300,000 in tax increment finance revenue bonds issued in 2009 to finance the costs of acquiring certain property located within the Allocation Area, commonly known as the Harborside Apartments, pursuant to the Redevelopment Plan for the Allocation Area. The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property tax receipts received in 2014 were enough to cover the 2014 payments due.

Note 13. Indiana Harbor Revitalization Project

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

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

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

The Commission also loaned Northtown \$3,000,000 to be used to finance construction of 75 unit townhomes consisting of two, three, and four bedroom rental units comprised of ten separate buildings. The loan was made in installments over a three year period. Northtown was loaned \$619,558 in October 2007 and \$1,380,442 in November 2008 from the Economic Development Commission Fund, which receipts the tax increment financing property tax revenues generated from the TIF District. The final installment was paid to Northtown on February 6, 2009, from grants awarded to the City in 2007 from the East Chicago Urban Enterprise Association, Inc., and the Gary/Hammond/East Chicago Empowerment Zone. The Phase I loan bears interest at 1.75 percent compounded annually. The unpaid principal as well as any accrued and unpaid interest will be due and payable no later than December 31, 2048.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

	Balance January 1, 2014	New Loans	Repayments	Balance December 31, 2014	Accrued and Unpaid interest
Phase I	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000	\$ 214,855
Phase II	2,653,000	-	-	2,653,000	82,046
Totals	<u>\$ 4,453,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,453,000</u>	<u>\$ 296,901</u>

Note 14. Water Filtration Plant

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

1. In 2006, the City entered into a \$16,600,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The initial \$16,600,000 in loan program funds was completely drawn down; however, as of December 31, 2014, an additional \$190,937 in accumulated interest is still available to be drawn on this program. The repayment of the loan is from the Water Utility Operating and Economic Development Operating Funds.
2. In 2009, the City entered into a \$27,200,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. During 2010 and 2011, the City drew down the entire amount of the \$27,200,000 loan.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

The City approved Ordinance 06-0053 on January 9, 2007, to irrevocably pledge a maximum of \$3,000,000 annually of gaming revenue for the payment of principal and interest on the 2009 \$27,200,000 State Revolving Fund loan. Per the financial assistance agreement, the City is to deposit by January 16 of each year an annual amount equal to the principal and interest on all outstanding bonds payable during the next 12 month period. If gaming revenue is insufficient, the City would cause a levy of a special benefit tax upon all property of the Waterworks District in the amount necessary to meet and pay the principal and interest payments when due.

3. In 2009, the City entered into a \$3,000,000 forgivable loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks bond anticipation notes (BAN) issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 BAN was subject to loan forgiveness and was deemed forgiven and discharged on November 12, 2010, for the entire amount of the loan, as permitted by the American Recovery and Reinvestment Act. During 2010, the City drew down the entire \$3,000,000 loan.
4. In 2009, the City disbursed \$5,750,000 from the Economic Development Commission Fund, in accordance with the financial assistance agreement with the Indiana Finance Authority, into a Project Fund for the water utility improvements. As of December 31, 2014, the City has drawn \$5,704,967 which leaves \$45,033 plus an additional \$958 in accumulated interest remaining to be drawn.
5. The U.S. Army Corp of Engineers contributed the construction of a water storage reservoir at an estimated value of \$1,650,000. The water filtration plant construction was completed in the fall of 2011. However, the new state-of-the-art water filtration plant has yet to provide the rated 17 million gallons of clean water a day. Thus, the City has not been able to fully integrate the new water filtration plant online and has had to operate and maintain the old water filtration plant. The City expected to demolish the old water filtration plant in January 2012 for the City's continued improvement to the lakefront. The City has been assessing a \$2,000 per day penalty against Siemens USA for failing to provide a water filtration plant that met specifications.
6. On August 7, 2013, Siemens and the City, initiated separate lawsuits entitled City of East Chicago v. Siemens Water Technologies Group, et al, Case No. 45D01-1308-PL-72 (Lake County, IN) and Siemens Industry, Inc., successor through merger to Siemens Water Technologies v. The City of East Chicago, Indiana, Case No. 2:13-CV-00273-JTM-PRC (U.S. Dist. Ct. N.D. IN. The litigation concerned a dispute regarding the performance of the water filtration system installed in the new membrane water filtration facility. Each party denied the allegations made against them by their opponents.
7. On June 25, 2015, the City executed a Settlement and Release Agreement with Evoqua Water Technologies LLC, Federal Insurance Company and Fidelity and Deposit Company of Maryland which terminated the litigation and provided, among other things that the City would receive new N-module membranes for all six trains at the filtration plant and a cash payment of \$1,875,000. The Department conducted an eleven month pilot plant study testing a proposed Fluid Engineering Strainer system

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

and concluded that it was uniquely suited to operate in conjunction with the existing membrane filtration system with minimal reconfiguration of the existing plant and in May of 2015, the Department authorized the purchase of the Fluid Engineering Strainer system.

8. On July 16, 2015, the Department adopted a resolution appropriating the proceeds of the \$1,875,000 cash settlement directing in part that \$1,356,445.88 be applied to the cost of the project to replace the raw water strainer system used in conjunction with the Department's membrane water filtration system and other substantial improvements at the Department's water filtration facility. The project is expected to take four (4) months and be complete in January 2016.

Note 15. Settlements

Consent Decree

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

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

Ameristar Property Tax Appeal Settlement

The City, as well as Lake County, has reached a settlement on property tax matters with Ameristar to receive a refund of \$5,700,000. The refund shall be paid by credits applied on property tax bills for any of its real and personal property located in Lake County. The credit is applied at a rate of \$1,425,000 per installment for tax years' 2012 payable in 2013 through 2015 payable in 2016.

School City Bus Facility Lease

The City has reached a settlement on the Bus Facility Lease with the School City of East Chicago (School City) in which both parties agreed to compromise and settle the amount of previously unpaid rent on the premises, claimed by the City to be \$1,050,000, for the sum of \$250,000. In addition, the School City agreed to pay the sum of \$29,029.75 in settlement and satisfaction of unpaid NIPSCO bills incurred by the City on behalf of the School City.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

Morgan Lewis & Bockius LLP Settlement

The matter of *Morgan Lewis & Bockius LLP vs City of East Chicago* involved that firm's claims for unpaid legal bills in the amount of \$3.2 million, plus interest claimed to be another approximately \$3 million, from in or about December 2007. The case was scheduled for trial in the Circuit Court of Cook County early in 2015. On the eve of trial, the parties engaged in settlement discussion and the entire matter was resolved by settlement prior to trial. The settlement included satisfaction of a previously entered judgment against the City in the amount of \$145,000. The City made two separate payments of \$822,500 on March 23, 2015, and June 10, 2015, which fully resolved this matter.

OTHER INFORMATION - UNAUDITED

The City's Annual Financial Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Financial Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The other information presented was approved by management of the City. It is presented as intended by the City.

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Health Maintenance	Economic Development Operating	Building Demolition
Cash and investments - beginning	\$ 1,809,134	\$ 2,904,649	\$ 512,167	\$ 15,422	\$ 42,863	\$ 3,576,492	\$ -
Receipts:							
Taxes	23,634,129	-	-	-	-	2,282,052	-
Licenses and permits	737,284	-	-	-	-	-	-
Intergovernmental	1,670,044	1,074,743	265,735	-	102,050	196,282	-
Charges for services	348,381	-	-	8,121	-	-	-
Fines and forfeits	139,992	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	8,727,433	-	39,159	-	-	62,070	146,000
Total receipts	35,257,263	1,074,743	304,894	8,121	102,050	2,540,404	146,000
Disbursements:							
Personal services	19,816,571	650,123	-	-	53,589	-	-
Supplies	494,424	209,850	20,311	-	9,089	-	-
Other services and charges	2,100,791	52,496	53,940	11,595	17,226	143,343	9,900
Debt service - principal and interest	8,075,685	-	-	-	-	-	-
Capital outlay	5,880	-	-	-	18,924	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	10,427	-	-	-	-	2,947,088	-
Total disbursements	30,503,778	912,469	74,251	11,595	98,828	3,090,431	9,900
Excess (deficiency) of receipts over disbursements	4,753,485	162,274	230,643	(3,474)	3,222	(550,027)	136,100
Cash and investments - ending	\$ 6,562,619	\$ 3,066,923	\$ 742,810	\$ 11,948	\$ 46,085	\$ 3,026,465	\$ 136,100

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Transportation	CDBG	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Unsafe Building	Riverboat	Parks And Recreation
Cash and investments - beginning	\$ 5,310	\$ (250,592)	\$ 121,126	\$ 16,188	\$ 449,493	\$ 9,189,399	\$ 470,715
Receipts:							
Taxes	729,581	-	-	-	-	-	2,189,913
Licenses and permits	-	-	8,191	-	-	-	-
Intergovernmental	799,840	1,704,753	-	-	-	17,869,112	45,053
Charges for services	-	5,150	-	-	-	-	581,887
Fines and forfeits	-	-	40,775	4,194	132,860	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	4,008	110,369	-	-	65,564	238,402	21,566
Total receipts	<u>1,533,429</u>	<u>1,820,272</u>	<u>48,966</u>	<u>4,194</u>	<u>198,424</u>	<u>18,107,514</u>	<u>2,838,419</u>
Disbursements:							
Personal services	1,041,535	344,120	-	-	-	437,341	1,285,511
Supplies	142,110	6,405	1,980	-	1,339	184,987	183,371
Other services and charges	68,234	1,193,300	36,887	-	287,686	9,741,084	377,805
Debt service - principal and interest	-	-	-	-	-	142,026	-
Capital outlay	-	108,178	14,908	10,480	-	7,450,067	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	2,062,779	14,144
Total disbursements	<u>1,251,879</u>	<u>1,652,003</u>	<u>53,775</u>	<u>10,480</u>	<u>289,025</u>	<u>20,018,284</u>	<u>1,860,831</u>
Excess (deficiency) of receipts over disbursements	<u>281,550</u>	<u>168,269</u>	<u>(4,809)</u>	<u>(6,286)</u>	<u>(90,601)</u>	<u>(1,910,770)</u>	<u>977,588</u>
Cash and investments - ending	<u>\$ 286,860</u>	<u>\$ (82,323)</u>	<u>\$ 116,317</u>	<u>\$ 9,902</u>	<u>\$ 358,892</u>	<u>\$ 7,278,629</u>	<u>\$ 1,448,303</u>

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Cumulative Capital Development	Park Nonreverting Capital	Redevelopment Capital	Fire Equipment (Not Debt Service)	Co Economic Development Income Tax Capital	Cumulative Capital Improvement
Cash and investments - beginning	\$ 19,872	\$ 279,979	\$ -	\$ 21,962	\$ -	\$ 5,996
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	2,466,070	78,555
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	700	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	154,000	1,256,334	10,920	-	-
Total receipts	-	154,000	1,257,034	10,920	2,466,070	78,555
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	13,680	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	19,872	15,263	-	21,797	1,094,017	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	84,551
Total disbursements	19,872	15,263	13,680	21,797	1,094,017	84,551
Excess (deficiency) of receipts over disbursements	(19,872)	138,737	1,243,354	(10,877)	1,372,053	(5,996)
Cash and investments - ending	\$ -	\$ 418,716	\$ 1,243,354	\$ 11,085	\$ 1,372,053	\$ -

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Self-Insurance	Police Pension	Fire Pension	City And Town Court Costs	LOIT Public Safety	Local Development Agreement
Cash and investments - beginning	\$ (1,819,185)	\$ 177,234	\$ 10,697	\$ 4,879	\$ -	\$ 12,474,880
Receipts:						
Taxes	-	17,566	17,566	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	3,556,668	2,740,231	-	2,641,302	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	8,882,365	3,832	403	33,341	-	3,569,964
Total receipts	8,882,365	3,578,066	2,758,200	33,341	2,641,302	3,569,964
Disbursements:						
Personal services	-	-	-	-	2,053,130	-
Supplies	-	-	-	-	-	-
Other services and charges	53,019	11,568	11,280	-	-	3,500,000
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	2,419,376
Utility operating expenses	-	-	-	-	-	-
Other disbursements	9,132,732	3,454,624	2,716,261	34,270	-	-
Total disbursements	9,185,751	3,466,192	2,727,541	34,270	2,053,130	5,919,376
Excess (deficiency) of receipts over disbursements	(303,386)	111,874	30,659	(929)	588,172	(2,349,412)
Cash and investments - ending	\$ (2,122,571)	\$ 289,108	\$ 41,356	\$ 3,950	\$ 588,172	\$ 10,125,468

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	TIF US Gypsum	TIF Riley Plaza	Local Police Forfeitures	Harborside Apartments	TIF Northtown Village Townhomes	Home Investment Partnership Program
Cash and investments - beginning	\$ 421,615	\$ 46,087	\$ 4,982	\$ 932,372	\$ 186,058	\$ 50,259
Receipts:						
Taxes	765,490	89,648	-	-	112,326	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	58,979	7,708	-	-	46,870	84,728
Charges for services	-	-	-	2,192,675	-	27,373
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	2,777	398,669	-	4,520
Total receipts	824,469	97,356	2,777	2,591,344	159,196	116,621
Disbursements:						
Personal services	-	-	-	-	-	12,178
Supplies	-	-	-	95,160	-	-
Other services and charges	-	-	-	1,388,872	300,163	109,554
Debt service - principal and interest	856,316	94,765	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	764,585	-	-
Total disbursements	856,316	94,765	-	2,248,617	300,163	121,732
Excess (deficiency) of receipts over disbursements	(31,847)	2,591	2,777	342,727	(140,967)	(5,111)
Cash and investments - ending	\$ 389,768	\$ 48,678	\$ 7,759	\$ 1,275,099	\$ 45,091	\$ 45,148

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Local Law Enforcement Grants	General Adult Probation	Federal Grants	State Grant	Grant Misc	SSSED Revolving Loan
Cash and investments - beginning	\$ -	\$ 165,076	\$ -	\$ (112,306)	\$ 591,835	\$ 311,802
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	166,297	-	229,755	457,657	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	19,431	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	79,959	-	46,003	75,828	37,414	529
Total receipts	246,256	19,431	275,758	533,485	37,414	529
Disbursements:						
Personal services	246,256	12,538	-	199,019	-	-
Supplies	-	4,201	44,876	5,011	18,542	-
Other services and charges	-	19,912	42,950	209,598	4,319	357
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	6,588	183,604	-	7,500	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	246,256	43,239	271,430	413,628	30,361	357
Excess (deficiency) of receipts over disbursements	-	(23,808)	4,328	119,857	7,053	172
Cash and investments - ending	\$ -	\$ 141,268	\$ 4,328	\$ 7,551	\$ 598,888	\$ 311,974

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Summer Youth Training Program	EC Property Improvement	Police Federal Forfeitures	Damage To City Property	Railroad Relocation	Vital Records
Cash and investments - beginning	\$ -	\$ 6,000	\$ 64,154	\$ 100,647	\$ 440,803	\$ 145,770
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	68,917	-	3,994	-	-	-
Charges for services	-	-	-	-	-	44,865
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	114,635	-	77	51,944	-	3,459
Total receipts	183,552	-	4,071	51,944	-	48,324
Disbursements:						
Personal services	183,552	-	-	-	-	-
Supplies	-	-	8,233	-	-	9,587
Other services and charges	-	-	-	49,568	-	3,889
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	12,236	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	6,000	-	-	440,803	3,058
Total disbursements	183,552	6,000	20,469	49,568	440,803	16,534
Excess (deficiency) of receipts over disbursements	-	(6,000)	(16,398)	2,376	(440,803)	31,790
Cash and investments - ending	\$ -	\$ -	\$ 47,756	\$ 103,023	\$ -	\$ 177,560

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	City Court Programs	Judgment Bonds Proceeds	EC Petty Cash Accts	EC/Gary/Hammond RLF	Redevelopment Rehab Escrow	Lease Rental Payment
Cash and investments - beginning	\$ 83,776	\$ 133,137	\$ 1,750	\$ 266,087	\$ 4,967	\$ 769,159
Receipts:						
Taxes	-	-	-	-	-	2,172,347
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	35,922
Charges for services	-	-	-	-	-	-
Fines and forfeits	17,987	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	289	-	756	4,045	102,034	-
Total receipts	18,276	-	756	4,045	102,034	2,208,269
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	3,546	-	-	-	-	-
Other services and charges	45,384	-	500	225	-	-
Debt service - principal and interest	-	-	-	-	-	2,223,001
Capital outlay	1,888	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	133,137	3	3,593	102,652	-
Total disbursements	50,818	133,137	503	3,818	102,652	2,223,001
Excess (deficiency) of receipts over disbursements	(32,542)	(133,137)	253	227	(618)	(14,732)
Cash and investments - ending	\$ 51,234	\$ -	\$ 2,003	\$ 266,314	\$ 4,349	\$ 754,427

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2014
 (Continued)

	Redevelopment Bond and Interest	Communications Revolving	Gasoline Revolving	EC Redevelopment	Payroll Withholding	Health Insurance
Cash and investments - beginning	\$ 630,272	\$ (4,866)	\$ (128,933)	\$ 1,452,944	\$ -	\$ 78,616
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	13,067	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	2,349,044	125,002	1,060,528	1,487,135	61,577,938	5,864,619
Total receipts	2,349,044	125,002	1,060,528	1,500,202	61,577,938	5,864,619
Disbursements:						
Personal services	-	-	-	164,150	-	-
Supplies	-	-	1,005,255	-	-	-
Other services and charges	6	127,528	-	1,992,595	-	234,872
Debt service - principal and interest	2,979,310	-	-	-	-	-
Capital outlay	-	-	-	25,500	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	276,003	61,581,863	5,630,189
Total disbursements	2,979,316	127,528	1,005,255	2,458,248	61,581,863	5,865,061
Excess (deficiency) of receipts over disbursements	(630,272)	(2,526)	55,273	(958,046)	(3,925)	(442)
Cash and investments - ending	\$ -	\$ (7,392)	\$ (73,660)	\$ 494,898	\$ (3,925)	\$ 78,174

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Misc Employee Ins	EC Property Tax Credit	Worker's Compensation	City Clerk	ECSDWW Petty Cash	Sewage Utility Construction
Cash and investments - beginning	\$ 55,858	\$ 225,034	\$ 2,550	\$ 583,095	\$ 5,000	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	1,921	-	215,043	562,268	2	6,000,000
Total receipts	1,921	-	215,043	562,268	2	6,000,000
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	122,370
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	3,691,061
Utility operating expenses	-	-	-	-	-	-
Other disbursements	817	225,034	214,780	593,512	2	-
Total disbursements	817	225,034	214,780	593,512	2	3,813,431
Excess (deficiency) of receipts over disbursements	1,104	(225,034)	263	(31,244)	-	2,186,569
Cash and investments - ending	\$ 56,962	\$ -	\$ 2,813	\$ 551,851	\$ 5,000	\$ 2,186,569

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Wastewater Utility-Operating	Wastewater Replacement Reserve	Storm Water Utility-Operating	Solid Waste-Operating	Solid Waste-Bond And Interest	Sanitary District Revolving
Cash and investments - beginning	\$ 983,229	\$ 526,249	\$ 230,072	\$ 2,415,387	\$ 654,666	\$ 1,097,313
Receipts:						
Taxes	-	-	-	7,523,581	841,769	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	53,596	4,837	-
Charges for services	6,110,883	-	1,242,047	213,495	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	27,519	-	-	-	-	-
Other receipts	12,100	325,000	-	1,020,703	-	254,066
Total receipts	6,150,502	325,000	1,242,047	8,811,375	846,606	254,066
Disbursements:						
Personal services	2,284,206	-	871,072	3,427,311	-	206,639
Supplies	196,127	-	4,629	247,707	-	-
Other services and charges	2,172,021	-	7,245	1,591,131	-	-
Debt service - principal and interest	-	-	-	1,026,557	844,120	-
Capital outlay	9,515	117,805	-	302,630	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,696,191	-	-	71,706	-	100,000
Total disbursements	6,358,060	117,805	882,946	6,667,042	844,120	306,639
Excess (deficiency) of receipts over disbursements	(207,558)	207,195	359,101	2,144,333	2,486	(52,573)
Cash and investments - ending	\$ 775,671	\$ 733,444	\$ 589,173	\$ 4,559,720	\$ 657,152	\$ 1,044,740

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Utilities Revolving	Sanitary State Revolving	Water Utility Meter Deposit	Water Utility-Operating	Water Tank Refurbishment	Water Utility-Construction
Cash and investments - beginning	\$ -	\$ 38,683	\$ 278,325	\$ 407,272	\$ 505,438	\$ 297,595
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	5,025,026	-	-
Penalties	-	-	-	17,720	-	-
Other receipts	551,586	-	12,380	1,411,285	366,560	5
Total receipts	551,586	-	12,380	6,454,031	366,560	5
Disbursements:						
Personal services	551,586	-	-	1,385,892	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	95,280	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	99,413	-	52,702
Utility operating expenses	-	-	-	2,465,071	414	49,856
Other disbursements	-	-	13,280	2,361,118	825,000	60,672
Total disbursements	551,586	-	13,280	6,406,774	825,414	163,230
Excess (deficiency) of receipts over disbursements	-	-	(900)	47,257	(458,854)	(163,225)
Cash and investments - ending	\$ -	\$ 38,683	\$ 277,425	\$ 454,529	\$ 46,584	\$ 134,370

CITY OF EAST CHICAGO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2014
(Continued)

	Change Fund	Water Utility-Debt Reserve	Water Utility-Bond and Interest	EC Marina	EC Marina Petty Cash Accts	Totals
Cash and investments - beginning	\$ 500	\$ 1,388,040	\$ 3,427,624	\$ 124,000	\$ 1,050	\$ 49,927,723
Receipts:						
Taxes	-	-	-	-	-	40,375,968
Licenses and permits	-	-	-	-	-	745,475
Intergovernmental	-	-	-	-	-	36,429,698
Charges for services	-	-	-	777,364	-	11,565,308
Fines and forfeits	-	-	-	-	-	355,939
Utility fees	-	-	-	-	-	5,025,026
Penalties	-	-	-	-	-	45,239
Other receipts	-	-	2,502,771	113,968	2,479	110,065,071
Total receipts	-	-	2,502,771	891,332	2,479	204,607,724
Disbursements:						
Personal services	-	-	-	435,230	-	35,661,549
Supplies	-	-	-	37,668	-	2,934,408
Other services and charges	-	-	-	262,349	-	26,464,522
Debt service - principal and interest	-	-	3,246,387	-	-	19,488,167
Capital outlay	-	-	-	-	-	15,689,204
Utility operating expenses	-	-	-	-	-	2,515,341
Other disbursements	-	-	-	106,185	2,529	95,669,588
Total disbursements	-	-	3,246,387	841,432	2,529	198,422,779
Excess (deficiency) of receipts over disbursements	-	-	(743,616)	49,900	(50)	6,184,945
Cash and investments - ending	\$ 500	\$ 1,388,040	\$ 2,684,008	\$ 173,900	\$ 1,000	\$ 56,112,668

CITY OF EAST CHICAGO
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2014

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Sanitary District	\$ 174,214	\$ 1,200,920
Water	77,416	933,105
Marina	32,909	-
Governmental activities	<u>3,024,680</u>	<u>2,740,337</u>
Totals	<u>\$ 3,309,219</u>	<u>\$ 4,874,362</u>

CITY OF EAST CHICAGO
SCHEDULE OF LEASES AND DEBT
December 31, 2014

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
East Chicago Municipal Building Corporation	Public Safety Facility	\$ 2,223,000	7/5/2007	1/5/2024
Motorola	E-911 Radio Equipment Lease-Purchase	305,763	9/1/2014	9/1/2017
Total of annual lease payments		<u>\$ 2,528,763</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Revenue bonds	Redevelopment Tax Increment Financing Bonds 1999 USG Project	\$ 3,331,805	\$ 2,528,000
Revenue bonds	Taxable Economic Development Revenue Bond		
	Series 2007A Riley Plaza Project	1,490,000	136,000
Revenue bonds	EC Truck Loan 2012	390,657	142,026
Total governmental activities		<u>5,212,462</u>	<u>2,806,026</u>
Sanitary District:			
General obligation bonds	State Revolving Fund (SRF) Loan 1996 Pump Station		
	Improvements & WWTF Modifications	3,920,000	842,950
General obligation bonds	EC Sanitary District BAN 2014 Improvements to Wastewater Plant	6,000,000	45,758
Total Sanitary District		<u>9,920,000</u>	<u>888,708</u>
Water:			
Revenue bonds	State Revolving Fund (SRF) Loan 2002 Water Utility Improvements	1,050,000	133,928
Revenue bonds	State Revolving Fund (SRF) Loan 2006 New Water Filtration Plant	12,370,000	1,253,244
Revenue bonds	State Revolving Fund (SRF) Loan 2009 New Water Filtration Plant	22,705,000	1,860,586
Total Water		<u>36,125,000</u>	<u>3,247,758</u>
Totals		<u>\$ 51,257,462</u>	<u>\$ 6,942,492</u>

CITY OF EAST CHICAGO
SCHEDULE OF CAPITAL ASSETS
December 31, 2014

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.

	Ending Balance
Governmental activities:	
Land	\$ 5,176,883
Infrastructure	35,598,926
Buildings	33,882,172
Improvements other than buildings	4,976,299
Machinery, equipment, and vehicles	3,776,999
Construction in progress	<u>9,761,977</u>
Total governmental activities	<u>93,173,256</u>
Sanitary District:	
Land	885,268
Buildings	14,346,468
Improvements other than buildings	3,498,779
Machinery, equipment, and vehicles	2,061,978
Construction in progress	<u>4,534,286</u>
Total Sanitary District	<u>25,326,779</u>
Water:	
Land	249,859
Buildings	164,468
Improvements other than buildings	3,425,371
Machinery, equipment, and vehicles	21,238
Construction in progress	<u>53,790,793</u>
Total Water	<u>57,651,729</u>
Marina:	
Land	1,020,000
Buildings	5,929,471
Improvements other than buildings	<u>350,592</u>
Total Marina	<u>7,300,063</u>
Total capital assets	<u><u>\$ 183,451,827</u></u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of East Chicago's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-004, and 2014-005. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance


Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-002, 2014-003, 2014-004, and 2014-005 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

August 4, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards was prepared by management of the City. The accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (Or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2IN700002: FY13-14 2IN700012: FY13-14	\$ 207,118 8,000
Total for Program			215,118
Total for federal grantor agency			215,118
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Pass-Through Indiana Department of Natural Resources Coastal Zone Management Administration Awards	11.419	EDS#E16-4-BKSO237	5,000
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Housing and Community Development Authority Housing Counseling Assistance Program	14.169	2014D1-BEP-001	8,910
Direct Grants			
Section 8 Project-Based Cluster Section 8 Housing Assistance Payments Program	14.195	IN36L000278 & IN36M000280	1,956,286
CDBG – Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-180004 B-12-MC-180004 B-13-MC-180004	178,253 1,118,423 408,078
Total for cluster			1,704,754
Home Investment Partnerships Program	14.239	M-07-MC-18210 M-12-MC-18210 M-13-MC-18210	2,396 80,836 1,496
Total for program			84,728
Total for federal grantor agency			3,754,678
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grants			
Bulletproof Vest Partnership Program	16.607	FY 2012	1,492
Public Safety Partnership and Community Policing Grants	16.710	2013UMWX0168	166,297
Equitable Sharing Program	16.922	FY 2011 FY 2014	16,475 3,994
Total for program			20,469
Total for federal grantor agency			188,258
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	A29-12-320704 (Des#1173711)	24,409

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, 2014
(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 (continued)</u>			
Pass-Through Northwestern Indiana Regional Planning Commission			
Federal Transit Cluster			
Federal Transit_Formula Grants	20.507	IN-90-X609	70,218
		IN-90-X636	55,153
		IN-90-X653	218,723
		IN-90-X667	114,909
Total for cluster			459,003
Pass-Through Indiana Department of Transportation			
Surface Transportation_Discretionary Grants for Capital Investment	20.932	DES#0900061	24,533
		DES#0900062	120,322
		DES#0900063	22,906
Total for program			167,761
Total for federal grantor agency			651,173
<u>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant			
Employment Discrimination_Title VII of the Civil Rights Act of 1964	30.001	EECCN110057	1,670
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management			
Beach Monitoring and Notification Program Implementation Grants	66.472	A-305-3-92	17,226
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health			
Hospital Preparedness Program (HIPP) and Public Emergency	93.074	1U90TP000521-01 (BPRS 193-70)	13,690
Preparedness (PHEP) Aligned Cooperative Agreements		1U90TP000521-01 (BPRS 193-71)	11,950
Total for program			25,640
Pass-Through Indiana State Department of Health			
Immunization Cooperative Agreements	93.268	6H23IP522522-10	47,999
Total for federal grantor agency			73,639
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grants			
Assistance to Firefighters Grant	97.044	EMW-2012-FO-04834	11,823
		EMW-2013-FO-03256	126,255
Total for program			138,078
Pass-Through Indiana Department of Homeland Security			
Homeland Security Grant Program	97.067	EDS#PSF1-4-014A	4,000
		EDS#PSF1-4-126A	4,000
Total for program			8,000
Total for federal grantor agency			146,078
Total federal awards expended			\$ 5,052,840

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

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

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2014:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2014</u>
Community Development Block Grants/Entitlement Grants	14.218	<u>\$ 42,340</u>

CITY OF EAST CHICAGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

Name of Federal Program or Cluster

Section 8 Project-Based Cluster
CDBG - Entitlement Grants Cluster

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

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-001 - SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Section 8 Housing Assistance Payments Program
CFDA Number: 14.195
Federal Award Numbers: IN36L000278, IN36M000280

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

Management of the City's Department of Redevelopment (Department) has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Reporting, and Special Tests and Provisions - Vacant Units. The failure to establish an effective internal control system places the Department at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all reimbursement vouchers, the necessary eligibility calculations, the required reports, and the activities related to the Special Tests and Provisions - Vacant Units. The management company performed all of these activities without the necessary oversight by the Department. The Department failed to establish the proper internal control structure to ensure compliance with requirements associated with the Section 8 Housing Assistance Payments Program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the Department.

We recommended that the Department's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

FINDING 2014-002 - SPECIAL TESTS AND PROVISIONS - HOUSING QUALITY STANDARDS

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Section 8 Housing Assistance Payments Program
CFDA Number: 14.195
Federal Award Numbers: IN36L000278, IN36M000280

Internal Controls

Management of the City's Department of Redevelopment (Department) has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions - Housing Quality Standards compliance requirements.

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

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all activities related to the Special Tests and Provisions - Housing Quality Standards. The management company performed all of these activities without the necessary oversight by the Department. The Department failed to establish the proper internal control structure to ensure compliance with requirements associated with the Section 8 Housing Assistance Payments Program. In October 2014, the Department changed management companies.

Compliance

As part of the Section 8 program, the Department of Housing and Urban Development (HUD) requires that owners provide "decent, safe, and sanitary rental housing" to its tenants. In order to ensure no repairs are needed or, if repairs are needed, they are completed timely, housing quality inspections at the time of initial occupancy and at least annually thereafter are to be performed.

During review of the annual inspections, several instances of noncompliance were noted. The noncompliance included inspection reports that could not be located and inspection reports that were not fully or properly completed. Upon inquiry, it was disclosed that not all the annual inspections were completed in 2014 due to the change in management companies.

24 CFR 884.217 Maintenance, operation, and inspections states:

"(a) *Maintenance and operation.* The Owner shall maintain and operate the project so as to provide Decent, Safe, and Sanitary housing and he shall provide all the services, maintenance and utilities which he agrees to provide under the Contract, subject to abatement of housing assistance payments or other applicable remedies if he fails to meet these obligations.

(b) *Inspection prior to occupancy.* Prior to occupancy of any unit by a Family, the Owner and the Family shall inspect the unit and both shall certify, on forms prescribed by HUD, that they have inspected the unit and have determined it to be Decent, Safe, and Sanitary in accordance with the criteria provided in the prescribed forms. Copies of these reports shall be kept on file by the Owner for at least three years.

(c) *Periodic inspections.* HUD (or the PHA, as appropriate) will inspect or cause to be inspected each Contract unit and related facilities at least annually and at such other times (including prior to initial occupancy and rereating of any unit) as HUD (or the PHA) may determine to be necessary to assure that the Owner is meeting his obligation to maintain the units in Decent, Safe, and Sanitary condition and to provide the agreed upon utilities and other services. HUD (or the PHA) will take into account complaints by occupants and any other information coming to its attention in scheduling inspections and shall notify the Owner and the Family of its determination."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled noncompliance with federal guidelines over the Special Tests and Provisions related to Housing Quality Standards and places the Department at risk of not receiving additional federal funding.

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

We recommended that the Department's management establish controls to ensure compliance and comply with the contract and the requirements for Special Tests and Provisions - Housing Quality Standards.

FINDING 2014-003 - COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

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

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers: B-11-MC-180004, B-12-MC-180004, B-13-MC-180004

Management of the City's Department of Redevelopment (Department) and the Redevelopment Commission (Commission) have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed, Allowable Costs, Cash Management, Program Income, Davis-Bacon Act, Subrecipient Monitoring, and Special Tests and Provisions. The failure to establish an effective internal control system places the Department and Commission at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Activities Allowed, Allowable Costs, Cash Management, and Program Income

The City has assessed the risk for accounting system recording errors by bringing the Department funds, including the Community Development Block Grant (CDBG), into the City's records. The federal Housing and Urban Development Department (HUD) also requires CDBG transactions to be entered into their Integrated Disbursement and Information System (IDIS) system; however, City officials have not been able to reconcile the two accounting systems. By not reconciling the records, the Commission and City are at risk of not adequately monitoring Activities Allowed, Allowable Costs, Cash Management, and Program Income requirements.

Davis-Bacon Act

A consultant managed all the documents related to the implementation of the Davis-Bacon Act and prepared compliance reports with supporting documentation on the weekly payrolls. Controls have not been established to ensure that the work performed by the consultant is complete and addresses all the factors that could affect compliance with the Davis-Bacon Act. An oversight or review process has not been established.

Subrecipient Monitoring

A subrecipient monitoring checklist was designed and implemented; however, no reports on the subrecipient monitoring were presented to the Executive Director or the Commission. Controls have not been established to ensure proper oversight or review of the monitoring activities performed.

Special Tests and Provisions: Citizen Participation

A consultant was hired to prepare the HUD required Citizen Participation Plan and ensure compliance with Citizen Participation requirements. Controls have not been designed to ensure compliance with Citizen Participation. An oversight or review process has not been established to ensure compliance.

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

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the officials establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect on the program.

FINDING 2014-004 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

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

Federal Program: Community Development Block Grants/Entitlement Grants

CFDA Number: 14.218

Federal Award Numbers: B-11-MC-180004, B-12-MC-180004, B-13-MC-180004

Internal Controls

Management of the City's Department of Redevelopment (Department) and the Redevelopment Commission (Commission) have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirements. The failure to establish an effective internal control system places the Commission at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The Commission has not implemented effective procedures to ensure compliance with the program requirements of Equipment and Real Property Management. There is no segregation of duties, such as an oversight, review, or approval process to ensure compliance.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to

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

have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

Compliance

The Commission has acquired a significant number of real properties. Most have been donated to the Commission through the County or the City, but some have been purchased with federal funds. For some of the donated properties, title work associated with their acquisition has been financed with federal funds. The Commission has not maintained capital asset records which comply with federal requirements over Equipment and Real Property Management.

A resolution adopted by the Common Council established a capital asset policy which set the threshold for machinery, equipment, and motor vehicles at \$10,000 for financial reporting purposes. The resolution also states the following: "Capital assets below the capitalization threshold of \$10,000 on a unit basis but warranting 'control' shall be inventoried at the department level and an appropriate list will be maintained. Data elements are to include asset description, location, make, model, serial number, and other information that assists in control or deemed relevant." Although the Commission has purchased equipment, they have not maintained the required list with all the data elements.

The City employed a consultant to accumulate a record of all capital assets maintained by the City, including the Commission, based upon the threshold of \$10,000. The Commission has not reviewed or compared the record prepared by the City to any of their property and asset listings to determine if the listing is complete and accurate.

The Commission prepared an equipment list that included a description and tag number but did not include acquisition amount, acquisition date, funding source, percentage of federal participation in the cost, location, and condition. A physical inventory of equipment was not performed.

The Commission prepared a real property list as of December 16, 2014. The real property listing did not include the funding source and percentage of federal participation. Without the detail, we were unable to determine if any disposals of real property were for property that had been acquired with federal funds.

24 CFR 85.3 states in part:

"Equipment means tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. A grantee may use its own definition of equipment provided that such definition would at least include all equipment defined above."

24 CFR 85.31 states in part:

"(a) *Title*. Subject to the obligations and conditions set forth in this section, title to real property acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.

(b) *Use*. Except as otherwise provided by Federal statutes, real property will be used for the originally authorized purposes as long as needed for that purposes, and the grantee or subgrantee shall not dispose of or encumber its title or other interests. . . ."

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

24 CFR 85.32 states in part:

"(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled noncompliance with federal guidelines over the Equipment and Real Property Management requirements and places the City at risk of not receiving additional federal funding.

We recommended that the City's management establish controls to ensure compliance and comply with the contract and the requirements for Equipment and Real Property Management.

FINDING 2014-005 - REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B-12-MC180004, B-13-MC180004

Internal Control

Management of the City's Department of Redevelopment (Department) and the Redevelopment Commission (Commission) have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement. The failure to establish an effective internal control system places the Department and Commission at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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

The City assessed the risk for accounting system recording errors and brought the Department funds, including Community Development Block Grant (CDBG), into the City's records. The federal Housing and Urban Development Department (HUD) also requires CDBG transactions to be entered into their Integrated Disbursement and Information System (IDIS) system. However, City officials have not been able to reconcile the two accounting systems. By not reconciling the records, the Commission and City are at risk of not adequately monitoring the grant and Reporting requirements.

A proper system of oversight or review has not been established for the Integrated Disbursement and Information System (IDIS) System generated reports (PR 03 Accounting Summary Report and PR 26 Financial Summary Report) and a Performance Report HUD 6002 Section 3 Reports.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

Compliance

HUD requires recipients to file financial reports on a quarterly basis. The City filed the four required reports for 2014; however, the reported amounts for the four quarters did not agree with amounts recorded in the City's ledger. The City's ledger was not used to complete the reports and a reconciliation of the City's ledger to the amounts reported was not available.

The receipts reported for the second, third, and fourth quarters resulted in an understatement of receipts by \$270,263 without explanation. The disbursements reported for the third quarter were overstated by \$65,389 when compared to the City's ledger. Furthermore, the cash on hand reported as of the end of the fourth quarter was negative \$122,362. The cash balance per the City's records was negative \$82,324.

The PR 026 Annual Financial Report and PR 03 CDBG Activity Summary reports are not reconciled to amounts recorded in the City's ledger.

24 CFR 85.20 states in part:

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

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

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

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the Department and the Commission's management establish controls to ensure compliance and comply with the Reporting requirements of the program.

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AUDITEE PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2013-01 INTERNAL CONTROLS OVER SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM

Original Assigned SBA Audit Report Number: B44806

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-01 The East Chicago Department of Redevelopment is in the process of developing internal controls to ensure compliance with requirements associated with the Section 8 Housing Assistance Program, which will cover Cash Management, Eligibility, Reporting, & the HQS Inspections for Section 8. In January of 2015, the Property Management agency was notified of the requirement to provide an occupancy report, indicating the number of occupied units and the vacant units. In addition, a monthly report on rents collected and delinquent rents report along with the monthly financial reports. As part of the monthly report, a list of the number of management staff (full or part time) and the maintenance capacity was to be included. Anticipate Full Implementation by September 30, 2015

FINDING 2013-002 – INTERNAL CONTROLS OVER COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS

Original Assigned SBA Audit Report Number: B44806 & B43130

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-02 Payroll and Benefit Allocation Procedure, Period Availability Procedure, and a General Administration Costs Procedures were developed.

Accounting staff have been professionally trained on the Federal Grant requirements.

The Commission established policies, procedures and controls to ensure compliance with federal guidelines related to equipment and real property management. The East Chicago Department of Redevelopment developed a written Real Property – Asset Management Plan which includes a Property and Equipment Capitalization Procedure, in September 2014. The East Chicago Department of Redevelopment established effective controls over procurement, suspension, and debarment. In August 2014, the Commission adopted a revision of the procurement policy and procedures to ensure compliance of the policy and review of contracts to ensure appropriate criteria is included. The city staff member responsible for each contract from their department will check the SAMS website and print confirmation that a contractor is not on the debarred list.

Second level of review, will be the following, a printout will be attached to all contracts prior to contract execution by the Executive Director. In addition, a third level of review by the finance department as part of any new contract a print out of the debarred review will to be attached with the contract for vendor set up of a purchase order. The East Chicago Department of Redevelopment established Program Income procedures to ensure compliance with federal compliance guidelines related to program income for full implementation during the 2015 calendar year.

The East Chicago Department of Redevelopment developed a written Real Property – Asset Page Management Plan September 2014, for controls and ensuring real property appraisals are preformed prior to initiating a purchase of real property. The list of the real property is extensive, some parcels have been have been owned by the Commission many decades. Going back to create and record the historical list and data will have to a special work project to complete as staffing and time permits to go back into the archives available. However, for any current property acquisitions or dispositions we will continue to update the property list and keep it current with the additional information, including source of funding used for the acquisition. A procedure was developed with controls to ensure work performed by consultants conform to and comply with the federal guidelines related to relocation assistance; this was implemented in the fall of 2014. The Commission established a Grant reporting requirements Procedure for controls, including segregation of duties, related to the grant agreements and reporting, this was established in the fall of 2014. Annually, the East Chicago Department of Redevelopment will review and develop a Subrecipients Handbook (CDBG) applicable to the funding year. This handbook will be revised accordingly, to update with any new regulations, internal procedural or programmatic needs. There in on-site monitoring plan and annual internal written report requirement to certify audit reports were reviewed for follow-up on any findings noted, full implementation is expected with the 2015 reviews. In the later part of 2014, the East Chicago Redevelopment Department has developed internal controls over the citizen participation plan, environmental review, and the rehab inspections to ensure compliance with the regulations, for implementation in calendar year 2015. Anticipate Full Implementation by September 30, 2015

FINDING 2013-003 REAL PROPERTY ACQUISITIONS AND RELOCATION ASSISTANCE – COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS

Original Assigned SBA Audit Report Number: B44806 & B43130
Report Period: 12-31-2013
Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development
Contact Person Responsible for Corrective Action: Maria Becerra
Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-03 The East Chicago Department of Redevelopment is in the process of expanding on the establish policies, procedures and controls to ensure compliance with federal compliance guidelines related to equipment and real property management. The East Chicago Department of Redevelopment established internal controls for ensuring property appraisals are preformed prior to initiating a purchase of real property; a property checklist will be in place going forward for acquisitions effective August 2015. The East Chicago Department of Redevelopment has established controls to ensure work performed by consultants conform to and comply with the federal guidelines related to relocation assistance; this was in place the fall of 2014. Anticipate Full Implementation by September 30, 2015

FINDING 2013-004 PERIOD OF AVAILABILITY – COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS

Original Assigned SBA Audit Report Number: B44806 & B43130

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-04 Payroll and Benefit Allocation Procedure, Period Availability Procedure, and a General Administration Costs Procedures were developed with assistance of a CPA firm. These procedures were initiated the last quarter of 2014, with the exception of a proven written documentation to show Period of Availability was created and reviewed. This internal procedure continues to be improved on in as of mid-year 2015. Anticipate Full Implementation by September 30, 2015

FINDING 2013-005 EQUIPMENT AND REAL PROPERTY MANAGEMENT - COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS

Original Assigned SBA Audit Report Number: B44806 & B43130

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-05 IN September 2014, the East Chicago Department of Redevelopment developed a Real Property – Asset Management Plan which includes a Property and Equipment Capitalization Procedure. Anticipate Full Implementation by September 30, 2015

FINDING 2013-006 - REPORTING - COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS AND HOME INVESTMENT PARTNERSHIPS PROGRAM

Original Assigned SBA Audit Report Number: B44806 & B43130

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-06 In May of 2014, the Financial Policies and Procedures were approved by the Commission. In addition in August 2014, the commission approved the Procurement Policy. With these policies and procedures, the East Chicago Department of Redevelopment has established effective controls, including segregation of duties, related specifically for both Home and CDBG grant, for compliance in reporting, to make sure that the reports are properly and accurately completed in the future. Accounting Staff have been professionally trained on the Federal Grant requirements. Anticipate Full Implementation by September 30, 2015

FINDING 2013-007 - SUBRECIPIENT MONITORING - COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

Original Assigned SBA Audit Report Number: B44806 & B43130

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-07 The East Chicago Department of Redevelopment developed a Subrecipients Handbook (CDBG) and an on-site Subrecipients monitoring plan. Annually, the East Chicago Department of Redevelopment will review and develop a Subrecipients Handbook (CDBG) applicable to the funding year. This handbook will be revised accordingly, to update with any new regulations, internal procedural or programmatic needs. There in on-site monitoring plan and annual internal written report requirement to certify audit reports were reviewed for follow-up on any findings noted, full implementation is expected with the 2015 reviews. Anticipate Full Implementation by September 30, 2015

FINDING 2013-008 INTERNAL CONTROLS OVER HOME INVESTMENT PARTNERSHIPS PROGRAMS

Original Assigned SBA Audit Report Number: B44806 & B43130

Report Period: 12-31-2013

Pass-Through Entity or Federal Grantor Agency: U.S. Dept. of Housing and Urban Development

Contact Person Responsible for Corrective Action: Maria Becerra

Contact Phone Number: (219) 391-8513

Status of Audit Finding: Finding 2013-08 The East Chicago Department of Redevelopment has established effective controls, including segregation of duties, related to the grant agreements. In addition the East Chicago Department of Redevelopment will develop internal control forms and checklists, to specifically address internal controls over Activities Allowed/Allowable Costs, Eligibility, Earmarking, Period of Availability, Procurement and Suspension and Debarment, Reporting, Maximum per Unit Subsidy, and the HQS Inspections. In May of 2014, the Financial Policies and Procedures were approved by the Commission. In addition in August 2014, the commission approved the Procurement Policy. With these policies and procedures, the East Chicago Department of Redevelopment has established effective controls, including segregation of duties, related specifically for both Home and CDBG grant, for compliance in reporting, to make sure that the reports are properly and accurately completed in the future. Accounting Staff have been professionally trained on the Federal Grant requirements. Anticipate Full Implementation by September 30, 2015

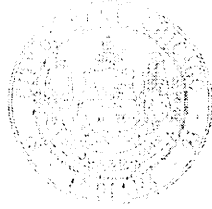


Maria Becerra

Executive Director

City of East Chicago Dept. of Redevelopment

July 17, 2015



CORRECTIVE ACTION PLAN

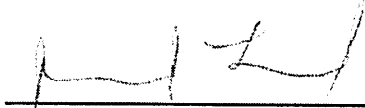
FINDING 2014-001 – SECTION 8 HOUSING ASSISTANCE PAYMENTS

Contact Person Responsible for Corrective Action: Maria C. Becerra
Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Reporting and Special Tests and Provisions – Vacant Units.

Anticipated Completion Date: November 30, 2015




(Signature)

President Ronald London
(Title)

8-3-15

(Date)



(Signature)

Executive Director _____
(Title)

August 8, 2015

(Date)

CORRECTIVE ACTION PLAN

FINDING 2014-002 – SPECIAL TESTS AND PROVISIONS – HOUSING QUALITY STANDARDS


Contact Person Responsible for Corrective Action: Maria C. Becerra

Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

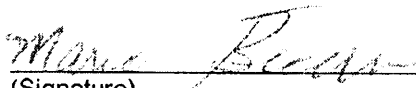
The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions – Housing Quality Standards compliance requirements. The Department will establish the proper internal control structure to ensure compliance and comply with the contract and the requirements for Special Tests and Provisions associated with the Section 8 Housing Assistance Payments Program – Housing Quality Standards.

Anticipated Completion Date: November 30, 2015


(Signature)

President Ronald London
(Title)

8-3-15
(Date)


(Signature)

Executive Director _____
(Title)

November 3, 2015
(Date)

CORRECTIVE ACTION PLAN

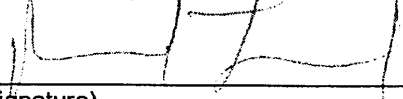
FINDING 2014-003 – Internal Control over Community Development Block Grants/Entitlement Grants

Contact Person Responsible for Corrective Action: Maria C. Becerra
Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed, Allowable Costs, Cash Management, Program Income, Davis Bacon Act, Subrecipients Monitoring, and Special Tests and Provisions. The Department will establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect on the program.

Anticipated Completion Date: December 31, 2015


(Signature)

President Ronald London
(Title)

8-3-15
(Date)


(Signature)

Executive Director _____
(Title)

December 2, 2015
(Date)

ORRECTIVE ACTION PLAN

FINDING 2014-004 – Equipment and Real Property Management

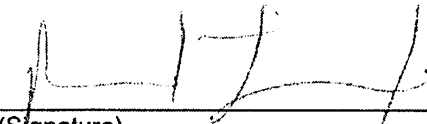
Contact Person Responsible for Corrective Action: Maria C. Becerra

Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirements. The Department will establish the proper internal controls, including segregation of duties, related to the grant agreement and all compliance requirements for Equipment and Real Property Management, to ensure compliance and comply with the contract and the requirements

Anticipated Completion Date: December 31, 2015


(Signature)

President Ronald London
(Title)

8-3-15
(Date)


(Signature)

Executive Director _____
(Title)

August 3, 2015
(Date)

CORRECTIVE ACTION PLAN

FINDING 2014-005 – REPORTING

Contact Person Responsible for Corrective Action: Maria C. Becerra

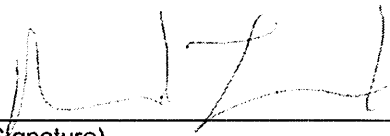
Contact Phone Number: (219) 391-8513

Description of Corrective Action Plan:

The City's Department of Redevelopment Management will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement.

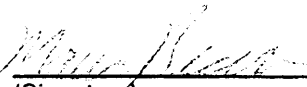
The Department will establish proper internal control structure to ensure compliance and comply with the contract and the requirements including segregation of duties, related to the grant agreement and Reporting requirement.

Anticipated Completion Date: December 31, 2015


(Signature)

President Ronald London
(Title)

8-3-15
(Date)


(Signature)

Executive Director _____
(Title)

8-6-15
(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.