

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, 2017 to December 31, 2017



FILED
09/13/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
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 <i>Government Auditing Standards</i>	6-7
Financial Statement and Accompanying Notes:	
Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	10-11
Notes to Financial Statement	12-23
Other Information - Unaudited:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	26-39
Schedule of Payables and Receivables	40
Schedule of Leases and Debt	41
Schedule of Capital Assets	42
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance	44-46
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	48-49
Notes to Schedule of Expenditures of Federal Awards	50
Schedule of Findings and Questioned Costs	51-58
Auditee-Prepared Documents:	
Summary Schedule of Prior Audit Findings	60-63
Corrective Action Plan	64-67
Other Reports	68

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Valeriano Gomez	01-01-17 to 12-31-18
Mayor	Anthony Copeland	01-01-17 to 12-31-19
President of the Board of Public Works	Valeriano Gomez	01-01-17 to 12-31-18
President of the Common Council	Lenny Franciski Richard Medina	01-01-17 to 12-31-17 01-01-18 to 12-31-18



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, 2017, and the related notes to the financial statement as listed in the Table of Contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free 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, 2017.

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, 2017, 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 9, 2018, 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 solely 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 effectiveness of the City's 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 9, 2018



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

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, 2017, and the related notes to the financial statement, and have issued our report thereon dated August 9, 2018, 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a material weakness.

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

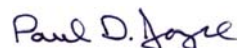
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001.

City of East Chicago's Response to Findings

The City's response to the 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 the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 9, 2018

(This page intentionally left blank.)

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, 2017

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17
General	\$ 10,381,280	\$ 34,026,026	\$ 24,623,898	\$ 19,783,408
Motor Vehicle Highway	3,233,221	1,124,591	478,091	3,879,721
Local Road And Street	583,621	342,557	411,782	514,396
Park Nonreverting Operating	12,759	10,529	9,130	14,158
Health Maintenance	92,501	126,741	93,321	125,921
Lakefront TIF (Economic Development)	3,350,191	2,283,832	2,236,620	3,397,403
Building Demolition	219,372	212,404	245,550	186,226
Transportation	1,005,148	1,783,444	1,315,256	1,473,336
CDBG	30,613	1,614,855	1,643,584	1,884
Law Enforcement Continuing Ed	88,556	55,026	68,121	75,461
Clerk's Records Perpetuation	20,515	5,654	3,967	22,202
Unsafe Building	332,823	183,104	179,427	336,500
Casino/Riverboat	7,775,256	14,373,422	12,162,554	9,986,124
Parks And Recreation	2,986,451	2,366,737	3,195,862	2,157,326
LOIT Special Distribution	2,804,669	-	1,592,623	1,212,046
Park Nonreverting Capital	1,004	-	-	1,004
Redevelopment Capital	428,061	10,167,684	9,789,181	806,564
Fire Equipment (Not Debt Service)	481,210	-	-	481,210
Co Economic Development Income Tax Capital	1,255,664	2,661,012	2,782,213	1,134,463
Cumulative Capital Improvement	-	72,223	72,223	-
Self-Insurance	3,616,710	11,810,226	8,076,978	7,349,958
Police Pension	221,705	3,205,145	3,403,061	23,789
Fire Pension	84,868	2,407,653	2,424,942	67,579
City And Town Court Costs	3,762	22,364	24,098	2,028
LOIT Public Safety	1,765,451	2,801,210	2,577,297	1,989,364
Local Development Agreement	7,332,092	3,534,540	4,093,983	6,772,649
TIF US Gypsum	603,338	1,212,062	1,209,369	606,031
TIF Riley Plaza	45,459	98,163	94,541	49,081
Local Police Forfeitures	41,803	7,538	7,950	41,391
Harborside Apartments	264,845	1,298,481	1,267,603	295,723
TIF Northtown Village Townhomes	85,394	143,365	157,077	71,682
Home Investment Partnership Program	107,324	251,416	256,503	102,237
Corporation Bond and Interest	1,240,141	2,476,450	2,475,877	1,240,714
City of EC Construction Account	11,215,678	9,583	3,245,728	7,979,533
TIF Lakeside Garden	11,725	271,488	-	283,213
Public Works Revolving	-	7,896,340	7,896,340	-
Local Road and Bridge Grant	-	1,875,000	979,570	895,430
TIF Annex Allocation Area	-	288,908	149,250	139,658
Redevelopment Education	-	100,000	-	100,000
General Adult Probation	150,513	16,709	12,840	154,382
Federal Grants	3,864	107,516	109,043	2,337
State Grant	18,883	85,634	70,432	34,085
Grant Misc	599,299	11,000	12,371	597,928

CITY OF EAST CHICAGO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2017

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17
Summer Youth Training Program	-	132,950	132,950	-
Police Federal Forfeitures	109,069	47,096	21,642	134,523
Damage To City Property	57,077	11,343	13,832	54,588
Vital Records	246,828	51,635	21,025	277,438
City Court Programs	25,329	16,469	35,667	6,131
EC Petty Cash Accts	2,000	94	269	1,825
Redevelopment Rehab Escrow	9,666	73,448	79,206	3,908
Lease Rental Payment	617,609	2,421,106	2,201,000	837,715
Communications Revolving	(7,113)	126,139	127,546	(8,520)
Gasoline Revolving	(32,591)	526,765	568,294	(74,120)
EC Redevelopment	1,637,748	545,259	1,875,943	307,064
Payroll Withholding	1,481	67,517,673	67,517,343	1,811
Health Insurance	191	5,065,901	5,061,450	4,642
Misc Employee Ins	60,040	2,255	857	61,438
Worker's Compensation	-	408,896	408,680	216
City Clerk	630,431	960,695	1,042,832	548,294
ECSDWW Petty Cash	5,000	101	125	4,976
Sewage Utility Construction	5,493,902	1,897	142,973	5,352,826
Sewage Utility Bond and Interest	475,481	945,463	947,963	472,981
Sewage Debt Service Reserve	949,395	331	-	949,726
Sanitary District Rainy Day	614,129	-	-	614,129
Wastewater Utility-Operating	365,795	9,824,857	8,914,749	1,275,903
Wastewater Replacement Reserve	1,262,606	617,700	367,609	1,512,697
Storm Water Utility-Operating	993,162	2,088,438	2,311,780	769,820
Solid Waste-Operating	8,252,203	10,262,985	8,332,596	10,182,592
Solid Waste-Bond And Interest	287,568	889,784	843,798	333,554
Sanitary District Revolving	1,220,725	154,066	-	1,374,791
Utilities Revolving	-	820,023	820,023	-
Sanitary State Revolving	38,683	-	-	38,683
Water Utility Meter Deposit	281,754	16,685	12,505	285,934
Water Utility-Operating	33,160	10,083,428	9,934,329	182,259
Water Tank Refurbishment	89,754	966,560	997,823	58,491
Water Utility-Construction	1,049,964	1,877,762	440,306	2,487,420
Change Fund	500	500	-	1,000
Water Utility-Debt Reserve	1,390,072	39,255	500,000	929,327
Water Utility-Bond and Interest	2,756,719	3,464,907	3,243,232	2,978,394
EC Marina	71,498	937,940	794,496	214,942
EC Marina Petty Cash Accts	1,500	1,797	1,947	1,350
Totals	<u>\$ 91,487,104</u>	<u>\$ 232,242,835</u>	<u>\$ 217,163,046</u>	<u>\$ 106,566,893</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. Reviewed the board minutes where the council approved a few department budgets.

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

the preceding year's lien date (March 1 in a year ending before January 1, 2016 and January 1 in a year beginning after December 31, 2015) 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 of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy

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

On Behalf Payments

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

C. 1937 Firefighters' Pension Plan

Plan Description

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

Funding Policy

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

On Behalf Payments

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

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

Plan Description

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

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

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

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

Funding Policy

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

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of some of the funds being set up as internal service funds.

Note 8. Holding Corporation

The City has entered into a capital lease with 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 2017 totaled \$2,201,000.

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 2017. These loans were not repaid during 2017. As of December 31, 2017, four loans totaling \$2,750,000 were still outstanding. They were repaid on June 30, 2018.

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.

On December 22, 2017, and June 22, 2018, the City closed on two low interest loans, in the aggregate amount of \$18,000,000, through the Indiana Finance Authority's Drinking Water State Revolving Fund (SRF) Loan Program to finance improvements to the City's drinking water distribution system. The City's project includes the installation of water meters, an advanced metering infrastructure system, a bulk water filling station, the construction of a new water storage tank, and the initiation of the City's lead service line replacement program.

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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 2017 were not enough to cover the 2017 payments due.

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 2017 were not enough to cover the 2017 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 2017 tax incremental finance property tax receipts were not enough to cover the 2017 payments due. Hoist Liftruck Manufacturing provided the City with the necessary funds to cover the 2017 payment shortfalls.

Note 13. Indiana Harbor Revitalization Project

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

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

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

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

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

	Balance 01-01-17	New Loans	Repayments	Balance 12-31-17	Accrued and Unpaid Interest
Phase I	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000	\$ 309,355
Phase II	<u>2,653,000</u>	<u>-</u>	<u>-</u>	<u>2,653,000</u>	<u>125,213</u>
Totals	<u>\$ 4,453,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,453,000</u>	<u>\$ 434,568</u>

Note 14. Water Filtration Plant

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

1. In 2006, the City entered into a \$16,600,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The initial \$16,600,000 in loan program funds was completely drawn down; however, as of December 31, 2015, an additional \$83,615 in accumulated interest is still available to be drawn on this program. The repayment of the loan is from the Water Utility Operating and Economic Development Operating funds.
2. In 2009, the City entered into a \$27,200,000 loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks revenue bonds issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. During 2010 and 2011, the City drew down the entire amount of the \$27,200,000 loan.

CITY OF EAST CHICAGO
NOTES TO FINANCIAL STATEMENT
(Continued)

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

3. In 2009, the City entered into a \$3,000,000 forgivable loan with the State Revolving Loan Fund (SRF). Under the terms of the financial assistance agreement, waterworks bond anticipation notes (BAN) issued by the City have been purchased by the Indiana Finance Authority. The proceeds are set aside to finance the water utility improvements. Funds are loaned to the City's water department as costs are incurred to the maximum allowed. The 2009 BAN was subject to loan forgiveness and was deemed forgiven and discharged on November 12, 2010, for the entire amount of the loan, as permitted by the American Recovery and Reinvestment Act. During 2010, the City drew down the entire \$3,000,000 loan.
4. In 2009, the City disbursed \$5,750,000 from the Economic Development Commission Fund, in accordance with the financial assistance agreement with the Indiana Finance Authority, into a Project fund for the water utility improvements. As of December 31, 2015, the City has drawn \$5,704,967, which left \$45,033.
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 City's Water Department (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 of 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 take four months and be complete in January 2016.

Note 15. Settlements

Consent Decree

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

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

USS Lead Superfund

The USS Lead Superfund site is located within the City. 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 neighborhoods began in 1939 and were 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 14th 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 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.

(This page intentionally left blank.)

OTHER INFORMATION - UNAUDITED

The City's Annual Financial Report information can be found on the Indiana Gateway for Government Units 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, 2017

	General	Motor Vehicle Highway	Local Road And Street	Park Nonreverting Operating	Health Maintenance	Lakefront TIF (Economic Development)
Cash and investments - beginning	\$ 10,381,280	\$ 3,233,221	\$ 583,621	\$ 12,759	\$ 92,501	\$ 3,350,191
Receipts:						
Taxes	30,366,575	-	-	-	-	2,256,564
Licenses and permits	713,171	-	-	-	-	-
Intergovernmental receipts	1,968,455	1,124,591	342,557	-	126,741	-
Charges for services	355,817	-	-	10,529	-	-
Fines and forfeits	102,039	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	519,969	-	-	-	-	27,268
Total receipts	34,026,026	1,124,591	342,557	10,529	126,741	2,283,832
Disbursements:						
Personal services	21,584,802	347,632	-	-	21,943	-
Supplies	334,689	118,947	33,809	-	20,998	-
Other services and charges	2,469,159	11,512	377,973	9,130	29,309	87,028
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	10,248	-	-	-	21,071	104,064
Utility operating expenses	-	-	-	-	-	-
Other disbursements	225,000	-	-	-	-	2,045,528
Total disbursements	24,623,898	478,091	411,782	9,130	93,321	2,236,620
Excess (deficiency) of receipts over disbursements	9,402,128	646,500	(69,225)	1,399	33,420	47,212
Cash and investments - ending	\$ 19,783,408	\$ 3,879,721	\$ 514,396	\$ 14,158	\$ 125,921	\$ 3,397,403

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Building Demolition	Transportation	CDBG	Law Enforcement Continuing Ed	Clerk's Records Perpetuation	Unsafe Building
Cash and investments - beginning	\$ 219,372	\$ 1,005,148	\$ 30,613	\$ 88,556	\$ 20,515	\$ 332,823
Receipts:						
Taxes	-	850,031	-	-	-	-
Licenses and permits	-	-	-	9,280	-	-
Intergovernmental receipts	12,404	925,588	1,530,532	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	45,451	5,654	30,730
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	200,000	7,825	84,323	295	-	152,374
Total receipts	212,404	1,783,444	1,614,855	55,026	5,654	183,104
Disbursements:						
Personal services	-	1,134,871	353,403	-	-	-
Supplies	-	102,857	6,679	11,043	-	-
Other services and charges	45,550	77,528	1,283,502	43,855	411	179,427
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	13,223	3,556	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	200,000	-	-	-	-	-
Total disbursements	245,550	1,315,256	1,643,584	68,121	3,967	179,427
Excess (deficiency) of receipts over disbursements	(33,146)	468,188	(28,729)	(13,095)	1,687	3,677
Cash and investments - ending	\$ 186,226	\$ 1,473,336	\$ 1,884	\$ 75,461	\$ 22,202	\$ 336,500

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Casino/Riverboat	Parks And Recreation	LOIT Special Distribution	Park Nonreverting Capital	Redevelopment Capital	Fire Equipment (Not Debt Service)
Cash and investments - beginning	\$ 7,775,256	\$ 2,986,451	\$ 2,804,669	\$ 1,004	\$ 428,061	\$ 481,210
Receipts:						
Taxes	-	1,701,646	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	13,504,217	32,398	-	-	-	-
Charges for services	-	607,362	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	869,205	25,331	-	-	10,167,684	-
Total receipts	14,373,422	2,366,737	-	-	10,167,684	-
Disbursements:						
Personal services	149,988	1,056,550	-	-	-	-
Supplies	90,462	115,852	-	-	-	-
Other services and charges	9,224,826	896,843	653,387	-	1,911,169	-
Debt service - principal and interest	141,998	-	-	-	-	-
Capital outlay	2,276,434	474,270	-	-	7,878,012	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	278,846	652,347	939,236	-	-	-
Total disbursements	12,162,554	3,195,862	1,592,623	-	9,789,181	-
Excess (deficiency) of receipts over disbursements	2,210,868	(829,125)	(1,592,623)	-	378,503	-
Cash and investments - ending	\$ 9,986,124	\$ 2,157,326	\$ 1,212,046	\$ 1,004	\$ 806,564	\$ 481,210

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Co Economic Development Income Tax Capital	Cumulative Capital Improvement	Self-Insurance	Police Pension	Fire Pension	City And Town Court Costs
Cash and investments - beginning	\$ 1,255,664	\$ -	\$ 3,616,710	\$ 221,705	\$ 84,868	\$ 3,762
Receipts:						
Taxes	2,661,012	-	-	-	41,156	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	72,223	-	3,205,145	2,365,506	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	11,810,226	-	991	22,364
Total receipts	<u>2,661,012</u>	<u>72,223</u>	<u>11,810,226</u>	<u>3,205,145</u>	<u>2,407,653</u>	<u>22,364</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	17,684	16,227	7,386	-
Debt service - principal and interest	305,763	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	<u>2,476,450</u>	<u>72,223</u>	<u>8,059,294</u>	<u>3,386,834</u>	<u>2,417,556</u>	<u>24,098</u>
Total disbursements	<u>2,782,213</u>	<u>72,223</u>	<u>8,076,978</u>	<u>3,403,061</u>	<u>2,424,942</u>	<u>24,098</u>
Excess (deficiency) of receipts over disbursements	<u>(121,201)</u>	<u>-</u>	<u>3,733,248</u>	<u>(197,916)</u>	<u>(17,289)</u>	<u>(1,734)</u>
Cash and investments - ending	<u>\$ 1,134,463</u>	<u>\$ -</u>	<u>\$ 7,349,958</u>	<u>\$ 23,789</u>	<u>\$ 67,579</u>	<u>\$ 2,028</u>

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	LOIT Public Safety	Local Development Agreement	TIF US Gypsum	TIF Riley Plaza	Local Police Forfeitures	Harborside Apartments
Cash and investments - beginning	\$ 1,765,451	\$ 7,332,092	\$ 603,338	\$ 45,459	\$ 41,803	\$ 264,845
Receipts:						
Taxes	-	-	1,212,062	98,163	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	2,801,210	-	-	-	-	-
Charges for services	-	-	-	-	-	1,112,813
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	3,534,540	-	-	7,538	185,668
Total receipts	2,801,210	3,534,540	1,212,062	98,163	7,538	1,298,481
Disbursements:						
Personal services	2,577,297	-	-	-	-	-
Supplies	-	-	-	-	-	24,623
Other services and charges	-	460,799	-	-	-	1,070,450
Debt service - principal and interest	-	1,032,782	1,209,369	94,541	-	-
Capital outlay	-	1,544,567	-	-	7,950	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	1,055,835	-	-	-	172,530
Total disbursements	2,577,297	4,093,983	1,209,369	94,541	7,950	1,267,603
Excess (deficiency) of receipts over disbursements	223,913	(559,443)	2,693	3,622	(412)	30,878
Cash and investments - ending	\$ 1,989,364	\$ 6,772,649	\$ 606,031	\$ 49,081	\$ 41,391	\$ 295,723

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	TIF Northtown Village Townhomes	Home Investment Partnership Program	Corporation Bond and Interest	City of EC Construction Account	TIF Lakeside Garden	Public Works Revolving
Cash and investments - beginning	\$ 85,394	\$ 107,324	\$ 1,240,141	\$ 11,215,678	\$ 11,725	\$ -
Receipts:						
Taxes	143,365	-	-	-	271,488	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	161,083	-	-	-	-
Charges for services	-	16,800	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	73,533	2,476,450	9,583	-	7,896,340
Total receipts	143,365	251,416	2,476,450	9,583	271,488	7,896,340
Disbursements:						
Personal services	-	29,624	-	-	-	5,126,637
Supplies	-	-	-	-	-	437,020
Other services and charges	157,077	141,324	1,727	-	-	2,332,683
Debt service - principal and interest	-	-	2,474,150	-	-	-
Capital outlay	-	85,555	-	3,245,728	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	157,077	256,503	2,475,877	3,245,728	-	7,896,340
Excess (deficiency) of receipts over disbursements	(13,712)	(5,087)	573	(3,236,145)	271,488	-
Cash and investments - ending	\$ 71,682	\$ 102,237	\$ 1,240,714	\$ 7,979,533	\$ 283,213	\$ -

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Local Road and Bridge Grant	TIF Annex Allocation Area	Redevelopment Education	General Adult Probation	Federal Grants	State Grant
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 150,513	\$ 3,864	\$ 18,883
Receipts:						
Taxes	-	155,243	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	935,764	-	-	-	107,516	34,253
Charges for services	-	133,665	-	-	-	-
Fines and forfeits	-	-	100,000	16,709	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	939,236	-	-	-	-	51,381
Total receipts	1,875,000	288,908	100,000	16,709	107,516	85,634
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	1,834	-	-
Other services and charges	883,000	-	-	8,323	75,009	70,432
Debt service - principal and interest	-	149,250	-	-	-	-
Capital outlay	96,570	-	-	2,683	34,034	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	979,570	149,250	-	12,840	109,043	70,432
Excess (deficiency) of receipts over disbursements	895,430	139,658	100,000	3,869	(1,527)	15,202
Cash and investments - ending	\$ 895,430	\$ 139,658	\$ 100,000	\$ 154,382	\$ 2,337	\$ 34,085

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Grant Misc	Summer Youth Training Program	Police Federal Forfeitures	Damage To City Property	Vital Records	City Court Programs
Cash and investments - beginning	\$ 599,299	\$ -	\$ 109,069	\$ 57,077	\$ 246,828	\$ 25,329
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	46,907	-	-	-
Charges for services	-	-	-	-	48,144	-
Fines and forfeits	-	-	-	-	-	15,249
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	11,000	132,950	189	11,343	3,491	1,220
Total receipts	11,000	132,950	47,096	11,343	51,635	16,469
Disbursements:						
Personal services	-	132,950	-	-	-	-
Supplies	10,201	-	-	-	5,339	3,404
Other services and charges	2,170	-	4,625	13,832	4,915	28,247
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	12,017	-	7,571	4,016
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	5,000	-	3,200	-
Total disbursements	12,371	132,950	21,642	13,832	21,025	35,667
Excess (deficiency) of receipts over disbursements	(1,371)	-	25,454	(2,489)	30,610	(19,198)
Cash and investments - ending	\$ 597,928	\$ -	\$ 134,523	\$ 54,588	\$ 277,438	\$ 6,131

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	EC Petty Cash Accts	Redevelopment Rehab Escrow	Lease Rental Payment	Communications Revolving	Gasoline Revolving	EC Redevelopment
Cash and investments - beginning	\$ 2,000	\$ 9,666	\$ 617,609	\$ (7,113)	\$ (32,591)	\$ 1,637,748
Receipts:						
Taxes	-	-	2,380,721	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	40,385	-	-	-
Charges for services	-	-	-	-	-	79,548
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	94	73,448	-	126,139	526,765	465,711
Total receipts	94	73,448	2,421,106	126,139	526,765	545,259
Disbursements:						
Personal services	-	-	-	-	-	276,809
Supplies	-	-	-	-	568,294	4,250
Other services and charges	269	-	14,574	127,546	-	169,565
Debt service - principal and interest	-	-	2,186,426	-	-	-
Capital outlay	-	-	-	-	-	1,067,875
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	79,206	-	-	-	357,444
Total disbursements	269	79,206	2,201,000	127,546	568,294	1,875,943
Excess (deficiency) of receipts over disbursements	(175)	(5,758)	220,106	(1,407)	(41,529)	(1,330,684)
Cash and investments - ending	\$ 1,825	\$ 3,908	\$ 837,715	\$ (8,520)	\$ (74,120)	\$ 307,064

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Payroll Withholding	Health Insurance	Misc Employee Ins	Worker's Compensation	City Clerk	ECSDWW Petty Cash
Cash and investments - beginning	\$ 1,481	\$ 191	\$ 60,040	\$ -	\$ 630,431	\$ 5,000
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	67,517,673	5,065,901	2,255	408,896	960,695	101
Total receipts	67,517,673	5,065,901	2,255	408,896	960,695	101
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	304,336	-	-	-	125
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	67,517,343	4,757,114	857	408,680	1,042,832	-
Total disbursements	67,517,343	5,061,450	857	408,680	1,042,832	125
Excess (deficiency) of receipts over disbursements	330	4,451	1,398	216	(82,137)	(24)
Cash and investments - ending	\$ 1,811	\$ 4,642	\$ 61,438	\$ 216	\$ 548,294	\$ 4,976

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Sewage Utility Construction	Sewage Utility Bond and Interest	Sewage Debt Service Reserve	Sanitary District Rainy Day	Wastewater Utility-Operating	Wastewater Replacement Reserve
Cash and investments - beginning	\$ 5,493,902	\$ 475,481	\$ 949,395	\$ 614,129	\$ 365,795	\$ 1,262,606
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	7,846,045	-
Fines and forfeits	-	-	-	-	61,525	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	13,133	-
Other receipts	1,897	945,463	331	-	1,904,154	617,700
Total receipts	1,897	945,463	331	-	9,824,857	617,700
Disbursements:						
Personal services	-	-	-	-	2,253,614	-
Supplies	-	-	-	-	217,204	-
Other services and charges	48,189	-	-	-	2,443,189	-
Debt service - principal and interest	-	947,213	-	-	-	-
Capital outlay	94,784	-	-	-	9,841	367,609
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	750	-	-	3,990,901	-
Total disbursements	142,973	947,963	-	-	8,914,749	367,609
Excess (deficiency) of receipts over disbursements	(141,076)	(2,500)	331	-	910,108	250,091
Cash and investments - ending	\$ 5,352,826	\$ 472,981	\$ 949,726	\$ 614,129	\$ 1,275,903	\$ 1,512,697

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Storm Water <u>Utility-Operating</u>	Solid Waste-Operating	Solid Waste-Bond And Interest	Sanitary District Revolving	Utilities Revolving	Sanitary State Revolving
Cash and investments - beginning	\$ 993,162	\$ 8,252,203	\$ 287,568	\$ 1,220,725	\$ -	\$ 38,683
Receipts:						
Taxes	-	9,581,859	885,431	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	92,048	4,353	-	-	-
Charges for services	1,588,338	293,016	-	-	-	-
Fines and forfeits	-	970	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	500,100	295,092	-	154,066	820,023	-
Total receipts	2,088,438	10,262,985	889,784	154,066	820,023	-
Disbursements:						
Personal services	639,118	27,711	-	-	820,023	-
Supplies	6,874	5,435	-	-	-	-
Other services and charges	52,959	416,814	-	-	-	-
Debt service - principal and interest	-	104,175	843,798	-	-	-
Capital outlay	12,829	733,416	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,600,000	7,045,045	-	-	-	-
Total disbursements	2,311,780	8,332,596	843,798	-	820,023	-
Excess (deficiency) of receipts over disbursements	(223,342)	1,930,389	45,986	154,066	-	-
Cash and investments - ending	\$ 769,820	\$ 10,182,592	\$ 333,554	\$ 1,374,791	\$ -	\$ 38,683

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Water Utility Meter Deposit	Water Utility-Operating	Water Tank Refurbishment	Water Utility-Construction	Change Fund
Cash and investments - beginning	\$ 281,754	\$ 33,160	\$ 89,754	\$ 1,049,964	\$ 500
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	6,147,311	-	-	-
Penalties	-	18,388	-	-	-
Other receipts	16,685	3,917,729	966,560	1,877,762	500
Total receipts	16,685	10,083,428	966,560	1,877,762	500
Disbursements:					
Personal services	-	1,129,957	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	42,164	-	-	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	36,153	47,823	85,678	-
Utility operating expenses	-	2,697,597	-	224,935	-
Other disbursements	12,505	6,028,458	950,000	129,693	-
Total disbursements	12,505	9,934,329	997,823	440,306	-
Excess (deficiency) of receipts over disbursements	4,180	149,099	(31,263)	1,437,456	500
Cash and investments - ending	\$ 285,934	\$ 182,259	\$ 58,491	\$ 2,487,420	\$ 1,000

CITY OF EAST CHICAGO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	Water Utility-Debt Reserve	Water Utility-Bond and Interest	EC Marina	EC Marina Petty Cash Accts	Totals
Cash and investments - beginning	\$ 1,390,072	\$ 2,756,719	\$ 71,498	\$ 1,500	\$ 91,487,104
Receipts:					
Taxes	-	-	-	-	52,605,316
Licenses and permits	-	-	-	-	722,451
Intergovernmental receipts	-	-	-	-	29,433,876
Charges for services	-	-	927,732	-	13,019,809
Fines and forfeits	-	-	-	-	378,327
Utility fees	-	-	-	-	6,147,311
Penalties	-	-	-	-	31,521
Other receipts	39,255	3,464,907	10,208	1,797	129,904,224
Total receipts	39,255	3,464,907	937,940	1,797	232,242,835
Disbursements:					
Personal services	-	-	520,239	-	38,183,168
Supplies	-	-	25,437	-	2,145,251
Other services and charges	-	-	221,840	1,947	26,440,036
Debt service - principal and interest	-	3,243,232	-	-	12,732,697
Capital outlay	-	-	17,962	-	18,295,539
Utility operating expenses	-	-	-	-	2,922,532
Other disbursements	500,000	-	9,018	-	116,443,823
Total disbursements	500,000	3,243,232	794,496	1,947	217,163,046
Excess (deficiency) of receipts over disbursements	(460,745)	221,675	143,444	(150)	15,079,789
Cash and investments - ending	\$ 929,327	\$ 2,978,394	\$ 214,942	\$ 1,350	\$ 106,566,893

CITY OF EAST CHICAGO
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2017

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Sanitary District	\$ 381,590	\$ 1,072,096
Water	153,994	1,052,919
Marina	54,854	-
Governmental activities	<u>4,282,079</u>	<u>1,405,768</u>
Totals	<u>\$ 4,872,517</u>	<u>\$ 3,530,783</u>

CITY OF EAST CHICAGO
SCHEDULE OF LEASES AND DEBT
December 31, 2017

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities: East Chicago Municipal Building Corporation	Public Safety Facility	\$ 2,193,000	01/05/2017	01/05/2024
Sanitary District: KS State Bank	ECSD Vactor Sewer Cleaner Lease Purchase	104,175	04/01/2017	04/01/2019
Total of annual lease payments		<u>\$ 2,297,175</u>		

Type	Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Revenue bonds	EC General Obligation Bonds Series 2015 Community Centers	\$ 8,165,000	\$ 2,473,225
Revenue bonds	EC Government Obligation Contract 2015 Fire Trucks	1,003,952	1,032,782
Revenue bonds	Redevelopment Tax Increment Financing Bonds 1999 USG Project	1,792,231	2,763,000
Revenue bonds	Taxable Economic Development Revenue Bond Series 2007A Riley Plaza Project	1,235,000	135,700
Revenue bonds	Taxable Economic Development Revenue Bonds Series 2015 (Hoist Lift Mfg.)	<u>2,925,000</u>	<u>312,808</u>
Total governmental activities		<u>15,121,183</u>	<u>6,717,515</u>
Sanitary District:			
General obligation bonds	State Revolving Fund (SRF) Loan 1996 Pump Station Improvements & WWTF Modifications	1,635,000	840,743
Revenue bonds	Sanitary District Revenue Bonds Series 2015 Improvements to Wastewater Plant	12,340,000	947,138
Notes and loans payable	EC Sanitary District Street Sweeper	<u>209,860</u>	<u>219,912</u>
Total Sanitary District		<u>14,184,860</u>	<u>2,007,793</u>
Water:			
Revenue bonds	State Revolving Fund (SRF) Loan 2002 Water Utility Improvements	730,000	129,575
Revenue bonds	State Revolving Fund (SRF) Loan 2006 New Water Filtration Plant	10,115,000	1,250,902
Revenue bonds	State Revolving Fund (SRF) Loan 2009 New Water Filtration Plant	18,880,000	1,856,631
Revenue bonds	State Revolving Fund (SRF) Loan 2017 Meter Replacement Modeling Software Engineering Costs	<u>3,850,000</u>	<u>45,478</u>
Total Water		<u>33,575,000</u>	<u>3,282,586</u>
Totals		<u>\$ 62,881,043</u>	<u>\$ 12,007,894</u>

CITY OF EAST CHICAGO
SCHEDULE OF CAPITAL ASSETS
December 31, 2017

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

	Ending Balance
Governmental activities:	
Land	\$ 6,296,469
Infrastructure	35,956,173
Buildings	39,222,308
Improvements other than buildings	4,225,886
Machinery, equipment, and vehicles	4,613,896
Construction in progress	<u>32,672,078</u>
Total governmental activities	<u>122,986,810</u>
Sanitary District:	
Land	885,268
Buildings	12,842,532
Improvements other than buildings	6,401,791
Machinery, equipment, and vehicles	2,987,155
Construction in progress	<u>6,505,660</u>
Total Sanitary District	<u>29,622,406</u>
Water:	
Land	249,859
Buildings	123,280
Improvements other than buildings	6,432,589
Machinery, equipment, and vehicles	45,507
Construction in progress	<u>54,757,315</u>
Total Water	<u>61,608,550</u>
Marina:	
Land	1,020,000
Buildings	5,120,908
Improvements other than buildings	276,385
Machinery, equipment, and vehicles	14,370
Construction in progress	<u>1,429,047</u>
Total Marina	<u>7,860,710</u>
Total capital assets	<u>\$ 222,078,476</u>

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

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, 2017. 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. Except as discussed below, 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.

Basis for Qualified Opinion on Section 8 Project-Based Cluster

As described in items 2017-003 and 2017-004 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the City with the Section 8 Project-Based Cluster regarding Eligibility and Special Tests and Provisions - Housing Quality Standards. Consequently, we were unable to determine whether the City complied with those requirements applicable to the program.

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

Qualified Opinion on Section 8 Project-Based Cluster

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on Section 8 Project-Based Cluster* paragraph, 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 the Section 8 Project-Based Cluster for the year ended December 31, 2017.

Unmodified Opinion on the CDBG - Entitlement Grants Cluster

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 its CDBG - Entitlement Grants Cluster for the year ended December 31, 2017.

Other 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 2017-002, 2017-003, and 2017-004, that we consider to be material weaknesses.

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

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

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 9, 2018

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, 2017

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 COMMERCE</u>				
Pass-Through Indiana Department of Natural Resources Coastal Zone Management Administration Awards	11.419	INLMCGP P#CZ419	\$ -	\$ 72,440
Total for federal grantor agency			-	72,440
<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	-	42,300
Direct Grants Section 8 Project-Based Cluster Section 8 Housing Assistance Payments Program	14.195	IN36L000278 & IN36M000280	-	936,584
Total for cluster			-	936,584
Direct Grants CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-180004 B-11-MC-180004 B-12-MC-180004 B-14-MC-180004 B-15-MC-180004 B-16-MC-180004	- - - 7,450 20,714 26,508	41,409 3,396 1,391 314,762 554,940 614,634
Total for cluster			54,672	1,530,532
Direct Grants HOME Investment Partnerships Program	14.239	M-10-MC-180210 M-11-MC-180210 M-12-MC-180210 M-14-MC-180210 M-15-MC-180210 M-16-MC-180210	- - - - - -	61,723 55,000 26,666 25 10,838 6,831
Total for program			-	161,083
Total for federal grantor agency			54,672	2,670,499
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Pass-Through the City of South Bend Project Safe Neighborhoods	16.609	2014-GP-BX-0002	-	71,670
Pass-Through Lake County Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DX-BX-0646 2016-DX-BX-0800	- -	17,226 16,808
Pass-Through Indiana Criminal Justice Institute Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-JAG-01 6067	-	50,000
Total for program			-	84,034
Direct Grants Equitable Sharing Program	16.922	FY 2017	-	21,642
Total for federal grantor agency			-	177,346

CITY OF EAST CHICAGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

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</u>				
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	DES#0900061 DES#0900062 DES#1400575	- - -	1,690 41,890 <u>13,114</u>
Total for cluster			-	<u>56,694</u>
Pass-Through Northwestern Indiana Regional Planning Commission Federal Transit Cluster Federal Transit Formula Grants	20.507	IN-90-X636 IN-90-X667 IN-95-X035 IN-2016-033 IN-2017-027	- - - - -	169,809 60,978 75,814 340,463 <u>73,070</u>
Total for cluster			-	<u>720,134</u>
Total for federal grantor agency			-	<u>776,828</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority Drinking Water State Revolving Fund Cluster Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW16164504	-	<u>96,456</u>
Total for cluster			-	<u>96,456</u>
Pass-Through Indiana Department of Environmental Management Beach Monitoring and Notification Program Implementation Grants	66.472	CU-06E73102	-	<u>22,098</u>
Total for federal grantor agency			-	<u>118,554</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Health Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	U90TP000521/16068 BASE U90TP000521/16068 CRI U90TP000521/13796 EBOLA U90TP000521/16068 BASE(Ext) U90TP000521/16068 CRI (Ext) U90TP000521/16068 LEAD	- - - - - -	1,833 32,028 719 422 11,000 <u>22,522</u>
Total for Program			-	<u>68,524</u>
Pass-Through Indiana Department of Health Immunization Cooperative Agreements	93.268	GA#17056 GA#18639	- -	9,030 <u>13,278</u>
Total for Program			-	<u>22,308</u>
Total for federal grantor agency			-	<u>90,832</u>
Total federal awards expended			<u>\$ 54,672</u>	<u>\$ 3,906,499</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, 2017. 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*. 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

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 weakness identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

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	Qualified
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

Section II - Financial Statement Findings

FINDING 2017-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The City did not have an effective system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The review process in place was not effective since material misstatements went undetected.

Context

Due to an ineffective control process, the SEFA contained the following errors:

1. The Section 8 Housing Assistance Payments Program federal expenditures were understated by \$347,773.

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

2. The HOME Investment Partnerships Program amount passed through to subrecipients was overstated by \$143,414.

Audit adjustments were proposed, approved by the City, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

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

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established an effective system of internal control that would have ensured proper reporting of the SEFA.

Effect

The failure to establish effective internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the City establish an effective system of internal controls to ensure that the federal expenditures will be properly reported on the SEFA.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2017-002

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

Repeat Finding

This is a repeat finding from the immediately prior audit regarding cash management and reporting. The prior audit finding number was 2016-001.

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

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 compliance requirements listed above.

The Department contracted with a management company to administer the Section 8 Housing Assistance Payments Program. The management company completed all of the compliance requirements for the Section 8 Housing Assistance Payments Program without documented oversight by the Department. A monthly checklist detailing the reports and work completed by the management company was created to allow for oversight by the Department. However, the checklists were determined to be ineffective since the August through December 2017 checklists were not completed by the Department.

Context

This was a systemic issue, which occurred over the last five months of the audit period.

Criteria

2 CFR section 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 system of internal controls to ensure compliance with the requirements listed above.

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 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 program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Department's management establish effective controls related to the grant agreement and the compliance requirements listed above.

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

Views of Responsible Officials

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

FINDING 2017-003

Subject: Section 8 Housing Assistance Payments Program - Eligibility
Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Section 8 Housing Assistance Payments Program
CFDA Number: 14.195
Federal Award Numbers and Years (or Other Identifying Numbers): IN36L000278 & IN36M000280
Compliance Requirement: Eligibility
Audit Findings: Material Weakness, Modified Opinion

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 Eligibility compliance requirement.

The Department was to ensure that applications were completed that verified the eligibility of the tenants. The Department failed to provide completed applications for four of the tenants chosen to be sampled. Therefore, compliance with the eligibility requirements could not be verified.

Context

This was a systemic issue since 4 out of 24 of the eligibility applications were not provided for audit.

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 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

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

24 CFR 886.318 states in part:

"(a) *Management and maintenance.* The owner shall be responsible for the management and maintenance of the project in accordance with requirements established by HUD. These responsibilities shall include but not be limited to: . . .

- (3) Performance of all management functions, including the taking of applications; determining eligibility of applicants in accordance with 24 CFR part 5 of this title; selection of families, including verification of income, obtaining and verifying Social Security Numbers submitted by applicants (as provided by part 5, subpart B, of this title), obtaining signed consent forms from applicants for the obtaining of wage and claim information from State Wage Information Collection Agencies (as provided in part 5, subpart B, of this title), and other pertinent requirements; and determination of the amount of tenant rent in accordance with HUD established schedules and criteria. . . ."

Cause

The Department's management had not developed an effective system of internal controls that would have ensured that the Department maintained and made available for audit the completed applications necessary to support compliance with the eligibility requirements.

Effect

The failure to retain or provide completed applications prevented the determination of the Department's compliance with the eligibility requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Department's management establish effective controls to ensure that completed applications related to eligibility determinations will be maintained and available for audit.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Section 8 Housing Assistance Payments Program - Special Tests and Provisions - Housing Quality Standards

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

Federal Program: Section 8 Housing Assistance Payments Program

CFDA Number: 14.195

Federal Award Numbers and Years (or Other Identifying Numbers): IN36L000278 & IN36M000280

Compliance Requirement: Special Tests and Provisions - Housing Quality Standards

Audit Findings: Material Weakness, Modified Opinion

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-002.

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 perform completed annual inspections in order to assure that units met housing quality standards. Therefore, compliance with the housing quality standards requirements could not be verified.

Context

The Department performed all 2016 annual inspections at the end of January 2017. Annual inspections for 2017 were not completed by the end of January 2018 to ensure the housing quality standards were met.

This was a systemic issue since the 2017 annual inspections were not completed; therefore, compliance could not be determined.

Criteria

2 CFR section 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 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 5.705 states:

"Any entity responsible for conducting a physical inspection of HUD housing, to determine compliance with this subpart, must inspect such HUD housing annually in accordance with HUD-prescribed physical inspection procedures. The inspection must be conducted annually unless the program regulations governing the housing provide otherwise or unless HUD has provided otherwise by notice."

Cause

The Department's management had not developed an effective system of internal controls that would have ensured that the Department performed annual inspections necessary to support compliance with the housing quality standards requirements.

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

Effect

The failure to perform annual inspections prevented the determination of the Department's compliance with the housing quality standards requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the Department's management establish controls to ensure that annual inspections related to the Special Tests and Provisions - Housing Quality Standards compliance requirement will be performed.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENTS

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

City of East Chicago



Department of Redevelopment
4525 Indianapolis Blvd.
East Chicago, IN 46312
Ph: (219) 391-8513 ☒ Fax: (219) 391-7005

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2016-001

Fiscal year in which the finding initially occurred: FY 2016
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Housing and Urban Development (HUD)
Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

Status of Audit Finding:

In December 2017 the City of East Chicago Department of Redevelopment Board of Commissioners approved a new management company to assist with the Section 8 Property. The corrective action plan for this finding is ongoing.



(Signature)

Executive Director
(Title)

6/27/2018

(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 2016-002

Fiscal year in which the finding initially occurred: FY 2016
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Housing and Urban Development (HUD)
Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

Status of Audit Finding:

In December 2017 the City of East Chicago Department of Redevelopment Board of Commissioners approved a new management company to assist with the Section 8 Property. The corrective action plan for this finding is ongoing.



(Signature)

Executive Director

(Title)

6/27/2018

(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
4525 Indianapolis Blvd.
East Chicago, IN 46312
Ph: (219) 391-8513 Fax: (219) 391-7005

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2016-003

Fiscal year in which the finding initially occurred: FY 2016
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Housing and Urban Development (HUD)
Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

Status of Audit Finding:

The City of East Chicago Department of Redevelopment has established 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 has also established 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.


(Signature)

Executive Director
(Title)

6/27/2018
(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
4525 Indianapolis Blvd.
East Chicago, IN 46312
Ph: (219) 391-8513 ☐ Fax: (219) 391-7005

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2016-004

Fiscal year in which the finding initially occurred: FY 2016
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: U.S. Department of Housing and Urban Development (HUD)
Contact Person Responsible for Corrective Action: Frank Rivera, Executive Director-Department of Redevelopment
Contact Phone Number: (219) 391-8513

Status of Audit Finding:

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



(Signature)

Executive Director
(Title)

6/27/2018
(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

Administrative Services Division

4525 Indianapolis Blvd. East Chicago, Indiana 46312

Phone: (219) 391-8220

Facsimile: (219) 391-8223

Anthony Copeland
Mayor

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for the Corrective Action: Valeriano Gomez

Contact Phone Number: (219) 391-8220

Views of Responsible Official: The City of East Chicago concurs with the finding.

Description of Corrective Action Plan:

The City of East Chicago, Indiana will contract or hire a Grant Administrator to assist in maintaining the reporting standards that are required under the Schedule of Expenditures of Federal Awards.

The Chief of Staff and the Grant Administrator shall review all proposed Grants and approve the Applications.

The Grant Administrator will forward copies of all Grants to the City Controller so that all Grants are applied to the Accounting System.

The Grant Administrator will monitor all approved Grants and review any reports that are required to apply for reimbursement and review the reports that are submitted to the City Controller and used to prepare the Schedule of Expenditures and Federal Awards.

Anticipated Completion Date: November 1, 2018

Signature

City Controller

Title

9 Aug 2018

Date



CORRECTIVE ACTION PLAN

FINDING 201⁷-002

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 will establish an effective internal control system related to the grant agreement and the compliance requirements by ensuring that the compliance checklist is submitted by the management company and reviewed internally by the Department.

ANTICIPATED COMPLETION DATE

September 30, 2018

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August __, 2018

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 9, 2018



CORRECTIVE ACTION PLAN

FINDING 201⁷-003

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 will establish an effective internal control system related to the grant agreement and the eligibility compliance requirement.

ANTICIPATED COMPLETION DATE

December 31, 2018

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August ____, 2018

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 9, 2018



CORRECTIVE ACTION PLAN

FINDING 201⁷-004

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

VIEWS OF RESPONSIBLE OFFICIAL

We concur with the finding

DESCRIPTION OF CORRECTIVE ACTION PLAN

The City of East Chicago Department of Redevelopment is working diligently with the new management company and the HUD Indianapolis Field Office on establishing an effective internal control system to ensure compliance and comply with the Special Tests and Provisions – Uniform Physical Condition Standards (UPCS) requirement along with establishing a procedure to ensure that annual inspections and timely repairs are completed.

ANTICIPATED COMPLETION DATE

December 31, 2018

Ezell Foster
President – Redevelopment Commission
City of East Chicago Dept. of Redevelopment
August ____, 2018

Frank Rivera
Executive Director
City of East Chicago Dept. of Redevelopment
August 9, 2018

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/>.