

**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, 2016 to December 31, 2016



**FILED**  
09/21/2017



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Valeriano Gomez	01-01-16 to 12-31-17
Mayor	Anthony Copeland	01-01-16 to 12-31-19
President of the Board of Public Works	Valeriano Gomez	01-01-16 to 12-31-17
President of the Common Council	Juda Parks Myrna Maldonado Lenny Franciski	01-01-16 to 07-29-16 07-30-16 to 12-31-16 01-01-17 to 12-31-17



## 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, 2016, 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 (Indiana Code 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 from 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 to 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, 2016.

***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, 2016, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 10, 2017, 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 10, 2017



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2016, and the related notes to the financial statement, and have issued our report thereon dated August 10, 2017, 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 City'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. 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 10, 2017

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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, 2016

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16
General	\$ 5,974,726	\$ 34,916,816	\$ 30,510,262	\$ 10,381,280
Motor Vehicle Highway	3,088,565	1,061,541	916,885	3,233,221
Local Road And Street	566,042	268,883	251,304	583,621
Park Nonreverting Operating	10,210	9,454	6,905	12,759
Health Maintenance	55,832	112,476	75,807	92,501
Economic Development Operating	2,672,852	2,677,992	2,000,653	3,350,191
Building Demolition	209,765	593,380	583,773	219,372
Transportation	324,843	1,909,899	1,229,594	1,005,148
CDBG	1,256	1,223,250	1,193,893	30,613
Law Enforcement Continuing Ed	96,046	51,350	58,840	88,556
Clerk's Records Perpetuation	14,920	7,320	1,725	20,515
Unsafe Building	322,274	191,039	180,490	332,823
Riverboat	8,595,928	13,906,185	14,726,857	7,775,256
Parks And Recreation	1,827,909	3,083,730	1,925,188	2,986,451
LOIT Special Distribution	-	2,804,669	-	2,804,669
Civil City Levy Excess	892	-	892	-
Park Nonreverting Capital	1,004	-	-	1,004
Redevelopment Capital	256,716	4,949,231	4,777,886	428,061
Fire Equipment (Not Debt Service)	16,555	2,500,000	2,035,345	481,210
Co Economic Development Income Tax Capital	2,974,390	2,550,387	4,269,113	1,255,664
Cumulative Capital Improvement	64	75,692	75,756	-
Self-Insurance	(1,133,190)	15,004,603	10,254,703	3,616,710
Police Pension	164,817	3,432,437	3,375,549	221,705
Fire Pension	(39,708)	2,681,400	2,556,825	84,867
City And Town Court Costs	2,028	26,721	24,987	3,762
LOIT Public Safety	1,266,337	2,626,335	2,127,221	1,765,451
Local Development Agreement	5,860,526	3,680,026	2,208,460	7,332,092
TIF US Gypsum	463,179	1,605,250	1,465,091	603,338
TIF Riley Plaza	51,429	90,919	96,889	45,459
Local Police Forfeitures	41,669	6,005	5,871	41,803
Harborside Apartments	606,531	1,421,951	1,763,637	264,845
TIF Northtown Village Townhomes	17,691	234,394	166,691	85,394
Home Investment Partnership Program	310,007	437,156	639,839	107,324
Local Law Enforcement Grants	-	303,769	303,769	-
Corporation Bond and Interest	5,000	2,475,425	1,240,284	1,240,141
City of EC Construction Account	11,205,029	10,649	-	11,215,678
TIF Lakeside Garden	-	11,725	-	11,725
Public Works Revolving	-	6,231,688	6,231,688	-
General Adult Probation	139,537	19,142	8,166	150,513
Federal Grants	36,765	34,961	67,862	3,864
State Grant	(99,936)	468,473	349,654	18,883
Grant Misc	607,924	23,600	32,225	599,299

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

CITY OF EAST CHICAGO  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Year Ended December 31, 2016  
(Continued)

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16
Summer Youth Training Program	-	167,400	167,400	-
Police Federal Forfeitures	37,507	84,718	13,156	109,069
Damage To City Property	89,734	100	32,757	57,077
Vital Records	213,360	51,545	18,077	246,828
City Court Programs	39,595	17,168	31,434	25,329
EC Petty Cash Accts	1,832	1,207	1,039	2,000
EC/Gary/Hammond RLF	14	-	14	-
Redevelopment Rehab Escrow	4,638	101,962	96,933	9,667
Lease Rental Payment	746,371	2,094,238	2,223,000	617,609
Communications Revolving	(4,778)	124,965	127,300	(7,113)
Gasoline Revolving	(83,856)	532,923	481,658	(32,591)
EC Redevelopment	1,912,398	817,036	1,091,686	1,637,748
Payroll Withholding	2,083	64,907,552	64,908,154	1,481
Health Insurance	163,183	7,204,383	7,367,375	191
Misc Employee Ins	58,791	1,878	629	60,040
Worker's Compensation	2,825	354,650	357,475	-
City Clerk	588,412	803,971	761,952	630,431
ECSDWW Petty Cash	5,000	135	135	5,000
Sewage Utility Construction	6,455,434	2,196	963,728	5,493,902
Sewage Utility Bond and Interest	20,176	803,563	348,258	475,481
Sewage Debt Service Reserve	949,063	332	-	949,395
Sanitary Levy Excess	263	-	263	-
Sanitary District Rainy Day	-	614,129	-	614,129
Wastewater Utility-Operating	1,191,747	6,872,299	7,698,251	365,795
Wastewater Replacement Reserve	993,729	617,700	348,823	1,262,606
Storm Water Utility-Operating	963,156	1,301,183	1,271,177	993,162
Solid Waste-Operating	5,575,943	9,367,744	6,691,484	8,252,203
Solid Waste-Bond And Interest	336,293	792,475	841,200	287,568
Sanitary District Revolving	966,659	254,066	-	1,220,725
Utilities Revolving	-	704,604	704,604	-
Sanitary State Revolving	38,683	-	-	38,683
Water Utility Meter Deposit	277,877	14,730	10,853	281,754
Water Utility-Operating	(71,551)	7,141,319	7,036,608	33,160
Water Tank Refurbishment	98,194	891,560	900,000	89,754
Water Utility-Construction	1,685,136	200	635,372	1,049,964
Change Fund	500	-	-	500
Water Utility-Debt Reserve	1,388,040	2,032	-	1,390,072
Water Utility-Bond and Interest	2,714,080	3,284,385	3,241,746	2,756,719
EC Marina	171,094	731,710	831,306	71,498
EC Marina Petty Cash Accts	738	2,169	1,407	1,500
Totals	<u>\$ 74,048,787</u>	<u>\$ 224,384,150</u>	<u>\$ 206,945,833</u>	<u>\$ 91,487,104</u>

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, storm water, trash, 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.* Amounts received from one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's 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.* Amounts received from businesses, occupations, or non-businesses 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 the following: peddler licenses, animal licenses, auctioneer licenses, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Intergovernmental receipts.* Amounts received from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of intergovernmental receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state, local road and street distributions 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.* Amounts received for services including, but not limited to, the following: planning commission charges, building department charges, copies of public records, copy machines 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.* Amounts received 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.* Amounts received from charges for current services.

*Penalties.* Amounts received from late payment fees.

*Other receipts.* Amounts received from various sources, including, but 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.* Amounts disbursed 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.* Amounts disbursed for 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, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

*Other services and charges.* Amounts disbursed for services including, but not limited to, the following: 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.* Amounts disbursed for 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.* Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

*Utility operating expenses.* Amounts disbursed for operating the utilities.

*Other disbursements.* Amounts disbursed for various other purposes including, but 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, make transfers 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 amounts 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 amounts 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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 3. Property Taxes**

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

**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, the following: 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

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

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.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*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.

*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 some 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.

**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 the year 2016 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 billings as well as the delay in the reimbursements from the Blight Elimination Program, the City made temporary loans between funds during 2016. These loans were not repaid during 2016. As of December 31, 2016, four loans totaling \$2,500,000 were still outstanding. They were repaid on June 30, 2017.

*Water Rate Increase*

On August 4, 2016, the City filed its verified petition with the Indiana Utility Regulatory Commission (IURC) requesting an increase in rates and charges for water service and approval to issue bonds. The rates were last modified in 2006.

A Stipulation and Settlement Agreement between the City and the Indiana Office of Utility Consumer Counselor (OUCC) was filed with the IURC on December 22, 2016, which provided that the City should be authorized to increase rates and charges to reflect ongoing net revenue requirements of \$7,545,204, resulting in an annual increase of \$2,522,585, or 55 percent, over current revenues at existing rates.

On April 26, 2017, the IURC entered its order approving the settlement with the OUCC and granted authority to increase rates by approximately 55 percent and to issue up to \$18,000,000 in new debt.

**Note 10. Other Postemployment Benefits**

The City provides health benefits to eligible retirees and their spouses. 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 Increment Receipts Pledged**

The City has pledged a portion of tax incremental finance property tax receipts to repay \$9,065,040 in tax increment finance revenue bonds issued in 1999 to finance the acquisition of processing and production equipment for high capacity wallboard manufacturing facility (U.S. Gypsum Company). The bonds are payable solely from the incremental property tax generated by the allocation area. Incremental property taxes were projected to produce 100 percent of the debt service requirements over the life of the bonds. The tax incremental finance property taxes received in 2016 were not enough to cover the 2016 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 2016 were not enough to cover the 2016 payments due.

The City has pledged a portion of tax incremental finance property tax receipts to repay \$3,000,000 in tax increment finance revenue bonds issued in 2015 to finance the acquisition and rehabilitation of a vacant industrial warehouse facility into the light industrial operations of Hoist Liftruck Manufacturing. 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 are expected to begin in 2017.

**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 TCB, 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 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 01-01-16	New Loans	Repayments	Balance 12-31-16	Accrued and Unpaid Interest
Phase I	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000	\$ 277,855
Phase II	2,653,000	-	-	2,653,000	113,970
Totals	<u>\$ 4,453,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,453,000</u>	<u>\$ 391,825</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 (IFA). 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, 2016, an additional \$83,737 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 IFA. 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 IFA, into a Project Fund for the water utility improvements. As of December 31, 2015, the City has drawn \$5,704,967, which left \$45,033. As of December 31 2016, \$45,110, the combination of proceeds and accumulated interest, is available 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 11 month pilot plant study, testing a proposed Fluid Engineering Strainer system 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 2015 the Department authorized the purchase of the Fluid Engineering Strainer system.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

8. On July 16, 2015, the Department adopted a resolution appropriating the proceeds of the \$1,875,000 cash settlement directing, in part, that \$1,356,446 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 be completed sometime in 2017.

**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. The IDEM has recently suggested that the 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 the 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.

*USS Lead Superfund*

The USS Lead Superfund site is located within the City of East Chicago. The lead refinery was constructed in 1906. The DuPont facility, located east of USS Lead, operated from 1910 to 1949. The site includes part of the former USS Lead facility along with nearby commercial, municipal, and residential areas. The primary contaminants of concern are lead and arsenic. The site is separated into three zones, which include a public housing complex and residential properties. Zone 1 is a neighborhood that includes the West Calumet Housing Complex and Carrie Gosch Elementary School. Zones 2 and 3 are residential neighborhoods. Construction of the residential began in 1939 and was completed in 1959. The elementary school was dedicated in 1959. The West Calumet Housing Complex was constructed between 1970 and 1973. USS Lead ceased operation in 1992.

RCRA referred the residential areas adjacent to the USS Lead facility to Superfund in 2004. In 2006, the EPA began testing for lead contamination in yards and published notices stating that lead is highly toxic and can cause behavioral problems, learning disabilities, seizures, death, and other health effects. Currently, the Housing Complex has been closed and residents relocated. The elementary school is also closed.

CITY OF EAST CHICAGO  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Two lawsuits arising from this situation have been filed naming the City, the Mayor, BP Products, DuPont, Atlantic Richfield, the East Chicago Housing Authority, and its director. The complaint alleges that the defendants concealed the dangers of the contaminated land in which they resided, along with the theories of conspiracy, personal injury, breach of contract and implied warranty, fraud, and misrepresentation. Additional claims allege violation of the 14<sup>th</sup> Amendment, the Civil Rights Act, and the Equal Protection Clause. In one case, the plaintiffs have requested the conditional class certification of each resident living in the West Calumet area of the City. The City is prepared to contest all claims.

In 2017, the City has received tort claim notices for an additional 100 individuals claiming injury and damages arising from this situation. The City's exposure could exceed \$1,000,000 dollars.

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#### 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 City's Annual Financial Report 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, 2016

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Health Maintenance	Economic Development Operating	Building Demolition
Cash and investments - beginning	\$ 5,974,726	\$ 3,088,565	\$ 566,042	\$ 10,210	\$ 55,832	\$ 2,672,852	\$ 209,765
Receipts:							
Taxes	26,797,810	-	-	-	-	2,643,591	-
Licenses and permits	735,536	-	-	-	-	-	-
Intergovernmental receipts	1,677,585	1,061,541	268,883	-	108,038	-	393,380
Charges for services	368,657	-	-	9,454	-	-	-
Fines and forfeits	100,485	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	5,236,743	-	-	-	4,438	34,401	200,000
<b>Total receipts</b>	<b>34,916,816</b>	<b>1,061,541</b>	<b>268,883</b>	<b>9,454</b>	<b>112,476</b>	<b>2,677,992</b>	<b>593,380</b>
Disbursements:							
Personal services	20,697,288	663,124	-	-	31,810	-	-
Supplies	347,258	223,454	56,594	-	16,293	-	-
Other services and charges	2,125,693	30,307	194,710	6,905	24,308	2,348	383,773
Debt service - principal and interest	5,122,996	-	-	-	-	-	-
Capital outlay	32,000	-	-	-	3,396	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	2,185,027	-	-	-	-	1,998,305	200,000
<b>Total disbursements</b>	<b>30,510,262</b>	<b>916,885</b>	<b>251,304</b>	<b>6,905</b>	<b>75,807</b>	<b>2,000,653</b>	<b>583,773</b>
Excess (deficiency) of receipts over disbursements	4,406,554	144,656	17,579	2,549	36,669	677,339	9,607
Cash and investments - ending	<u>\$ 10,381,280</u>	<u>\$ 3,233,221</u>	<u>\$ 583,621</u>	<u>\$ 12,759</u>	<u>\$ 92,501</u>	<u>\$ 3,350,191</u>	<u>\$ 219,372</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Transportation	CDBG	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Unsafe Building	Riverboat	Parks And Recreation
Cash and investments - beginning	\$ 324,843	\$ 1,256	\$ 96,046	\$ 14,920	\$ 322,274	\$ 8,595,928	\$ 1,827,909
Receipts:							
Taxes	805,074	-	-	-	-	-	2,415,222
Licenses and permits	-	-	12,341	-	-	-	-
Intergovernmental receipts	1,100,697	1,045,230	-	-	-	13,591,390	50,071
Charges for services	-	-	-	-	-	-	571,243
Fines and forfeits	-	-	39,004	7,320	76,470	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	4,128	178,020	5	-	114,569	314,795	47,194
<b>Total receipts</b>	<b>1,909,899</b>	<b>1,223,250</b>	<b>51,350</b>	<b>7,320</b>	<b>191,039</b>	<b>13,906,185</b>	<b>3,083,730</b>
Disbursements:							
Personal services	1,049,957	339,061	-	-	-	176,286	996,573
Supplies	77,841	5,023	-	-	-	74,107	116,974
Other services and charges	101,796	849,525	45,891	-	180,490	8,913,004	299,030
Debt service - principal and interest	-	-	-	-	-	142,026	-
Capital outlay	-	-	12,949	1,725	-	3,578,447	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	284	-	-	-	1,842,987	512,611
<b>Total disbursements</b>	<b>1,229,594</b>	<b>1,193,893</b>	<b>58,840</b>	<b>1,725</b>	<b>180,490</b>	<b>14,726,857</b>	<b>1,925,188</b>
Excess (deficiency) of receipts over disbursements	680,305	29,357	(7,490)	5,595	10,549	(820,672)	1,158,542
Cash and investments - ending	\$ 1,005,148	\$ 30,613	\$ 88,556	\$ 20,515	\$ 332,823	\$ 7,775,256	\$ 2,986,451

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	LOIT Special Distribution	Civil City Levy Excess	Park Nonreverting Capital	Redevelopment Capital	Fire Equipment (Not Debt Service)	Co Economic Development Income Tax Capital	Cumulative Capital Improvement
Cash and investments - beginning	\$ -	\$ 892	\$ 1,004	\$ 256,716	\$ 16,555	\$ 2,974,390	\$ 64
Receipts:							
Taxes	2,804,669	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	2,550,387	75,692
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	500	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	4,948,731	2,500,000	-	-
<b>Total receipts</b>	<b>2,804,669</b>	<b>-</b>	<b>-</b>	<b>4,949,231</b>	<b>2,500,000</b>	<b>2,550,387</b>	<b>75,692</b>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	731,249	-	74,733	-
Debt service - principal and interest	-	-	-	-	-	830,763	-
Capital outlay	-	-	-	4,046,637	2,035,345	888,192	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	892	-	-	-	2,475,425	75,756
<b>Total disbursements</b>	<b>-</b>	<b>892</b>	<b>-</b>	<b>4,777,886</b>	<b>2,035,345</b>	<b>4,269,113</b>	<b>75,756</b>
Excess (deficiency) of receipts over disbursements	2,804,669	(892)	-	171,345	464,655	(1,718,726)	(64)
Cash and investments - ending	\$ 2,804,669	\$ -	\$ 1,004	\$ 428,061	\$ 481,210	\$ 1,255,664	\$ -

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Self-Insurance	Police Pension	Fire Pension	City And Town Court Costs	LOIT Public Safety	Local Development Agreement	TIF US Gypsum
Cash and investments - beginning	\$ (1,133,190)	\$ 164,817	\$ (39,708)	\$ 2,028	\$ 1,266,337	\$ 5,860,526	\$ 463,179
Receipts:							
Taxes	-	19,333	19,333	-	-	-	1,605,250
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	3,413,104	2,662,067	-	2,626,335	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	15,004,603	-	-	26,721	-	3,680,026	-
<b>Total receipts</b>	<b>15,004,603</b>	<b>3,432,437</b>	<b>2,681,400</b>	<b>26,721</b>	<b>2,626,335</b>	<b>3,680,026</b>	<b>1,605,250</b>
Disbursements:							
Personal services	-	-	-	-	2,127,221	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	28,434	11,788	13,397	-	-	934,448	-
Debt service - principal and interest	-	-	-	-	-	-	1,465,091
Capital outlay	-	-	-	-	-	1,274,012	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	10,226,269	3,363,761	2,543,428	24,987	-	-	-
<b>Total disbursements</b>	<b>10,254,703</b>	<b>3,375,549</b>	<b>2,556,825</b>	<b>24,987</b>	<b>2,127,221</b>	<b>2,208,460</b>	<b>1,465,091</b>
Excess (deficiency) of receipts over disbursements	4,749,900	56,888	124,575	1,734	499,114	1,471,566	140,159
Cash and investments - ending	\$ 3,616,710	\$ 221,705	\$ 84,867	\$ 3,762	\$ 1,765,451	\$ 7,332,092	\$ 603,338

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	TIF Riley Plaza	Local Police Forfeitures	Harborside Apartments	TIF Northtown Village Townhomes	Home Investment Partnership Program	Local Law Enforcement Grants	Corporation Bond and Interest
Cash and investments - beginning	\$ 51,429	\$ 41,669	\$ 606,531	\$ 17,691	\$ 310,007	\$ -	\$ 5,000
Receipts:							
Taxes	90,919	-	-	234,394	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	40,540	188,155	-
Charges for services	-	-	1,319,434	-	16,800	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	6,005	102,517	-	379,816	115,614	2,475,425
Total receipts	90,919	6,005	1,421,951	234,394	437,156	303,769	2,475,425
Disbursements:							
Personal services	-	-	-	-	26,390	303,769	-
Supplies	-	-	30,819	-	-	-	-
Other services and charges	-	-	1,142,312	166,691	213,810	-	34
Debt service - principal and interest	96,889	-	-	-	-	-	1,240,250
Capital outlay	-	5,871	-	-	399,639	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	590,506	-	-	-	-
Total disbursements	96,889	5,871	1,763,637	166,691	639,839	303,769	1,240,284
Excess (deficiency) of receipts over disbursements	(5,970)	134	(341,686)	67,703	(202,683)	-	1,235,141
Cash and investments - ending	\$ 45,459	\$ 41,803	\$ 264,845	\$ 85,394	\$ 107,324	\$ -	\$ 1,240,141

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	City of EC Construction Account	TIF Lakeside Garden	Public Works Revolving	General Adult Probation	Federal Grants	State Grant	Grant Misc
Cash and investments - beginning	\$ 11,205,029	\$ -	\$ -	\$ 139,537	\$ 36,765	\$ (99,936)	\$ 607,924
Receipts:							
Taxes	-	11,725	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	28,934	368,473	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	19,142	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	10,649	-	6,231,688	-	6,027	100,000	23,600
<b>Total receipts</b>	<b>10,649</b>	<b>11,725</b>	<b>6,231,688</b>	<b>19,142</b>	<b>34,961</b>	<b>468,473</b>	<b>23,600</b>
Disbursements:							
Personal services	-	-	4,255,176	-	-	-	-
Supplies	-	-	259,609	356	9,539	-	15,430
Other services and charges	-	-	1,716,866	7,710	40,942	274,504	11,452
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	100	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	37	-	17,381	75,150	5,343
<b>Total disbursements</b>	<b>-</b>	<b>-</b>	<b>6,231,688</b>	<b>8,166</b>	<b>67,862</b>	<b>349,654</b>	<b>32,225</b>
Excess (deficiency) of receipts over disbursements	10,649	11,725	-	10,976	(32,901)	118,819	(8,625)
Cash and investments - ending	<u>\$ 11,215,678</u>	<u>\$ 11,725</u>	<u>\$ -</u>	<u>\$ 150,513</u>	<u>\$ 3,864</u>	<u>\$ 18,883</u>	<u>\$ 599,299</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Summer Youth Training Program	Police Federal Forfeitures	Damage To City Property	Vital Records	City Court Programs	EC Petty Cash Accts	EC/Gary/Hammond RLF
Cash and investments - beginning	\$ -	\$ 37,507	\$ 89,734	\$ 213,360	\$ 39,595	\$ 1,832	\$ 14
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	50,000	78,988	-	-	-	-	-
Charges for services	-	-	-	48,065	-	-	-
Fines and forfeits	-	-	-	-	17,168	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	117,400	5,730	100	3,480	-	1,207	-
Total receipts	<u>167,400</u>	<u>84,718</u>	<u>100</u>	<u>51,545</u>	<u>17,168</u>	<u>1,207</u>	<u>-</u>
Disbursements:							
Personal services	167,400	-	-	-	-	-	-
Supplies	-	-	-	10,158	2,683	-	-
Other services and charges	-	8,156	32,757	1,618	26,447	1,037	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	2,955	2,304	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	5,000	-	3,346	-	2	14
Total disbursements	<u>167,400</u>	<u>13,156</u>	<u>32,757</u>	<u>18,077</u>	<u>31,434</u>	<u>1,039</u>	<u>14</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>71,562</u>	<u>(32,657)</u>	<u>33,468</u>	<u>(14,266)</u>	<u>168</u>	<u>(14)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 109,069</u>	<u>\$ 57,077</u>	<u>\$ 246,828</u>	<u>\$ 25,329</u>	<u>\$ 2,000</u>	<u>\$ -</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Redevelopment Rehab Escrow	Lease Rental Payment	Communications Revolving	Gasoline Revolving	EC Redevelopment	Payroll Withholding	Health Insurance
Cash and investments - beginning	\$ 4,638	\$ 746,371	\$ (4,778)	\$ (83,856)	\$ 1,912,398	\$ 2,083	\$ 163,183
Receipts:							
Taxes	-	2,057,565	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	36,673	-	-	-	-	-
Charges for services	-	-	-	-	8,400	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	101,962	-	124,965	532,923	808,636	64,907,552	7,204,383
Total receipts	<u>101,962</u>	<u>2,094,238</u>	<u>124,965</u>	<u>532,923</u>	<u>817,036</u>	<u>64,907,552</u>	<u>7,204,383</u>
Disbursements:							
Personal services	-	-	-	-	218,447	-	-
Supplies	-	-	-	481,658	3,975	-	-
Other services and charges	-	37,071	127,300	-	364,241	-	311,058
Debt service - principal and interest	-	2,185,929	-	-	-	-	-
Capital outlay	-	-	-	-	168,123	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	96,933	-	-	-	336,900	64,908,154	7,056,317
Total disbursements	<u>96,933</u>	<u>2,223,000</u>	<u>127,300</u>	<u>481,658</u>	<u>1,091,686</u>	<u>64,908,154</u>	<u>7,367,375</u>
Excess (deficiency) of receipts over disbursements	<u>5,029</u>	<u>(128,762)</u>	<u>(2,335)</u>	<u>51,265</u>	<u>(274,650)</u>	<u>(602)</u>	<u>(162,992)</u>
Cash and investments - ending	<u>\$ 9,667</u>	<u>\$ 617,609</u>	<u>\$ (7,113)</u>	<u>\$ (32,591)</u>	<u>\$ 1,637,748</u>	<u>\$ 1,481</u>	<u>\$ 191</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Misc Employee Ins	Worker's Compensation	City Clerk	ECSDWW Petty Cash	Sewage Utility Construction	Sewage Utility Bond and Interest	Sewage Debt Service Reserve
Cash and investments - beginning	\$ 58,791	\$ 2,825	\$ 588,412	\$ 5,000	\$ 6,455,434	\$ 20,176	\$ 949,063
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	1,878	354,650	803,971	135	2,196	803,563	332
Total receipts	1,878	354,650	803,971	135	2,196	803,563	332
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	23	-	-	133	121,735	-	-
Debt service - principal and interest	-	-	-	-	-	347,158	-
Capital outlay	-	-	-	-	250,078	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	606	357,475	761,952	2	591,915	1,100	-
Total disbursements	629	357,475	761,952	135	963,728	348,258	-
Excess (deficiency) of receipts over disbursements	1,249	(2,825)	42,019	-	(961,532)	455,305	332
Cash and investments - ending	\$ 60,040	\$ -	\$ 630,431	\$ 5,000	\$ 5,493,902	\$ 475,481	\$ 949,395

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Sanitary Levy Excess	Sanitary District Rainy Day	Wastewater Utility-Operating	Wastewater Replacement Reserve	Storm Water Utility-Operating	Solid Waste-Operating	Solid Waste-Bond And Interest
Cash and investments - beginning	\$ 263	\$ -	\$ 1,191,747	\$ 993,729	\$ 963,156	\$ 5,575,943	\$ 336,293
Receipts:							
Taxes	-	614,129	-	-	-	8,745,439	788,186
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	55,231	4,289
Charges for services	-	-	5,706,886	-	1,301,183	252,487	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	9,713	-	-	-	-
Other receipts	-	-	1,155,700	617,700	-	314,587	-
<b>Total receipts</b>	<b>-</b>	<b>614,129</b>	<b>6,872,299</b>	<b>617,700</b>	<b>1,301,183</b>	<b>9,367,744</b>	<b>792,475</b>
Disbursements:							
Personal services	-	-	2,216,023	-	740,755	27,711	-
Supplies	-	-	135,072	-	1,595	29,132	-
Other services and charges	-	-	1,650,843	-	18,649	454,168	-
Debt service - principal and interest	-	-	-	-	-	-	841,200
Capital outlay	-	-	22,572	348,823	10,178	602,754	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	263	-	3,673,741	-	500,000	5,577,719	-
<b>Total disbursements</b>	<b>263</b>	<b>-</b>	<b>7,698,251</b>	<b>348,823</b>	<b>1,271,177</b>	<b>6,691,484</b>	<b>841,200</b>
Excess (deficiency) of receipts over disbursements	(263)	614,129	(825,952)	268,877	30,006	2,676,260	(48,725)
Cash and investments - ending	\$ -	\$ 614,129	\$ 365,795	\$ 1,262,606	\$ 993,162	\$ 8,252,203	\$ 287,568

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (Continued)

	Sanitary District Revolving	Utilities Revolving	Sanitary State Revolving	Water Utility Meter Deposit	Water Utility-Operating	Water Tank Refurbishment	Water Utility-Construction
Cash and investments - beginning	\$ 966,659	\$ -	\$ 38,683	\$ 277,877	\$ (71,551)	\$ 98,194	\$ 1,685,136
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	4,542,817	-	-
Penalties	-	-	-	-	4,750	-	-
Other receipts	254,066	704,604	-	14,730	2,593,752	891,560	200
<b>Total receipts</b>	<b>254,066</b>	<b>704,604</b>	<b>-</b>	<b>14,730</b>	<b>7,141,319</b>	<b>891,560</b>	<b>200</b>
Disbursements:							
Personal services	-	704,604	-	-	1,122,940	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	47,941	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	210,347	-	524,021
Utility operating expenses	-	-	-	-	2,219,514	-	-
Other disbursements	-	-	-	10,853	3,435,866	900,000	111,351
<b>Total disbursements</b>	<b>-</b>	<b>704,604</b>	<b>-</b>	<b>10,853</b>	<b>7,036,608</b>	<b>900,000</b>	<b>635,372</b>
Excess (deficiency) of receipts over disbursements	254,066	-	-	3,877	104,711	(8,440)	(635,172)
Cash and investments - ending	<u>\$ 1,220,725</u>	<u>\$ -</u>	<u>\$ 38,683</u>	<u>\$ 281,754</u>	<u>\$ 33,160</u>	<u>\$ 89,754</u>	<u>\$ 1,049,964</u>

CITY OF EAST CHICAGO  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016  
 (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	\$ 2,714,080	\$ 171,094	\$ 738	\$ 74,048,787
Receipts:						
Taxes	-	-	-	-	-	49,652,639
Licenses and permits	-	-	-	-	-	747,877
Intergovernmental receipts	-	-	-	-	-	31,475,683
Charges for services	-	-	-	669,836	-	10,272,445
Fines and forfeits	-	-	-	-	-	260,089
Utility fees	-	-	-	-	-	4,542,817
Penalties	-	-	-	-	-	14,463
Other receipts	-	2,032	3,284,385	61,874	2,169	127,418,137
Total receipts	-	2,032	3,284,385	731,710	2,169	224,384,150
Disbursements:						
Personal services	-	-	-	509,987	-	36,374,522
Supplies	-	-	-	23,117	-	1,920,687
Other services and charges	-	-	-	188,945	1,407	21,919,679
Debt service - principal and interest	-	-	3,241,746	-	-	15,514,048
Capital outlay	-	-	-	-	-	14,420,468
Utility operating expenses	-	-	-	-	-	2,219,514
Other disbursements	-	-	-	109,257	-	114,576,915
Total disbursements	-	-	3,241,746	831,306	1,407	206,945,833
Excess (deficiency) of receipts over disbursements	-	2,032	42,639	(99,596)	762	17,438,317
Cash and investments - ending	\$ 500	\$ 1,390,072	\$ 2,756,719	\$ 71,498	\$ 1,500	\$ 91,487,104

CITY OF EAST CHICAGO  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2016

Government or Enterprise	Accounts Payable	Accounts Receivable
Sanitary District	\$ 762,711	\$ 1,571,927
Water	150,772	1,031,361
Marina	11,790	-
Governmental activities	<u>2,413,409</u>	<u>2,525,116</u>
Totals	<u>\$ 3,338,682</u>	<u>\$ 5,128,404</u>

CITY OF EAST CHICAGO  
SCHEDULE OF LEASES AND DEBT  
December 31, 2016

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
East Chicago Municipal Building Corporation	Public Safety Facility	\$ 2,201,000	01/05/2017	01/05/2024
Motorola	E-911 Radio Equipment Lease-Purchase	<u>305,763</u>	09/01/2014	09/01/2017
Total governmental activities		<u>2,506,763</u>		
Sanitary District:				
KS State Bank	ECSD Vactor Sewer Cleaner Lease Purchase	<u>104,175</u>	04/01/2017	04/01/2019
Total of annual lease payments		<u>\$ 2,610,938</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	\$ 2,270,875	\$ 2,682,000
Revenue bonds	Taxable Economic Development Revenue Bond Series 2007A Riley Plaza Project	1,325,000	139,300
Revenue bonds	EC Truck Loan 2012	136,790	142,134
Revenue bonds	Taxable Economic Development Revenue Bonds Series 2015 (Hoist Lift Mfg.)	3,000,000	223,500
Revenue bonds	EC Government Obligation Contract 2015 Fire Trucks	2,007,273	1,032,782
Revenue bonds	EC General Obligation Bonds Series 2015 Community Centers	<u>10,345,000</u>	<u>2,474,150</u>
Total governmental activities		<u>19,084,938</u>	<u>6,693,866</u>
Sanitary District:			
General obligation bonds	State Revolving Fund (SRF) Loan 1996 Pump Station Improvements & WWTF Modifications	2,420,000	843,798
Revenue bonds	Sanitary District Revenue Bonds Series 2015 Improvements to Wastewater Plant	<u>12,840,000</u>	<u>947,213</u>
Total Sanitary District		<u>15,260,000</u>	<u>1,791,011</u>
Water:			
Revenue bonds	State Revolving Fund (SRF) Loan 2002 Water Utility Improvements	840,000	132,765
Revenue bonds	State Revolving Fund (SRF) Loan 2006 New Water Filtration Plant	10,900,000	1,251,533
Revenue bonds	State Revolving Fund (SRF) Loan 2009 New Water Filtration Plant	<u>20,190,000</u>	<u>1,858,934</u>
Total Water		<u>31,930,000</u>	<u>3,243,232</u>
Totals		<u>\$ 66,274,938</u>	<u>\$ 11,728,109</u>

CITY OF EAST CHICAGO  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2016

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.

	Net Book Value Ending Balance
<b>Governmental activities:</b>	
Land	\$ 6,296,469
Infrastructure	37,012,315
Buildings	39,416,634
Improvements other than buildings	4,636,515
Machinery, equipment, and vehicles	5,395,981
Construction in progress	<u>17,752,068</u>
<b>Total governmental activities</b>	<u><b>110,509,982</b></u>
<b>Sanitary District:</b>	
Land	885,268
Buildings	13,343,844
Improvements other than buildings	6,617,039
Machinery, equipment, and vehicles	2,873,442
Construction in progress	<u>6,362,687</u>
<b>Total Sanitary District</b>	<u><b>30,082,280</b></u>
<b>Water:</b>	
Land	249,859
Buildings	136,120
Improvements other than buildings	6,616,308
Machinery, equipment, and vehicles	13,207
Construction in progress	<u>54,670,319</u>
<b>Total Water</b>	<u><b>61,685,813</b></u>
<b>Marina:</b>	
Land	1,020,000
Buildings	5,390,430
Improvements other than buildings	301,121
Construction in progress	<u>415,459</u>
<b>Total Marina</b>	<u><b>7,127,010</b></u>
<b>Total capital assets</b>	<u><u><b>\$ 209,405,085</b></u></u>

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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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 *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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

***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, 2016.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 and 2016-003. 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 the Uniform Guidance, 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.


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 a 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-002, 2016-003, and 2016-004, that we consider to be material weaknesses.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

August 10, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared 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, 2016

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (Or Other) Identifying Number	Pass-Through To Subrecipient	Total Federal Awards Expended
<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	\$ -	\$ 344,834
Direct Grants				
Section 8 Project-Based Cluster				
Section 8 Housing Assistance Payments Program	14.195	IN36L0002278 & IN36M000280	-	1,144,360
Total for cluster			-	1,144,360
Direct Grants				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-180004	32,879	510,733
		B-15-MC-180004	38,285	529,047
		B-16-MC-180004	-	5,450
Total for cluster			71,164	1,045,230
Direct Grants				
HOME Investment Partnerships Program	14.239	M-09-MC-180210	-	5,100
		M-13-MC-180210	-	10,624
		M-14-MC-180210	-	15,024
		M-15-MC-180210	-	9,792
Total for program			-	40,540
Total for federal grantor agency			71,164	2,574,964
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Pass-Through the City of South Bend Project Safe Neighborhoods	16.609	2014-GP-BX-0002	-	52,628
Direct Grants				
Public Safety Partnership and Community Policing Grants	16.710	2013UMWX0168	-	188,155
Pass-Through Lake County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0682	-	19,205
Direct Grants				
Equitable Sharing Program	16.922	FY 2011	-	13,156
Total for federal grantor agency			-	273,144
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	DES#0900061	-	62,272
		DES#0900062	-	20,467
		DES#1400575	-	44,649
Total for cluster			-	127,388

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, 2016  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (Or Other) Identifying Number	Pass-Through To Subrecipient	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 IN-90-X636 IN-90-X667 IN-2016-033	- - - -	64,327 45,984 185,576 224,850
Total for cluster			-	520,737
Total for federal grantor agency			-	648,125
<u>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>				
Direct Grant Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001	EECCN110057	-	1,235
Total for federal grantor agency			-	1,235
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Department of Environmental Management State Clean Diesel Grant Program	66.040	DS00E667-03	-	39,285
Beach Monitoring and Notification Program Implementation Grants	66.472	CU-05E73102	-	22,272
Total for federal grantor agency			-	61,557
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana State Department of Health Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	U90TP000521/13796 BASE U90TP000521/13796 CRI U90TP000521/13796 EBOLA U90TP000521/16068 BASE U90TP000521/16068 CRI	- - - - -	17,182 20,193 3,396 12,051 3,604
Total for Program			-	56,426
Total for federal grantor agency			-	56,426
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security Homeland Security Grant Program	97.067	A#15480	-	4,000
Total for federal grantor agency			-	4,000
Total federal awards expended			<u>\$ 71,164</u>	<u>\$ 3,619,451</u>

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

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

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2016. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3. Subsequent Event**

The U.S. Department of Housing and Urban Development (HUD) sent the East Chicago Department of Redevelopment (City) a written Notice of Default of the Housing Assistance Payments (HAP) Contract and Compliance, Disposition and Enforcement Plan, dated June 21, 2017, concerning deficiencies at the City's Harborside Apartments. The Notice arose from an inspection of the complex on October 27, 2016, and ensuing inspection report identifying physical deficiencies of the property which violated the City's contractual obligation to maintain the premises in good condition.

The Notice directed the Department to take specific corrective action within 60 days (or within a time period extended by HUD if requested) or risk reduction, suspension, or termination of Section 8 assistance provided in the HAP contract.

The notice directed the following corrective action:

- Survey of the entire property to identify all physical deficiencies;
- Correction of the deficiencies identified;
- Provide tenants with a notice of compliance, disposition, and enforcement of the project;
- Execute a certification of completion and submit the completed survey and certification within 60 days of receipt of the Notice.

The Notice provides that in the event the repairs extend beyond 60 days, the City must submit a repair plan with the completed survey and request a reasonable extension of time to complete the identified deficiencies, stating the cost and source of funds to be used for the repairs. A timely and conforming request for extension has been made by the City seeking an additional 120 days to complete the necessary repairs. The City is confident that all obligations and requirements directed by the Notice will be successfully accomplished within time limit imposed by HUD.

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
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Section 8 Project-Based Cluster	Unmodified
CDBG - Entitlement Grants Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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 2016-001**

Subject: Section 8 Housing Assistance Payments Program - Internal Controls  
 Federal Agency: Department of Housing and Urban Development  
 Federal Program: Section 8 Housing Assistance Payments Program  
 CFDA Number: 14.195  
 Federal Award Numbers and Years (or Other Identifying Numbers): IN36L000278, IN36M000280  
 Compliance Requirements: Cash Management, Reporting  
 Audit Finding: Material Weakness

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

*Repeat Finding*

This is a partial repeat of finding number 2015-001 from the immediate prior year.

*Condition*

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Cash Management and Reporting compliance requirements.

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all of the monthly reimbursement vouchers without oversight by the Department.

*Context*

This was a systemic issue, occurring throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

The Department had not established an effective internal control structure that would have ensured compliance with Cash Management and Reporting requirements.

*Effect*

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

*Questioned Costs*

There were no questioned costs identified.

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

*Recommendation*

We recommended that the Department's management establish controls related to the grant agreement and the Cash Management and Reporting compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-002**

Subject: Section 8 Housing Assistance Payments Program - Special Tests and Provisions - Housing Quality Standards  
Federal Agency: Department of Housing and Urban Development  
Federal Program: Section 8 Housing Assistance Payments Program  
CFDA Number: 14.195  
Federal Award Numbers and Years (or Other Identifying Numbers): IN36L000278, IN36M000280  
Compliance Requirement: Special Tests and Provisions - Housing Quality Standards  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a partial repeat of finding number 2015-001 from the immediate prior year.

*Condition*

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Housing Quality Standards compliance requirement.

The Department failed to comply with the Special Tests and Provisions - Housing Quality Standards requirement that would have ensured that annual inspections were completed. Additionally, without timely repairs being completed, the property was not maintained in a decent, safe, sanitary, and in good repair condition as required.

*Context*

1. The Department performed all 2016 annual inspections at the end of January 2017.
2. Twenty-two of the thirty-five inspections completed that required repairs did not have a work order generated as of June 26, 2017.
3. Five of the thirty-five inspections had work orders generated, but the work had not been completed as of June 26, 2017.
4. Three of the thirty-five had work orders generated and completed for a portion of the necessary repairs, but not the entire list of required repairs.

This was a systemic issue since 86 percent of the inspections tested (thirty out of thirty-five) were not in compliance with the requirement.

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

24 CFR 880.612(a) states: "After the effective date of the Contract, the contract administrator will inspect the project and review its operation at least annually to determine whether the owner is in compliance with the Contract and the assisted units are in decent, safe and sanitary condition."

24 CFR 886.113(a) states: "*General.* Housing used in this program must be maintained and inspected in accordance with the requirements in 24 CFR part 5, subpart G."

24 CFR 5.703 states:

"HUD housing must be decent, safe, sanitary and in good repair. Owners of housing described in § 5.701(a), mortgagors of housing described in § 5.701(b), and PHAs and other entities approved by HUD owning housing described in § 5.701(c), must maintain such housing in a manner that meets the physical condition standards set forth in this section in order to be considered decent, safe, sanitary and in good repair. These standards address the major areas of the HUD housing: the site; the building exterior; the building systems; the dwelling units; the common areas; and health and safety considerations.

(a) *Site.* The site components, such as fencing and retaining walls, grounds, lighting, mailboxes/project signs, parking lots/driveways, play areas and equipment, refuse disposal, roads, storm drainage and walkways must be free of health and safety hazards and be in good repair. The site must not be subject to material adverse conditions, such as abandoned vehicles, dangerous walks or steps, poor drainage, septic tank back-ups, sewer hazards, excess accumulations of trash, vermin or rodent infestation or fire hazards.

(b) *Building exterior.* Each building on the site must be structurally sound, secure, habitable, and in good repair. Each building's doors, fire escapes, foundations, lighting, roofs, walls, and windows, where applicable, must be free of health and safety hazards, operable, and in good repair.

(c) *Building systems.* Each building's domestic water, electrical system, elevators, emergency power, fire protection, HVAC, and sanitary system must be free of health and safety hazards, functionally adequate, operable, and in good repair.

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

(d) *Dwelling units.*

- (1) Each dwelling unit within a building must be structurally sound, habitable, and in good repair. All areas and aspects of the dwelling unit (for example, the unit's bathroom, call-for-aid (if applicable), ceiling, doors, electrical systems, floors, hot water heater, HVAC (where individual units are provided), kitchen, lighting, outlets/switches, patio/porch/balcony, smoke detectors, stairs, walls, and windows) must be free of health and safety hazards, functionally adequate, operable, and in good repair.
- (2) Where applicable, the dwelling unit must have hot and cold running water, including an adequate source of potable water (note for example that single room occupancy units need not contain water facilities).
- (3) If the dwelling unit includes its own sanitary facility, it must be in proper operating condition, usable in privacy, and adequate for personal hygiene and the disposal of human waste.
- (4) The dwelling unit must include at least one battery-operated or hard-wired smoke detector, in proper working condition, on each level of the unit.

(e) *Common areas.* The common areas must be structurally sound, secure, and functionally adequate for the purposes intended. The basement/garage/carport, restrooms, closets, utility, mechanical, community rooms, day care, halls/corridors, stairs, kitchens, laundry rooms, office, porch, patio, balcony, and trash collection areas, if applicable, must be free of health and safety hazards, operable, and in good repair. All common area ceilings, doors, floors, HVAC, lighting, outlets/switches, smoke detectors, stairs, walls, and windows, to the extent applicable, must be free of health and safety hazards, operable, and in good repair. These standards for common areas apply, to a varying extent, to all HUD housing, but will be particularly relevant to congregate housing, independent group homes/residences, and single room occupancy units, in which the individual dwelling units (sleeping areas) do not contain kitchen and/or bathroom facilities.

(f) *Health and safety concerns.* All areas and components of the housing must be free of health and safety hazards. These areas include, but are not limited to, air quality, electrical hazards, elevators, emergency/fire exits, flammable materials, garbage and debris, hand-rail hazards, infestation, and lead-based paint. For example, the buildings must have fire exits that are not blocked and have hand rails that are undamaged and have no other observable deficiencies. The housing must have no evidence of infestation by rats, mice, or other vermin, or of garbage and debris. The housing must have no evidence of electrical hazards, natural hazards, or fire hazards. The dwelling units and common areas must have proper ventilation and be free of mold, odor (e.g., propane, natural gas, methane gas), or other observable deficiencies. The housing must comply with all requirements related to the evaluation and reduction of lead-based paint hazards and have available proper certifications of such (see 24 CFR part 35).

(g) *Compliance with State and local codes.* The physical condition standards in this section do not supersede or preempt State and local codes for building and maintenance with which HUD housing must comply. HUD housing must continue to adhere to these codes."

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

*Cause*

Management had not developed an effective system of internal controls that would have ensured compliance with the Special Tests and Provisions - Housing Quality Standards compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the Department.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

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

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-003**

Subject: Community Development Block Grants/Entitlement Grants - Procurement  
Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Number and Year (or Other Identifying Number): B-15-MC180004  
Compliance Requirement: Procurement  
Audit Finding: Material Weakness, Other Matters

*Repeat Finding*

The internal control portion of this finding is a repeat of finding number 2015-002 from the immediate prior year.

*Condition*

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Procurement compliance requirement.

The Department failed to comply with the Procurement requirement that the contract files document the history of the procurement, including the rationale for method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price.

Project management services used in 2016 were retained from the prior year, but were not procured properly through small purchase procedures which required price or rate quotations.

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

*Context*

Of the 8 contracts tested, there were 3 instances of noncompliance. The issue was limited to the 3 project managers used in 2016, who received \$133,733 during the year. There were 46 contracts with reimbursements in 2016.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.318(i) states:

"The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

2 CFR 200.320(b) states:

"Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources."

*Cause*

The Department had not established an effective internal controls that would have ensured compliance with the requirements of the Procurement compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the Department.

*Questioned Costs*

There were no questioned costs identified.

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

*Recommendation*

We recommended that the Department's management establish controls to ensure compliance and comply with the Procurement compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2016-004***

Subject: Community Development Block Grants/Entitlement Grants - Reporting  
Federal Agency: Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/Entitlement Grants  
CFDA Number: 14.218  
Federal Award Numbers and Years (or Other Identifying Numbers): B-14-MC180004, B-15-MC180004  
Compliance Requirement: Reporting  
Audit Finding: Material Weakness

*Condition*

Management of the City's Department of Redevelopment (Department) had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement.

The Department had not designed or implemented adequate policies or procedures to ensure accurate reporting of the required C04PR03 - Activity Summary Report or the C04PR26 - CDBG Financial Summary report. Both reports were prepared by the Community Development Programs Director without a proper system of oversight or review.

*Context*

The lack of controls was a systemic issue, occurring throughout the audit period.

*Criteria*

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. . . ."

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

The Department had not established a proper internal control structure that would have ensured compliance with the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Department's management establish controls related to the grant agreement and the Reporting compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

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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 2015-001**

Fiscal year in which the finding initially occurred: FY 2015


Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: US Department of Housing and Urban Development (HUD)

Contract Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department  
Redevelopment

Contact Phone Number: (219) 391-8513

***Status as of December 31, 2016***

The City of East Chicago Department of Redevelopment developed an internal control system that was implemented in October 2016.

  
\_\_\_\_\_  
(Signature)

*EXECUTIVE DIRECTOR*  
\_\_\_\_\_  
(Title)

*6/21/2017*  
\_\_\_\_\_  
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FINDING 2015-0002**

Fiscal year in which the finding initially occurred: FY 2015

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: US Department of Housing and Urban Development (HUD)

Contract Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department Redevelopment

Contact Phone Number: (219) 391-8513

***Status as of December 31, 2016***

The City of East Chicago Department of Redevelopment adopted on the 19<sup>th</sup> day of April, 2016 Resolution No. 2016-1659. The resolution authorized by IC 36-1-4-16 to ratify previous actions of the City of East Chicago Board of Works on December 23, 2015 adopted by Resolution 2015-80, the City of East Chicago's Purchasing Policy; and that the Redevelopment Commission desires to ratify the actions and adopt the actions of the City of East Chicago Board of Works. These actions taken by the City of East Chicago Board of Works related to the adoption of the City of East Chicago Purchasing Policy are ratified and adopted as action of the Redevelopment Commission effective on its adoption and passage that occurred on the 19<sup>th</sup> day of April, 2016. The City of East Chicago Department of Redevelopment utilizes the established controls including segregation of duties, related to the grant agreement and the compliance requirements that have a direct and material effect on the program.

  
\_\_\_\_\_  
(Signature)

*EXECUTIVE DIRECTOR*  
\_\_\_\_\_  
(Title)

*6/21/2017*  
\_\_\_\_\_  
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)

*City of East Chicago*



**Department of Redevelopment**  
400 E. Chicago Avenue  
East Chicago, IN 46312  
Ph: (219) 391-8513 • Fax: (219) 391-7005

**CORRECTIVE ACTION PLAN**

**FINDING 2016-001**

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment  
Contact Phone Number: (219) 391-8513

**VIEWS OF RESPONSIBLE OFFICIAL**

We concur with the finding.

**DESCRIPTION OF CORRECTIVE ACTION PLAN**

The City of East Chicago Department of Redevelopment will establish an effective internal control system related to the grant agreement and the Cash Management and Reporting compliance requirements.

**ANTICIPATED COMPLETION DATE**

October 31, 2017

Ezell Foster  
President – Redevelopment Commission  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

Frank Rivera  
Executive Director  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

*City of East Chicago*



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**CORRECTIVE ACTION PLAN**

**FINDING 2016-002**

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment  
Contact Phone Number: (219) 391-8513

**VIEWS OF RESPONSIBLE OFFICIAL**

We concur with the finding.

**DESCRIPTION OF CORRECTIVE ACTION PLAN**

The City of East Chicago Department of Redevelopment is working diligently on establishing an effective internal control system to ensure compliance and comply with the Special Tests and Provisions – Housing Quality Standards requirement along with establishing a procedure to ensure that annual inspections and timely repairs are completed.

**ANTICIPATED COMPLETION DATE**

November 30, 2017

\_\_\_\_\_  
Ezell Foster  
President – Redevelopment Commission  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

\_\_\_\_\_  
Frank Rivera  
Executive Director  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

*City of East Chicago*



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**CORRECTIVE ACTION PLAN**

**FINDING 2016-003**

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment  
Contact Phone Number: (219) 391-8513

**VIEWS OF RESPONSIBLE OFFICIAL**

We concur with the finding

**DESCRIPTION OF CORRECTIVE ACTION PLAN**

The City of East Chicago Department of Redevelopment is working to establish an effective internal control system related to the grant agreement and the Procurement requirements of the Procurement and Suspension and Debarment compliance requirement. The Department of Redevelopment will also establish a procedure that complies with the Procurement requirements to ensure that the contract files document the history of the procurement, including the rationale for method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price.

**ANTICIPATED COMPLETION DATE**

DECEMBER 31, 2017

\_\_\_\_\_  
Ezell Foster  
President – Redevelopment Commission  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

\_\_\_\_\_  
Frank Rivera  
Executive Director  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

*City of East Chicago*



**Department of Redevelopment**  
400 E. Chicago Avenue  
East Chicago, IN 46312  
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## **CORRECTIVE ACTION PLAN**

### **FINDING 2016-004**

Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment  
Contact Phone Number: (219) 391-8513

### **VIEWS OF RESPONSIBLE OFFICIAL**

We do not concur with the finding for the PR03 report. This report displays program and financial information on projects and activities that have been funded with CDBG dollars for the Program Year requested for Entitlement grantees. This report is generated by IDIS and does not require any manual adjustments. The Accounting department is responsible for putting the accomplishments and the narratives in the IDIS system. The Community Development Programs Manager does not have access in IDIS to update the accomplishments and narratives. Both the Accountant and the Community Development Programs Manager work on this report to ensure that the accomplishments and the narratives are updated in IDIS. The Community Development Programs Manager reviews the PR03 report to ensure that the accomplishments and narratives appear on the report. The PR03 report requires the Accounting Department and the Community Development Programs Manager to work on it together and therefore satisfies the requirement of proper system of oversight and review for the PR03 report.

### **DESCRIPTION OF CORRECTIVE ACTION PLAN**

The City of East Chicago Department of Redevelopment will implement the proper system of oversight and review for the PR26 report.

### **ANTICIPATED COMPLETION DATE**

September 28, 2017

\_\_\_\_\_  
Ezell Foster  
President – Redevelopment Commission  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

\_\_\_\_\_  
Frank Rivera  
Executive Director  
City of East Chicago Dept. of Redevelopment  
August 10, 2017

#### 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/>.