

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF CHESTERTON
PORTER COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
01/29/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Stephanie Kuziela	01-01-14 to 12-31-15
Town Manager	C. Bernard Doyle	01-01-14 to 12-31-15
Police Chief	David Cincoski	01-01-14 to 12-31-15
President of the Town Council	Sharon Darnell	01-01-14 to 12-31-15
President of the Utility Service Board	Lawrence Brandt	01-01-14 to 12-31-15
President of the Storm Water Management District Board	Thomas Kopko	01-01-14 to 12-31-15
President of the Redevelopment Commission	Edward Schoenfelt Jeff Trout	01-01-14 to 12-31-14 01-01-15 to 12-31-15
Superintendent of Wastewater Utility	Terry Atherton David Ryan	01-01-14 to 06-25-15 06-26-15 to 12-31-15
Superintendent of Storm Water Utility	Mark O'Dell	01-01-14 to 12-31-15



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CHESTERTON, PORTER COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Town of Chesterton (Town), which comprises the financial position and results of operations for the year ended December 31, 2014, and the related notes to the financial statement.

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 Town'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 Town'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 Town 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 Town 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 Town 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 Town'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 Town's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis, Schedule of Payables and Receivables, and Schedule of Leases and Debt, 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 October 1, 2015, on our consideration of the Town'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 Town's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

October 1, 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 TOWN OF CHESTERTON, PORTER 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 Town of Chesterton (Town), 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 October 1, 2015, wherein we noted the Town 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 Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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

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)

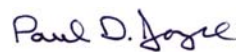
provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-002.

Town of Chesterton's Response to Findings

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

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

October 1, 2015

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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

TOWN OF CHESTERTON
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 Fund	\$ 9,047	\$ 5,250,088	\$ 5,097,944	\$ 161,191
Motor Vehicle Highway	6,954	1,311,277	1,150,130	168,101
Local Road And Street	62,865	136,804	108,126	91,543
Park Nonreverting Operating	45,271	15,240	18,985	41,526
Police Continuing Education	11,932	11,611	20,183	3,360
Riverboat	124,631	77,414	20,918	181,127
Parks And Recreation	12,227	258,742	267,186	3,783
Rainy Day	3,356	-	-	3,356
Major Moves Construction	12,768	-	-	12,768
Excess Levy	-	1,190	-	1,190
Cumulative Capital Improvement Cigarette Tax	90,381	34,567	-	124,948
Cumulative Capital Development	191,789	234,354	175,558	250,585
Redevelopment	2,822,423	598,745	446,344	2,974,824
Co Economic Development Income Tax	119,143	1,091,400	836,452	374,091
Police Pension	374,005	160,420	166,649	367,776
Fire Pension	257,376	56,955	56,275	258,056
Debt Service General Obligation 2002	22	-	-	22
2011 Storm Debt Proceeds	417,638	-	298,473	119,165
Dickinson Road Escrow	97,863	27,014	115,429	9,448
2014 Redev Bond	-	1,500,000	1,500,000	-
151 2012 R/D Bond	-	246,216	191,216	55,000
2000 Storm Bond Proceeds	415	-	415	-
Fire Grant	1,406	-	-	1,406
Park Grant	26,410	-	-	26,410
Tree Gift	4,389	1,855	5,990	254
Park Gift	141,978	3,395	31,188	114,185
Cumulative Street and Sewer	415,383	17,464	25,266	407,581
Fire Gift	22,299	17,687	19,397	20,589
Park Debt	91,494	274,770	366,264	-
CIP Grant Downtown Improvement	71,772	13,624	-	85,396
Police Gift	4,078	5,119	4,977	4,220
Police (DUI) Grants	4,685	14,756	16,382	3,059
Park Impact Fees	209,422	-	-	209,422
Debt Reserve SRF	641,743	136,274	-	778,017
Park Nonreverting Land	60,916	-	-	60,916
Kat Escrow	500	14,466	13,498	1,468
Redevelopment Debt Service	-	530,224	530,224	-
TIF Debt Service Reserve	528,664	-	-	528,664
Town Gift	210	50	-	260
GO 2010 Debt (15th Street)	55,425	266,570	232,376	89,619
15th St Bond Proceeds	13,796	-	-	13,796
Health Insurance	216,221	1,122,910	1,187,457	151,674
Storm Water Debt 2012	-	232,017	229,582	2,435
Storm Water Debt Service	-	1,125	-	1,125
Storm Water Utility - Operating (MS4)	329,331	475,716	368,218	436,829
SRF Wastewater Equity Grant	-	2,573,661	2,573,661	-
SRF Construction Grant	10,189,694	763	6,533,851	3,656,606
Wastewater Utility - Operating	974,695	3,615,742	4,141,393	449,044
Wastewater Utility - Bond And Interest	4,847	1,246,483	1,241,490	9,840
Wastewater Utility - Deprec/Improve	224,093	608,983	309,754	523,322
Wastewater Utility - Customer Deposit	104,088	32,370	23,397	113,061
Wastewater Utility Improvement	536,757	146,867	-	683,624
Totals	<u>\$ 19,534,402</u>	<u>\$ 22,364,928</u>	<u>\$ 28,324,648</u>	<u>\$ 13,574,682</u>

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

TOWN OF CHESTERTON
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council 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, wastewater, storm water, trash, and urban redevelopment and housing.

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

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 Town.

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.

TOWN OF CHESTERTON
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.

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

TOWN OF CHESTERTON
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

F. Interfund Transfers

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

TOWN OF CHESTERTON
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. *Deposits and Investments*

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

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

Note 5. *Risk Management*

The Town 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 Town 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 Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 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.

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

TOWN OF CHESTERTON
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

TOWN OF CHESTERTON
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public 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 Town are established by the Board of Trustees of INPRS.

Note 7. Subsequent Event

In 2015, the Town applied for and received two additional State Revolving Loans. One is for \$209,000, and the second is for \$2,329,000; however, \$750,000 of this loan is forgivable. The Town will not have to repay the forgivable portion of the loan. Both loans are being used to finance extended sewage lines.

OTHER INFORMATION - UNAUDITED

The Town'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 Town 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 Town. It is presented as intended by the Town.

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

	General Fund	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Police Continuing Education	Riverboat
Cash and investments - beginning	\$ 9,047	\$ 6,954	\$ 62,865	\$ 45,271	\$ 11,932	\$ 124,631
Receipts:						
Taxes	3,284,699	796,964	-	-	-	-
Licenses and permits	341,754	1,855	-	-	5,440	-
Intergovernmental	389,454	510,960	136,804	-	-	77,414
Charges for services	907,626	-	-	-	-	-
Fines and forfeits	2,490	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	324,065	1,498	-	15,240	6,171	-
Total receipts	5,250,088	1,311,277	136,804	15,240	11,611	77,414
Disbursements:						
Personal services	3,419,969	862,356	-	-	-	-
Supplies	273,555	197,743	14,168	-	-	-
Other services and charges	517,010	90,031	93,958	-	20,183	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	20,918
Utility operating expenses	-	-	-	-	-	-
Other disbursements	887,410	-	-	18,985	-	-
Total disbursements	5,097,944	1,150,130	108,126	18,985	20,183	20,918
Excess (deficiency) of receipts over disbursements	152,144	161,147	28,678	(3,745)	(8,572)	56,496
Cash and investments - ending	\$ 161,191	\$ 168,101	\$ 91,543	\$ 41,526	\$ 3,360	\$ 181,127

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

	Parks And Recreation	Rainy Day	Major Moves Construction	Excess Levy	Cumulative Capital Improvement Cigarette Tax	Cumulative Capital Development
Cash and investments - beginning	\$ 12,227	\$ 3,356	\$ 12,768	\$ -	\$ 90,381	\$ 191,789
Receipts:						
Taxes	230,524	-	-	-	-	212,337
Licenses and permits	-	-	-	-	-	-
Intergovernmental	23,888	-	-	-	34,567	22,017
Charges for services	4,330	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	-	1,190	-	-
Total receipts	<u>258,742</u>	<u>-</u>	<u>-</u>	<u>1,190</u>	<u>34,567</u>	<u>234,354</u>
Disbursements:						
Personal services	213,582	-	-	-	-	-
Supplies	36,061	-	-	-	-	-
Other services and charges	17,483	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	114,059
Utility operating expenses	-	-	-	-	-	-
Other disbursements	60	-	-	-	-	61,499
Total disbursements	<u>267,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,558</u>
Excess (deficiency) of receipts over disbursements	<u>(8,444)</u>	<u>-</u>	<u>-</u>	<u>1,190</u>	<u>34,567</u>	<u>58,796</u>
Cash and investments - ending	<u>\$ 3,783</u>	<u>\$ 3,356</u>	<u>\$ 12,768</u>	<u>\$ 1,190</u>	<u>\$ 124,948</u>	<u>\$ 250,585</u>

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

	Redevelopment	Co Economic Development Income Tax	Police Pension	Fire Pension	Debt Service General Obligation 2002	2011 Storm Debt Proceeds
Cash and investments - beginning	\$ 2,822,423	\$ 119,143	\$ 374,005	\$ 257,376	\$ 22	\$ 417,638
Receipts:						
Taxes	596,699	-	160,228	56,349	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	1,091,340	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	2,046	60	192	606	-	-
Total receipts	598,745	1,091,400	160,420	56,955	-	-
Disbursements:						
Personal services	-	260,558	166,649	56,275	-	-
Supplies	-	89,167	-	-	-	-
Other services and charges	-	417,962	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	235,206	68,765	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	211,138	-	-	-	-	298,473
Total disbursements	446,344	836,452	166,649	56,275	-	298,473
Excess (deficiency) of receipts over disbursements	152,401	254,948	(6,229)	680	-	(298,473)
Cash and investments - ending	\$ 2,974,824	\$ 374,091	\$ 367,776	\$ 258,056	\$ 22	\$ 119,165

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

	Dickinson Road Escrow	2014 Redev Bond	151 2012 R/D Bond	2000 Storm Bond Proceeds	Fire Grant	Park Grant
Cash and investments - beginning	\$ 97,863	\$ -	\$ -	\$ 415	\$ 1,406	\$ 26,410
Receipts:						
Taxes	-	-	246,216	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	27,014	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	1,500,000	-	-	-	-
Total receipts	27,014	1,500,000	246,216	-	-	-
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	38,920	-	-	-	-
Debt service - principal and interest	-	-	191,216	-	-	-
Capital outlay	-	1,461,080	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	115,429	-	-	415	-	-
Total disbursements	115,429	1,500,000	191,216	415	-	-
Excess (deficiency) of receipts over disbursements	(88,415)	-	55,000	(415)	-	-
Cash and investments - ending	\$ 9,448	\$ -	\$ 55,000	\$ -	\$ 1,406	\$ 26,410

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

	Tree Gift	Park Gift	Cumulative Street and Sewer	Fire Gift	Park Debt	CIP Grant Downtown Improvement
Cash and investments - beginning	\$ 4,389	\$ 141,978	\$ 415,383	\$ 22,299	\$ 91,494	\$ 71,772
Receipts:						
Taxes	-	-	15,589	-	251,267	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	1,596	-	23,503	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	1,855	3,395	279	17,687	-	13,624
Total receipts	1,855	3,395	17,464	17,687	274,770	13,624
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	366,264	-
Capital outlay	-	-	25,266	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	5,990	31,188	-	19,397	-	-
Total disbursements	5,990	31,188	25,266	19,397	366,264	-
Excess (deficiency) of receipts over disbursements	(4,135)	(27,793)	(7,802)	(1,710)	(91,494)	13,624
Cash and investments - ending	\$ 254	\$ 114,185	\$ 407,581	\$ 20,589	\$ -	\$ 85,396

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

	Police Gift	Police (DUI) Grants	Park Impact Fees	Debt Reserve SRF	Park Nonreverting Land	Kat Escrow
Cash and investments - beginning	\$ 4,078	\$ 4,685	\$ 209,422	\$ 641,743	\$ 60,916	\$ 500
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	5,119	14,756	-	136,274	-	14,466
Total receipts	5,119	14,756	-	136,274	-	14,466
Disbursements:						
Personal services	-	11,394	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	4,977	4,988	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	13,498
Total disbursements	4,977	16,382	-	-	-	13,498
Excess (deficiency) of receipts over disbursements	142	(1,626)	-	136,274	-	968
Cash and investments - ending	\$ 4,220	\$ 3,059	\$ 209,422	\$ 778,017	\$ 60,916	\$ 1,468

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

	Redevelopment Debt Service	TIF Debt Service Reserve	Town Gift	GO 2010 Debt (15th Street)	15th St Bond Proceeds	Health Insurance
Cash and investments - beginning	\$ -	\$ 528,664	\$ 210	\$ 55,425	\$ 13,796	\$ 216,221
Receipts:						
Taxes	530,224	-	-	244,797	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	21,773	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	50	-	-	1,122,910
Total receipts	<u>530,224</u>	<u>-</u>	<u>50</u>	<u>266,570</u>	<u>-</u>	<u>1,122,910</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	530,224	-	-	176,998	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	55,378	-	1,187,457
Total disbursements	<u>530,224</u>	<u>-</u>	<u>-</u>	<u>232,376</u>	<u>-</u>	<u>1,187,457</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>50</u>	<u>34,194</u>	<u>-</u>	<u>(64,547)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 528,664</u>	<u>\$ 260</u>	<u>\$ 89,619</u>	<u>\$ 13,796</u>	<u>\$ 151,674</u>

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

	Storm Water Debt 2012	Storm Water Debt Service	Storm Water Utility - Operating (MS4)	SRF Wastewater Equity Grant	SRF Construction Grant	Wastewater Utility - Operating
Cash and investments - beginning	\$ -	\$ -	\$ 329,331	\$ -	\$ 10,189,694	\$ 974,695
Receipts:						
Taxes	232,017	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	2,573,661	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	454,459	-	-	3,536,926
Penalties	-	-	8,181	-	-	-
Other receipts	-	1,125	13,076	-	763	78,816
Total receipts	<u>232,017</u>	<u>1,125</u>	<u>475,716</u>	<u>2,573,661</u>	<u>763</u>	<u>3,615,742</u>
Disbursements:						
Personal services	-	-	186,015	-	-	856,949
Supplies	-	-	-	-	-	-
Other services and charges	-	-	11,794	-	-	69,057
Debt service - principal and interest	105,563	-	-	-	-	-
Capital outlay	-	-	-	2,573,661	6,533,851	-
Utility operating expenses	-	-	170,409	-	-	1,410,977
Other disbursements	124,019	-	-	-	-	1,804,410
Total disbursements	<u>229,582</u>	<u>-</u>	<u>368,218</u>	<u>2,573,661</u>	<u>6,533,851</u>	<u>4,141,393</u>
Excess (deficiency) of receipts over disbursements	<u>2,435</u>	<u>1,125</u>	<u>107,498</u>	<u>-</u>	<u>(6,533,088)</u>	<u>(525,651)</u>
Cash and investments - ending	<u>\$ 2,435</u>	<u>\$ 1,125</u>	<u>\$ 436,829</u>	<u>\$ -</u>	<u>\$ 3,656,606</u>	<u>\$ 449,044</u>

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

	Wastewater Utility - Bond And Interest	Wastewater Utility - Deprec/Improve	Wastewater Utility - Customer Deposit	Wastewater Utility Improvement	Totals
Cash and investments - beginning	\$ 4,847	\$ 224,093	\$ 104,088	\$ 536,757	\$ 19,534,402
Receipts:					
Taxes	-	-	-	-	6,857,910
Licenses and permits	-	-	-	-	349,049
Intergovernmental	-	-	-	-	4,906,977
Charges for services	-	-	-	-	911,956
Fines and forfeits	-	-	-	-	29,504
Utility fees	-	-	-	-	3,991,385
Penalties	-	-	-	-	8,181
Other receipts	1,246,483	608,983	32,370	146,867	5,309,966
Total receipts	1,246,483	608,983	32,370	146,867	22,364,928
Disbursements:					
Personal services	-	-	-	-	6,033,747
Supplies	-	-	-	-	610,694
Other services and charges	-	-	-	-	1,286,363
Debt service - principal and interest	1,241,490	-	-	-	2,611,755
Capital outlay	-	-	-	-	11,032,806
Utility operating expenses	-	309,754	-	-	1,891,140
Other disbursements	-	-	23,397	-	4,858,143
Total disbursements	1,241,490	309,754	23,397	-	28,324,648
Excess (deficiency) of receipts over disbursements	4,993	299,229	8,973	146,867	(5,959,720)
Cash and investments - ending	\$ 9,840	\$ 523,322	\$ 113,061	\$ 683,624	\$ 13,574,682

TOWN OF CHESTERTON
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2014

Government or Enterprise	Accounts Payable	Accounts Receivable
Storm Water	\$ 128	\$ 15,671
Wastewater	71,340	82,915
Governmental activities	<u>20,895</u>	<u>27,019</u>
Totals	<u>\$ 92,363</u>	<u>\$ 125,605</u>

TOWN OF CHESTERTON
SCHEDULE OF LEASES AND DEBT
December 31, 2014

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Centier	Dump Truck	\$ 26,362	6/24/2013	6/26/2018
Centier	Street Pickup & Plow	14,264	12/1/2012	5/1/2015
LaPorte Savings	Leaf Vac	13,688	9/11/2013	9/11/2015
LaPorte Savings	15th Street Land	28,761	9/1/2007	9/1/2027
LaPorte Savings	Front End Loader	32,980	9/11/2012	9/11/2018
LaPorte Savings	Generator	16,759	7/11/2011	7/11/2018
LaPorte Savings	Grapple Truck	21,047	5/6/2010	5/6/2015
LaPorte Savings	Fire Truck	61,499	5/15/2010	5/15/2018
Total governmental activities		<u>215,360</u>		
Wastewater:				
LaPorte Savings	Dump Truck	33,106	9/1/2011	8/23/2016
LaPorte Savings	Centrifuge	54,218	3/15/2011	3/15/2015
Total Wastewater		<u>87,324</u>		
Total of annual lease payments		<u>\$ 302,684</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	Park District construction and improvements together with the necessary appurtenances related improvements and equipment and paying the costs of issuance	\$ 130,000	\$ 134,973
General obligation bonds	Construction of a new municipal building at 15th Avenue and paying the costs of issuance	1,700,000	174,448
General obligation bonds	Bond for Replacing roads 2014	1,500,000	210,000
Revenue bonds	Redevelopment District tax increment revenue bonds of 2012	1,780,000	136,247
Revenue bonds	Redevelopment District improvements to Calumet Road fund a debt service reserve repay 2008 BAN and pay costs of issuance	3,800,000	179,154
Revenue bonds	Urschel Revenue Bond	25,860,000	-
Total governmental activities		<u>34,770,000</u>	<u>834,822</u>
Storm Water:			
General obligation bonds	Projects for improvements including new lift station	<u>640,000</u>	<u>103,863</u>
Wastewater:			
Revenue bonds	Improvements to the Chesterton Wastewater Treatment Plant and replacement of equipment for upgrading the daily average capacity and paying costs of issuance-2004	735,000	508,985
Revenue bonds	Purchase of equipment and the construction of certain additions extensions and improvements to the Town's municipal sewage works and paying costs of issuance	2,230,000	96,128
Revenue bonds	Sewage Works Revenue Bonds 2013A	3,603,000	75,105
Revenue bonds	Sewage Works Revenue Bonds 2013B	10,751,000	287,350
Total Wastewater		<u>17,319,000</u>	<u>967,568</u>
Totals		<u>\$ 52,729,000</u>	<u>\$ 1,906,253</u>

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE TOWN OF CHESTERTON, PORTER COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Town of Chesterton's (Town) 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 its major federal program for the year ended December 31, 2014. The Town's major federal program is 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 the Town's major federal program 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 Town'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 the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on the Major Federal Program

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

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

Report on Internal Control Over Compliance


Management of the Town 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 Town's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 Town'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 item 2014-003 to be material weaknesses.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town'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

October 1, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Town. The schedule and note are presented as intended by the Town.

TOWN OF CHESTERTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Justice</u>				
Bulletproof Vest Partnership Program	Direct Grant	16.607		
Bulletproof Vest Grant			FY 2014	\$ 3,038
Total - Department of Justice				3,038
<u>Department of Transportation</u>				
Highway Safety Cluster				
State and Community Highway Safety	Indiana Criminal Justice Institute	20.600		
Operation Pullover (OPO) Enforcement Program			18X9204020IN14	10,718
Total - Department of Transportation				10,718
<u>Environmental Protection Agency</u>				
Clean Water State Revolving Funds Cluster				
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458		
State Revolving Loan			WW13106402	897,277
Total - Environmental Protection Agency				897,277
Total federal awards expended				\$ 911,033

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF CHESTERTON
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town 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.

TOWN OF CHESTERTON
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?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	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 Program:

Name of Federal Program or Cluster

Clean Water State Revolving Funds 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

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

The Town has not established controls to ensure that financial transactions have been properly recorded in the financial records, and reported in the financial statement as follows:

Cash and Investments

Controls have not been established to ensure that all of the cash and investment accounts have been reconciled to the cash and investments recorded in the ledgers and in the financial statement.

TOWN OF CHESTERTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Receipts

Collections and reports of collections remitted by Town departments to the Clerk-Treasurer's Office were verified for agreement; however, there was no evidence to support the verification. Furthermore, the departments remitting the collections were not provided with a receipt. The original receipt was retained with the reports of collections. Within the computer software, all receipts are entered through journal entries. Receipt numbers were entered under description headings, and often, sequential receipt numbers were grouped together under the description heading.

Duties were not properly segregated over utility collections. Each Clerk performed billings, adjustments, receipts of cash collections, and recording of the transactions to the customer accounts and financial records. Each Clerk was also responsible for reconciling the cash drawers and preparing the deposit tickets. In addition, adjustments to customer accounts were not required to be reviewed or approved by management.

Disbursements

Controls have not been established to ensure that disbursement duties are properly segregated and that payments are authorized. The Accounts Payable Clerk is responsible for recording disbursements and issuing checks. Departments prepare and approve payable registers, which include vendor invoices, which they submit to the Accounts Payable Clerk for processing. Each department head is responsible for electronically signing the accounts payable register to indicate that they have authorized the payment. They will also sign a printed copy of the accounts payable register. If the Accounts Payable Clerk finds that an invoice was not listed, she can add it to the payable register without getting the approval of the department head.

Payroll disbursements are fully automated. Rates of pay are entered into the system by the same Clerk who processes the payroll without any review or oversight. Each department prepares a payroll voucher which documents the hours and rates of pay which is approved by the department head. However, if the rates of pay entered on the payroll voucher do not agree to the rate of pay per the system, the Payroll Clerk corrects the rate of pay recorded on the payroll voucher to agree to the system. Such corrections are not reviewed or monitored.

Financial Reporting and the Schedule of Expenditures of Federal Awards (SEFA)

The Town did not have a system of internal controls in place to prevent, or detect and correct, errors in the preparation of the financial statement and Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the financial statement and SEFA to ensure accurate and reliable reporting of the Town's financial activity as it relates to the financial statement and SEFA. Adequate internal controls require sufficient oversight, review, and approval to ensure complete and accurate financial reporting. Due to the lack of internal controls, material misstatements in the financial statement and SEFA were undetected. We believe these deficiencies in the internal control system constitute material weaknesses.

TOWN OF CHESTERTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Compliance

The Clerk-Treasurer is responsible for reporting all financial information in the Gateway Annual Financial Report (AFR), which includes a Schedule of Expenditures of Federal Financial Assistance (grant schedule). The AFR and grant schedule is used to compile the financial statement and SEFA. The information in the AFR should be based upon the financial activity recorded in the ledgers. The financial statement and SEFA presented for audit included the following errors:

1. The financial statement excluded the financial activity of the State Revolving Loan Funds (SRF Wastewater Equity Grant and SRF Construction Grant), as well as the Debt Reserve SRF fund. The financial activities of the State Revolving Loan Funds were accounted for in trust bank accounts. The excluded receipts, disbursements, and cash and investment balances were \$2,710,698, \$9,107,512, and \$4,434,623, respectively.
2. Seven funds without receipt and disbursement activity were excluded from the financial statement. The cash and investment balances of these funds totaled \$645,932.
3. The bank accounts for the activity of the Health Insurance, Dickinson Road Escrow, and Kat Escrow funds were not reconciled as of December 31, 2014. The reported cash and investment balance of these funds as of December 31, 2014, were \$151,674, \$9,448, and \$1,468, respectively.
4. The Cash and Investment balance of the Fire Pension fund excluded an \$110,000 investment.
5. The receipts and disbursements of the Wastewater Utility funds were reported based upon a compilation of utility receipt reports and accounts payable vouchers compiled by a Utility Clerk. The financial records of the Town and Wastewater Utility are maintained on an accrual basis, and were not converted to cash for the financial statement. The Utility funds receipts, and cash and investment balances were overstated by \$116,034 and \$2,053,737, respectively. The Utility funds disbursements were understated by \$1,614,890.
6. Loan repayments from the GO 2010 Debt (15th Street) and Storm Water Debt 2012 funds to the General Fund were recorded as journal entries. The journal entries reduced the tax collections receipted to the GO 2010 Debt (15th Street) and Storm Water Debt 2012 funds, and recorded a miscellaneous receipt in the General Fund. Thus, the receipts and disbursements of the GO 2010 Debt (15th Street) and the Storm Water Debt 2012 funds were understated by \$55,378, and \$124,019, respectively.
7. The SEFA presented for audit overstated the federal expenditures for the Capitalization Grants for Clean Water State Revolving Funds by \$11,657,041. It also excluded the federal expenditures for the Bulletproof Vest Partnership Program and the State and Community Highway Safety and Operation Pullover (OPO) Enforcement Program of \$3,038 and \$10,718, respectively.

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statement and SEFA presented in this report.

TOWN OF CHESTERTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

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

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

TOWN OF CHESTERTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-002 - ELECTRONIC AUDIT TRAILS

We noted deficiencies in the Town's computerized accounting system related to electronic audit trails.

Controls - Disbursements by Electronic Transfer of Funds

The computer software allows users to enter disbursements by electronic transfer of funds (DFT). The computer software automatically assigns sequential numbers to each DFT. However, according to the vendor, if the DFT software is opened by the user but a disbursement is not recorded, the system assigns that non-disbursement a DFT number. When a DFT number is assigned without a corresponding disbursement, users cannot produce any type of documentation to account for or support that the DFT number did not have an amount associated with it.

Controls - Reissued or Replaced Checks Audit Trails

When an issued check is lost and requires replacement, the user will issue a new check to replace the lost check. In the computer software, the user can do this without receipting back the old check. The user simply issues a new check in replacement of the lost check. The lost or original check number will no longer exist within the computer software and ledgers, as the new check number replaces the old one.

Compliance

The Town pays vendors and employees by DFT. Most of the payroll deductions are remitted by DFT. Numerous DFT numbers were generated by the system, but officials could not locate any documents to support that some DFT numbers were not used.

At least one check was issued and replaced in which the original check number was replaced in the system by the replacement check number.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

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

TOWN OF CHESTERTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. Procedures must also exist to assure that only authorized individuals have access to computer generated output. All receipts or payments generated by the accounting system must include unique document identification numbers either preprinted on the form or printed on the form by the application system. If the numbers are printed on the form by the application system, adequate security must be implemented to prevent unauthorized modification of the number sequence. Preprinted receipt and check stock must not include preprinted signatures, must be securely stored, and usage must be logged and reconciled. If the report content can be modified via user selection of various criteria such as account codes, department codes, transaction codes, status codes, etc., the report heading should contain sufficient information regarding the selection criteria to allow another user to understand what information is being reported and recreate the report. All output reports must clearly indicate the effective dates of the information in addition to the report generation date. Output reports must have appropriate subtotals to allow reconciliation to other reports and to external documentation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - DAVIS-BACON ACT AND REPORTING

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Loan Funds
CFDA Number: 66.458
Federal Award Number: WW13106402
Pass-Through Entity: Indiana Finance Authority

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Davis-Bacon Act and Reporting compliance requirements.

Davis-Bacon Act

The Town hired a consultant to ensure compliance with the Davis-Bacon Act requirements of the grant. The Consultant was solely responsible for ensuring that contracts contained clauses related to Davis-Bacon Act compliance. The Town did not have controls to review the contracts to ensure that the clauses were in the contracts. Furthermore, the Consultant provided copies of the verified certified payrolls to the Town, but the Town had not established controls to ensure that the consultant reviewed all of the certified payrolls, noted any deficiencies and followed up on deficiencies when noted.

TOWN OF CHESTERTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Reporting

The Town Engineer was responsible for preparing and submitting the Disadvantaged Business Entity reports. The Town Engineer prepared and submitted the reports without prior or subsequent review. The Town had not established controls to ensure that the reports were prepared and submitted based upon accurate and complete information or that the reports were submitted timely.

The failure to establish an effective internal control system places the Town 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 grant.

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 type of 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(b) 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 Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and the Davis-Bacon Act and Reporting compliance requirements.

AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Stephanie Kuziela
Contact Phone Number: 219-926-1641

Description of Corrective Action Plan:

Receipts: The Clerk-Treasurer's staff will be double-checking each other's work before submission in the software. This double-checking will include review and sign offs. Collections between departments will include receipts back to the originating department as a double check showing that the Clerk's Office received the money from the respective department. Now that we have a utility billing supervisor, collection duties are now double-checked.

Disbursements: We will be working with the software vendor to see what restrictions there can be for editing payable packets after approval. We will also be addressing the payroll changes with the software vendor.

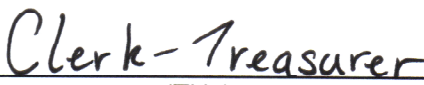
Financial Reporting & SEFA: More staff will be trained to understand the aspects of SEFA & Financial Reporting. Currently the Clerk-Treasurer is the only one who is trained. More cross training will be done.

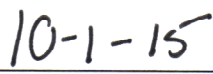
Compliance: We will be fixing the errors as noted.

We will require more cross training to ensure everyone understands how and why processes work in order to effectively double check work.

Anticipated Completion Date: Dec 15, 2015


(Signature)


(Title)


(Date)

Town of
Chesterton
INDIANA

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

FINDING 2014-002

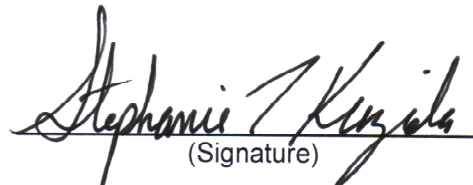
Contact Person Responsible for Corrective Action: Stephanie Kuziela
Contact Phone Number: 219-926-1641

Description of Corrective Action Plan:

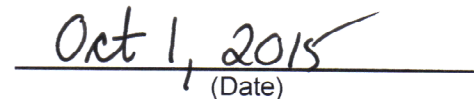
I will work with the software vendor to see if over writing of check numbers, absent DFT numbers can all be avoided.

Anticipated Completion Date:

Will contact the software vendor (Tyler Technologies) and work with staff by November 30, 2015.


(Signature)


(Title)


(Date)

Office of the Clerk-Treasurer

CORRECTIVE ACTION PLAN

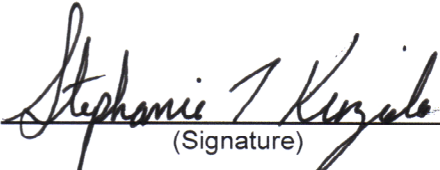
FINDING 2014-003

Contact Person Responsible for Corrective Action: Stephanie Kuziela
Contact Phone Number: 219-926-1641

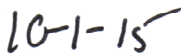
Description of Corrective Action Plan:

The Clerk-Treasurer or Deputy Clerk-Treasurer will review Davis-Bacon reports from contractor and all other reporting related to the SRF loan.

Anticipated Completion Date: Oct 5, 2015


(Signature)


(Title)


(Date)

OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the Town. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.