

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

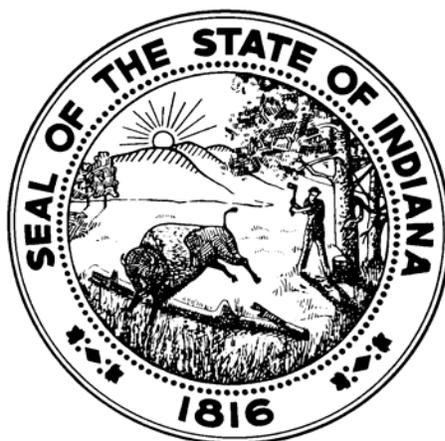
AUDIT REPORT

OF

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY

LAKE COUNTY, INDIANA

January 1, 2005 to December 31, 2006



**FILED**  
09/19/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Paul A. Karas Chris Curry	01-01-05 to 08-14-06 08-15-06 to 12-31-07
Finance Manager	Robert Fleets Vacant Nicole Thorn	01-01-05 to 09-14-05 09-15-05 to 01-22-06 01-23-06 to 12-31-07
President of the Airport Board	Pastor Marion J. Johnson	01-01-05 to 12-31-07



**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](http://www.in.gov/sboa)

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

TO: THE OFFICIALS OF THE GARY/CHICAGO INTERNATIONAL  
AUTHORITY AUTHORITY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Gary/Chicago International Authority Authority (Authority), as of and for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of December 31, 2005 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated July 2, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

STATE BOARD OF ACCOUNTS

July 2, 2007



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE GARY/CHICAGO INTERNATIONAL  
AIRPORT AUTHORITY, LAKE COUNTY, INDIANA

We have audited the financial statements of the business-type activities of the Gary/Chicago International Airport Authority (Authority), as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated July 2, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated July 2, 2007.

This report is intended solely for the information and use of the Authority's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 2, 2007

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
STATEMENT OF NET ASSETS  
December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 338,188	\$ 138,837
Accounts receivable (net of allowance)	29,831	47,467
Taxes receivable (net of allowance)	615,704	774,014
Intergovernmental receivable	22,150	-
Prepaid items	<u>34,532</u>	<u>34,877</u>
Total current assets	<u>1,040,405</u>	<u>995,195</u>
Current restricted assets:		
Cash, cash equivalents and investments:	3,707,312	4,587,065
Taxes receivable (net of allowance)	193,227	449,923
Intergovernmental receivable	<u>910,031</u>	<u>2,997,991</u>
Total current restricted assets	<u>4,810,570</u>	<u>8,034,979</u>
Noncurrent assets:		
Capital assets:		
Land and construction in progress	12,509,596	8,851,141
Other capital assets (net of accumulated depreciation)	<u>20,947,109</u>	<u>28,380,864</u>
Total capital assets	<u>33,456,705</u>	<u>37,232,005</u>
Total assets	<u>39,307,680</u>	<u>46,262,179</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	83,839	13,478
Accrued wages and withholdings payable	52,456	47,138
Loans payable	212,239	-
Accrued interest payable	25,802	-
Current liabilities payable from restricted assets:		
Accounts payable	28,402	175,888
Contracts payable	<u>670,686</u>	<u>2,157,086</u>
Total current liabilities	<u>1,073,424</u>	<u>2,393,590</u>
Noncurrent liabilities:		
Compensated absences	16,390	21,585
Pension liability	<u>14,807</u>	<u>14,919</u>
Total noncurrent liabilities	<u>31,197</u>	<u>36,504</u>
Total liabilities	<u>1,104,621</u>	<u>2,430,094</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	33,456,705	37,232,005
Restricted for debt service	3,427,797	4,244,927
Unrestricted	<u>1,318,557</u>	<u>2,355,153</u>
Total net assets	<u>\$ 38,203,059</u>	<u>\$ 43,832,085</u>

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Operating revenues:		
Terminal and counter fees	\$ 9,614	\$ 12,080
Landing fees	30,441	61,673
Rent	623,060	694,506
Fuel flowage fees	81,503	95,725
Other	<u>172,782</u>	<u>141,195</u>
 Total operating revenues	 <u>917,400</u>	 <u>1,005,179</u>
 Operating expenses:		
Salaries and wages	637,759	790,518
Employee pensions and benefits	226,275	220,686
Professional services	1,581,285	751,466
Utilities	470,643	275,723
Travel and education	33,391	22,830
Printing and advertising	2,157	96,733
Repairs and maintenance	111,403	112,448
Other contractual services	29,440	296,792
Garage and motor	19,645	20,386
Gasoline and fuel	30,068	24,911
Office supplies	11,489	7,573
Other	29,106	19,706
Repair parts	16,422	32,461
Insurance expense	109,090	115,249
Subscription and dues	21,551	26,596
Depreciation	<u>697,913</u>	<u>1,309,328</u>
 Total operating expenses	 <u>4,027,637</u>	 <u>4,123,406</u>
 Operating loss	 <u>(3,110,237)</u>	 <u>(3,118,227)</u>
 Nonoperating revenues (expenses):		
Interest and investment revenue	17,042	162,410
Property tax revenues	2,150,761	2,521,206
Intergovernmental revenue	5,202,462	5,581,951
Zone user charges	84,231	484,174
Passenger facility charges	836,199	-
Riverboat revenue	65,000	-
Interest expense	<u>(35,433)</u>	<u>(2,488)</u>
 Total nonoperating revenues (expenses)	 <u>8,320,262</u>	 <u>8,747,253</u>
 Change in net assets	 5,210,025	 5,629,026
 Total net assets - beginning	 <u>32,993,034</u>	 <u>38,203,059</u>
 Total net assets - ending	 <u>\$ 38,203,059</u>	 <u>\$ 43,832,085</u>

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
STATEMENT OF CASH FLOWS  
As Of And For The Years Ended December 31, 2005 And 2006

	<u>2005</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 984,972	\$ 987,543
Payments to suppliers and contractors	(2,576,090)	(1,793,079)
Payments to employees	<u>(995,003)</u>	<u>(1,011,215)</u>
Net cash used by operating activities	<u>(2,586,121)</u>	<u>(1,816,751)</u>
Cash flows from noncapital financing activities:		
Tax anticipation loans received	1,102,000	-
Tax anticipation loans repaid	(1,679,092)	(212,239)
Interest paid on loans	(9,631)	(28,290)
Property tax revenue	2,150,120	1,196,019
Intergovernmental revenue	24,684	263,550
Riverboat revenue	<u>65,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,653,081</u>	<u>1,219,040</u>
Cash flows from capital and related financing activities:		
Property tax revenue	503,561	910,182
Intergovernmental revenue	4,530,587	3,252,591
Acquisition and construction of capital assets	(3,033,215)	(3,531,244)
Passenger facility charges	2,120,284	-
Airport zone charges	<u>84,231</u>	<u>484,174</u>
Net cash provided by capital and related financing activities	<u>4,205,448</u>	<u>1,115,703</u>
Cash flows from investing activities:		
Interest received	<u>17,042</u>	<u>162,410</u>
Net increase in cash and cash equivalents	3,289,450	680,402
Cash and cash equivalents, January 1	<u>756,050</u>	<u>4,045,500</u>
Cash and cash equivalents, December 31	<u>\$ 4,045,500</u>	<u>\$ 4,725,902</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	<u>\$ (3,110,237)</u>	<u>\$ (3,118,227)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	697,913	1,309,328
(Increase) decrease in assets:		
Accounts receivable	67,572	(17,636)
Prepaid items	1,498	(345)
Increase (decrease) in liabilities:		
Accounts payable	(111,898)	10,140
Accrued wages and withholdings payables	(2,676)	(5,318)
Pension payable	(643)	112
Compensated absences payable	<u>(127,650)</u>	<u>5,195</u>
Total adjustments	<u>524,116</u>	<u>1,301,476</u>
Net cash used by operating activities	<u>\$ (2,586,121)</u>	<u>\$ (1,816,751)</u>
Noncash investing, capital and financing activities:		
Purchase of construction in progress on account (contracts payable)	\$ 670,686	\$ 2,157,086
Purchase of construction in progress on account (accounts payable)	-	66,985

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Authority (primary government) was established under the laws of the State of Indiana. The Authority operates under an appointed Authority Board form of government and provides the following services: aviation and general administrative services.

The accompanying financial statements present the activities of the Authority. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Authority to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Authority's financial statements.

3. Restricted Assets

Certain accounts are classified as restricted assets on the statement of net assets balance sheet because their use is limited by statute or written agreement.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 50,000	Straight-line	25 to 50 years
Improvements other than buildings	75,000	Straight-line	15 to 50 years
Machinery and equipment	5,000	Straight-line	3 to 10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest expense was incurred by the Authority for construction of capital assets during the current two year period.

5. Compensated Absences

a. Sick Leave – Authority employees earn sick leave at the rate of 12 days per year. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is not paid to employees upon termination.

b. Vacation Leave – Authority employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Up to 1 year's vacation leave may be carried over to the following year. Accumulated vacation leave is paid to employees through paid time off upon separation of employment.

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

- c. Personal Leave – Authority employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred and reported as a liability.

No liability is reported for sick and personal leave.

6. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Authority in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% 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 that become delinquent if not paid by May 10 and November 10, respectively. Delinquent property taxes outstanding at year end, net of allowances for uncollectible accounts, are recorded as a receivable.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2006, the bank balance held at MBIA in the amount of \$2,951,664 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor - Authority name. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the Authority had the following investments:

Investment Type	Primary Government Market Value
U.S. agencies	\$ <u>2,039,600</u>

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Policies

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

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

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

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority does not have a formal investment policy for custodial credit risk for investments. At December 31, 2006, the Authority held investments in U.S. Agencies, in external investment pools, in the amount of \$2,039,600.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority must follow state statute and limit the stated final maturities of the investments to no more than two years.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
U.S. agencies	\$ 2,039,600	\$ -	\$ -

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	Authority's Investments Investment Pools
AAA	\$ <u>2,039,600</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

B. Capital Assets

Capital asset activity, for the years ended December 31, 2005 and 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
2005:				
Capital assets, not being depreciated:				
Land	\$ 2,990,216	\$ -	\$ -	\$ 2,990,216
Construction in progress	8,223,486	3,151,647	1,855,752	9,519,381
Total capital assets, not being depreciated	11,213,702	3,151,647	1,855,752	12,509,597
Capital assets, being depreciated:				
Buildings	17,899,576	1,855,752	-	19,755,328
Improvements other than buildings	3,257,783	-	-	3,257,783
Machinery and equipment	3,589,406	152,305	-	3,741,711
Totals	24,746,765	2,008,057	-	26,754,822
Less accumulated depreciation for:				
Buildings	3,232,422	395,107	-	3,627,529
Improvements other than buildings	412,941	65,156	-	478,097
Machinery and equipment	1,464,437	237,650	-	1,702,087
Totals	5,109,800	697,913	-	5,807,713
Total capital assets, being depreciated, net	19,636,965	1,310,144	-	20,947,109
Total capital assets, net	\$ 30,850,667	\$ 4,461,791	\$ 1,855,752	\$ 33,456,706

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
2006:				
Capital assets, not being depreciated:				
Land	\$ 2,990,216	\$ 672,550	\$ -	\$ 3,662,766
Construction in progress	9,519,381	4,301,847	8,632,853	5,188,375
 Total capital assets, not being depreciated	 12,509,597	 4,974,397	 8,632,853	 8,851,141
Capital assets, being depreciated:				
Buildings	19,755,328	2,047,491	-	21,802,819
Improvements other than buildings	3,257,783	5,911,696	-	9,169,479
Machinery and equipment	3,741,711	783,896	-	4,525,607
 Totals	 26,754,822	 8,743,083	 -	 35,497,905
Less accumulated depreciation for:				
Buildings	3,627,529	501,945	-	4,129,474
Improvements other than buildings	478,097	459,269	-	937,366
Machinery and equipment	1,702,087	348,114	-	2,050,201
 Totals	 5,807,713	 1,309,328	 -	 7,117,041
 Total capital assets, being depreciated, net	 20,947,109	 7,433,755	 -	 28,380,864
 Total capital assets, net	 \$ 33,456,706	 \$ 12,408,152	 \$ 8,632,853	 \$ 37,232,005

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed
Card access security system	\$ 346,500	\$ 75,455	\$ 271,045
Aircraft maintenance hangar	3,600,000	798,353	2,801,647
REILs improvement/apron expansion	1,047,243	1,022,620	24,623
Runway extension	9,003,088	3,291,947	5,711,141
 Totals	 \$ 13,996,831	 \$ 5,188,375	 \$ 8,808,456

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Leases

Operating Leases

The Authority has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for office equipment. Rental expenditures for this lease were \$13,168 and \$13,121, respectively, for the years 2005 and 2006. The following is a schedule by years of future minimum rental payments as of December 31, 2006:

2007	\$ 13,121
2008	13,121
2009	13,121
2010	<u>7,654</u>
Total	<u>\$ 47,017</u>

E. Short-Term Liabilities

The Authority may use short-term notes and loans to finance a variety of public projects, including cash flow purposes through the use of tax anticipation warrants.

Short-term debt activity for the years ended December 31, 2005 and 2006, was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
2005:				
Tax anticipation warrants	<u>\$ 789,331</u>	<u>\$ 1,102,000</u>	<u>\$ 1,679,092</u>	<u>\$ 212,239</u>
2006:				
Tax anticipation warrants	<u>\$ 212,239</u>	<u>\$ -</u>	<u>\$ 212,239</u>	<u>\$ -</u>

F. Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2005 and 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2005:				
Compensated absences	\$ 144,040	\$ -	\$ 127,650	\$ 16,390
Pension liability	<u>15,450</u>	<u>-</u>	<u>1,363</u>	<u>14,087</u>
Total long-term liabilities	<u>\$ 159,490</u>	<u>\$ -</u>	<u>\$ 129,013</u>	<u>\$ 30,477</u>

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance
2006:				
Compensated absences	\$ 16,390	\$ 5,195	\$ -	\$ 21,585
Pension liability	14,087	832	-	14,919
 Total long-term liabilities	 \$ 30,477	 \$ 6,027	 \$ -	 \$ 36,504

G. Restricted Assets

The balances of restricted asset accounts in the enterprise funds at December 31, 2006, are as follows:

Cumulative building account	\$ 507,462
Passenger facilities charges account	133,445
Airport development zone account	3,642,208
Marketing account	208,694
Maintenance Hangar account	95,256
Taxes receivable	449,923
Intergovernmental receivable	2,997,991
 Total restricted assets	 \$ 8,034,979

III. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Subsequent Events

Due to delays caused by trending of assessments, the assessed valuations of Lake County have not been finalized. Therefore, the 2006 pay 2007 property tax rates and levies, as well as related budget orders for 2007, have not yet been established as of June 19, 2007. The first installment of the 2006 pay 2007 property tax billings are currently anticipated to be issued in the fall of 2007.

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

On January 29, 2007, the Board approved the issuance of special revenue bonds, not to exceed \$4,000,000, for the construction of the Gary Jet Center West Hangar. The bonds will be repaid from pledged revenues from the lease of the Hangar to Gary Jet Center. As of June 19, 2007, the bonds have not been issued.

SkyValue, a passenger airline operating from the Airport, requested financial assistance in April 2007 from the Authority to continue operating. The Authority made loans totaling \$325,000 in April 2007 to SkyValue. The loans were subsequently approved by the Board on May 1, 2007. On May 6, 2007, SkyValue ceased operations at the Airport.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 45,421
Interest on net pension obligation	1,074
Adjustment to annual required contribution	(1,223)
Annual pension cost	45,272
Contributions made	45,160
Increase in net pension obligation	112
Net pension obligation, beginning of year	14,807
Net pension obligation, end of year	\$ 14,919
Contribution rates:	
Authority	7%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 33,582	125%	\$ 15,450
	06-30-05	43,689	101%	14,807
	06-30-06	45,272	103%	14,919

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 604,506	\$ 797,038	\$ (192,532)	76%	\$ 653,324	(29%)
07-01-05	639,608	786,153	(146,545)	81%	753,125	(19%)
07-01-06	688,646	778,920	(90,274)	88%	715,263	(13%)

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS

CHANGE ORDERS

Review of several public works projects determined that change orders should have been issued and approved by the Board. No change orders were provided for these projects for the audit period and the minutes did not reflect any change orders being approved by the Board.

Indiana Code 36-1-12-18 states in part: "(a) If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor. (b) If a licensed architect or engineer is assigned to the public work project, the change order must be prepared by that person."

PRESCRIBED FORMS

The Authority did not use a Purchase Order to support disbursement of security deposits. All disbursements should be supported by a Purchase Order with a detailed account of the nature of the disbursement.

The Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100R) was not prepared and submitted in January 2006.

Employee service records (Form 96A) were not maintained.

The Authority uses QuickBooks Pro for its financial accounting system. The output (printouts) generated by QuickBooks Pro has not been approved for use.

Indiana Code 8-22-3-22 states in part: "The State Board of Account shall audit the records of the authority and shall prescribe or approve all prescribed form, accounting forms and records used by the authority."

Indiana Code 5-11-1-21 states in part: "All public officers shall adopt and use the books, forms, records, and systems of accounting and reporting adopted by the state board of accounts, when directed so to do by the board, and all forms, books, and records shall be purchased by those officers in the manner provided by law."

Indiana Code 5-11-1-2(b) states in part: ". . . if a municipality elects to use an electronic, automated, or computerized system of accounting, the system must conform to the requirements of this chapter."

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

ANNUAL REPORT

An annual report for 2005 and 2006 was not finalized and presented for audit until June 2007.

The district shall prepare and file an annual financial report, required under IC 5-11-1-4, with the State Board of Accounts. For single county districts that own a landfill, annual financial reports must be filed not later than 60 days after the close of the fiscal year. All other districts are required to file not later than 30 days after the close of the fiscal year. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 3)

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

A listing of Authority employees and officials was not certified to the County Treasurer for 2006 and December 2005.

Indiana Code 6-1.1-22-14(a) states in part: "On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

SUBSEQUENT EVENTS - DISBURSEMENT PRIOR TO BOARD APPROVAL

SkyValue, a passenger airline operating from the Airport, requested financial assistance in April 2007 from the Authority to continue operating. The Authority made loans totaling \$325,000 in April 2007 to SkyValue. The loans were subsequently approved by the Board on May 1, 2007. Repayment of the loan is not anticipated and no legal action is currently being pursued.

Indiana Code 5-11-10-2(a) states: "Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

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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 WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE GARY/CHICAGO INTERNATIONAL  
AIRPORT AUTHORITY, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Gary/Chicago International Airport Authority (Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2005 and 2006. The Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in item 2006-1 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding Procurement that are applicable to its Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended December 31, 2005 and 2006.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine

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

our auditing procedures for the purpose of expressing our opinion on compliance, 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 Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a Authority's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2006-1 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2006-1 to be a material weakness.

The Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan section of the report. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 2, 2007

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-05	Total Federal Awards Expended 12-31-06
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Direct Grant				
Airport Improvement Program	20.106			
Railroad Relocation Study		AIP 3-18-0028-8	\$ 5,974	\$ -
Runway Rehabilitaion		AIP 3-18-0028-14	6,619	-
Security Enchancements		AIP 3-18-0028-15	378	33,543
Apron Expansion		AIP 3-18-0028-16	4,037	-
Environmental Impact Statement - Phase III		AIP 3-18-0028-17	35,098	1,538
Vehicle Procurement, REILS Improvement, Apron Expansion		AIP 3-18-0028-18	998,330	656,757
Improve Runway and Railroad Relocation (Phase I)		AIP 3-18-0028-19	52,845	1,165,215
Runway Extension		AIP 3-18-0028-20	-	2,256,928
Total federal awards expended			<u>\$ 1,103,281</u>	<u>\$ 4,113,981</u>

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	<u>Name of Federal Program or Cluster</u>
----------------	---

20.106	Airport Improvement Program
--------	-----------------------------

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, INTERNAL CONTROLS OVER PROCUREMENT - SUSPENDED OR DEBARRED

Federal Agency: U.S. Department of Transportation  
Federal Program: Authority Improvement Program 20.106

The Authority receives federal funding through the Airport Improvement Program. Funds were disbursed for projects from grant AIP 18 which included terminal and cargo apron expansion, snow removal equipment and REILs runway replacement. Several contracts were paid from this grant for which payment was in excess of \$100,000. The grant agreement (Terms and Conditions of Accepting Airport Improvement Program Grants) required the grant recipient (the Authority) to perform appropriate checks to assure that the contracts were not awarded to suspended or debarred firms or individuals. Inquiry of the Authority's engineering consultant noted that no such checks were performed as required, and that no controls were in place to ensure compliance with this grant requirement.

Failure to perform the required checks could allow a suspended or debarred company to receive federal funds. If a suspended or debarred company were to receive federal funds, such payments could result in disallowed costs and require repayment of funds to the federal government by the Authority.

The grant offer section labeled "Terms and Conditions of Accepting Airport Improvement Program Grants" states on page 4: "Appropriate checks will be made to assure that contracts or subcontracts are not awarded to those individual or firms suspended, debarred, or voluntarily excluded from doing business with any DOT element and appearing on the DOT Unified List."

We recommended that the Authority develop control procedures to ensure compliance with grant requirements regarding suspended or debarred parties.

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



GaryChicago  
International Airport

### CORRECTIVE ACTION PLAN

Finding Number 2006-1

Fiscal Year

2006

Auditee Contact Person

Nicole Thorn *Nicole Thorn*

Title of Contact Person

Finance Manager

Phone Number

219-949-4903

Corrective Action Plan:

See below

The Airport will institute the following procedures: 1) All prospective vendors that will be submitting RFP's will be viewed on the federal website www.epis.gov by the Airport Engineer to ensure that at the time the RFP is requested the vendor is not suspended or disbarred. 2) At the time the contract is awarded, an addendum will be added to the contract for the vendor to sign and certify that they currently are not suspended or disbarred.

GARY/CHICAGO INTERNATIONAL AIRPORT AUTHORITY  
EXIT CONFERENCE

The contents of this report were discussed on July 2, 2007, with Chris Curry, Director; Pastor Marion J. Johnson, President of the Airport Board; and Nicole Thorn, Finance Manager.