

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

ANNUAL FINANCIAL REPORT

2006

CITY OF GARY

LAKE COUNTY, INDIANA



**FILED**

09/25/2007



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Husain G. Mahmoud M. Celita Green	01-01-06 to 11-26-06 11-27-06 to 12-31-07
Mayor	Scott L. King Dozier T. Allen Rudolph Clay, Sr.	01-01-06 to 03-24-06 03-25-06 to 04-07-06 04-08-06 to 12-31-07
President of the Board of Public Works and Safety	Geraldine B. Tousant	01-01-06 to 12-31-07
President of the Common Council	Roy Pratt Jerome Prince	01-01-06 to 12-31-06 01-01-07 to 12-31-07
President of the Board of Sanitary Commissioners	Silas Wilkerson, III Richard Comer	01-01-06 to 02-26-07 02-27-07 to 12-31-07



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

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gary (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 6, 2007, 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 and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City 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.

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

The Schedules of Funding Progress and the Schedules of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 6, 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 CITY OF GARY, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gary (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 6, 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 City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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. We consider the deficiencies described in item 2006-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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.

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)

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. However, of the significant deficiencies described above, we consider item 2006-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 August 6, 2007.

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

This report is intended solely for the information and use of the City'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

August 6, 2007

CITY OF GARY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2006

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 33,002,917	\$ 3,368,388	\$ 261,201	\$ -	\$ (29,373,328)	\$ -	\$ (29,373,328)
Public safety	46,733,390	838,064	3,212,548	355,754	(42,327,024)	-	(42,327,024)
Highways and streets	5,879,916	-	3,887,052	1,203,299	(789,565)	-	(789,565)
Sanitation	600,804	-	1,265,876	-	665,072	-	665,072
Health and welfare	2,888,205	365,003	1,982,953	-	(540,249)	-	(540,249)
Economic development	3,800,541	-	-	-	(3,800,541)	-	(3,800,541)
Culture and recreation	6,509,160	625,098	-	161,665	(5,722,397)	-	(5,722,397)
Urban redevelopment and housing	11,104,713	3,500	6,319,052	-	(4,782,161)	-	(4,782,161)
Principal and interest on long-term debt	6,583,733	-	-	-	(6,583,733)	-	(6,583,733)
Tax anticipation loan repayments	63,838,095	-	-	-	(63,838,095)	-	(63,838,095)
Total governmental activities	180,941,474	5,200,053	16,928,682	1,720,718	(157,092,021)	-	(157,092,021)
Business-type activities:							
Sanitary District	61,381,823	15,284,438	-	99,549	-	(45,997,836)	(45,997,836)
Storm Water Utility	1,863,367	-	-	-	-	(1,863,367)	(1,863,367)
Total business-type activities	63,245,190	15,284,438	-	99,549	-	(47,861,203)	(47,861,203)
Total primary government	\$ 244,186,664	\$ 20,484,491	\$ 16,928,682	\$ 1,820,267	(157,092,021)	(47,861,203)	(204,953,224)
General receipts:							
Property taxes					84,695,231	14,817,231	99,512,462
Intergovernmental receipts:							
Excise taxes					2,954,993	703,793	3,658,786
Commercial vehicle excise taxes					393,335	-	393,335
Financial institutions taxes					126,755	-	126,755
Alcoholic beverage taxes					210,417	-	210,417
Cigarette taxes					467,169	-	467,169
Gaming taxes					21,716,879	-	21,716,879
Payment in lieu of taxes					396,978	154,743	551,721
Unrestricted investment earnings					235,599	573,754	809,353
Other					14,137,677	22,419,029	36,556,706
Tax anticipation loan proceeds					41,378,031	-	41,378,031
Total general receipts					166,713,064	38,668,550	205,381,614
Change in net assets					9,621,043	(9,192,653)	428,390
Restated net assets - beginning (Note III.C.)					4,588,829	36,558,842	41,147,671
Net assets - ending					\$ 14,209,872	\$ 27,366,189	\$ 41,576,061
<u>Assets</u>							
Cash and investments					\$ 1,433,734	\$ 21,118,294	\$ 22,552,028
Restricted assets:							
Cash and investments					12,776,138	6,247,895	19,024,033
Total assets					\$ 14,209,872	\$ 27,366,189	\$ 41,576,061
<u>Net Assets</u>							
Restricted for:							
Debt service					\$ 3,067,757	\$ 5,633,862	\$ 8,701,619
Capital outlay					2,186,426	405,498	2,591,924
Other purposes					7,521,955	3,425,393	10,947,348
Unrestricted					1,433,734	17,901,436	19,335,170
Total net assets					\$ 14,209,872	\$ 27,366,189	\$ 41,576,061

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

CITY OF GARY  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For The Year Ended December 31, 2006

	General	Gaming Revenues	Redevelopment Bond	Other Governmental Funds	Totals
<b>Receipts:</b>					
Taxes	\$ 75,835,479	\$ -	\$ -	\$ 8,859,752	\$ 84,695,231
Licenses and permits	771,927	-	-	-	771,927
Intergovernmental	4,090,428	21,654,124	-	17,245,110	42,989,662
Charges for services	1,379,082	-	-	1,943,139	3,322,221
Fines and forfeits	203,185	-	-	16,969	220,154
Other	974,631	7,843,902	73,591	5,570,252	14,462,376
<b>Total receipts</b>	<b>83,254,732</b>	<b>29,498,026</b>	<b>73,591</b>	<b>33,635,222</b>	<b>146,461,571</b>
<b>Disbursements:</b>					
General government	34,807,888	3,339,795	-	1,042,649	39,190,332
Public safety	40,869,745	3,484,090	-	2,208,256	46,562,091
Highways and streets	-	1,323,336	-	4,132,790	5,456,126
Sanitation	-	-	-	600,804	600,804
Health and welfare	1,011,445	-	-	1,876,760	2,888,205
Culture and recreation	-	670,353	-	5,636,932	6,307,285
Economic development	-	3,500,000	-	300,541	3,800,541
Urban redevelopment and housing	208,441	631,350	-	5,843,408	6,683,199
Debt service:					
Principal	-	-	3,264,364	2,208,155	5,472,519
Interest	-	-	916,389	194,825	1,111,214
Other	-	-	62,574	234	62,808
Capital outlay:					
General government	-	-	-	1,820,177	1,820,177
Public safety	-	-	-	171,299	171,299
Culture and recreation	-	-	-	201,875	201,875
Highways and streets	-	-	-	423,790	423,790
Urban redevelopment and housing	-	-	-	4,421,514	4,421,514
<b>Total disbursements</b>	<b>76,897,519</b>	<b>12,948,924</b>	<b>4,243,327</b>	<b>31,084,009</b>	<b>125,173,779</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>6,357,213</b>	<b>16,549,102</b>	<b>(4,169,736)</b>	<b>2,551,213</b>	<b>21,287,792</b>
<b>Other financing sources (uses):</b>					
Tax anticipation warrants received	38,822,237	-	-	2,555,794	41,378,031
Tax anticipation warrants paid	(60,461,483)	-	-	(3,376,612)	(63,838,095)
Interfund loans received	29,854,965	9,945,650	-	8,007,285	47,807,900
Interfund loans paid	(22,014,802)	(7,690,969)	-	(6,829,321)	(36,535,092)
Transfers in	9,508,271	2,863,821	6,858,385	5,738,800	24,969,277
Transfers out	(88,971)	(21,916,485)	-	(2,963,821)	(24,969,277)
<b>Total other financing sources (uses)</b>	<b>(4,379,783)</b>	<b>(16,797,983)</b>	<b>6,858,385</b>	<b>3,132,125</b>	<b>(11,187,256)</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>1,977,430</b>	<b>(248,881)</b>	<b>2,688,649</b>	<b>5,683,338</b>	<b>10,100,536</b>
Restated cash and investment fund balance - beginning (Note III.C.)	(2,473,766)	608,175	379,108	6,424,346	4,937,863
<b>Cash and investment fund balance - ending</b>	<b>\$ (496,336)</b>	<b>\$ 359,294</b>	<b>\$ 3,067,757</b>	<b>\$ 12,107,684</b>	<b>15,038,399</b>
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:					
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.					
					(828,527)
<b>Net assets of governmental activities</b>					<b>\$ 14,209,872</b>
<b>Cash and Investment Assets - December 31</b>					
Cash and investments	\$ (496,336)	\$ 359,294	\$ -	\$ 2,399,303	\$ 2,262,261
Restricted assets:					
Cash and investments	-	-	3,067,757	9,708,381	12,776,138
<b>Total cash and investment assets - December 31</b>	<b>\$ (496,336)</b>	<b>\$ 359,294</b>	<b>\$ 3,067,757</b>	<b>\$ 12,107,684</b>	<b>\$ 15,038,399</b>
<b>Cash and Investment Fund Balance - December 31</b>					
Restricted for:					
Debt service	\$ -	\$ -	\$ 3,067,757	\$ -	\$ 3,067,757
Capital outlay	-	-	-	2,186,426	2,186,426
Other purposes	-	-	-	7,521,955	7,521,955
Unrestricted	(496,336)	359,294	-	2,399,303	2,262,261
<b>Total cash and investment fund balance - December 31</b>	<b>\$ (496,336)</b>	<b>\$ 359,294</b>	<b>\$ 3,067,757</b>	<b>\$ 12,107,684</b>	<b>\$ 15,038,399</b>

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

CITY OF GARY  
STATEMENT OF ASSETS AND FUND BALANCES AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
PROPRIETARY FUNDS  
As of and for the Year Ended December 31, 2006

	Sanitary District	Storm Water Utility	Totals	Internal Service Funds
Operating receipts:				
Flat rate receipts	\$ 53,695	\$ -	\$ 53,695	\$ -
Measured revenue:				
Residential	4,894,569	-	4,894,569	-
Commercial	5,449,307	-	5,449,307	-
Governmental	4,886,867	-	4,886,867	-
Employer contributions	-	-	-	8,794,049
Employee contributions	-	-	-	1,000,141
Other	442,730	-	442,730	1,722,774
	<u>15,727,168</u>	<u>-</u>	<u>15,727,168</u>	<u>11,516,964</u>
Total operating receipts				
Operating disbursements:				
Operations and maintenance	10,600,819	613	10,601,432	-
Contractual services	7,666,022	846,498	8,512,520	-
Miscellaneous disbursements	9,722	9,910	19,632	-
Equipment and capital improvements	3,862,748	-	3,862,748	-
Customer accounts	798,338	-	798,338	-
Administration and general	3,809,967	-	3,809,967	113
Insurance claims and premiums	-	6,346	6,346	11,996,344
	<u>26,747,616</u>	<u>863,367</u>	<u>27,610,983</u>	<u>11,996,457</u>
Total operating disbursements				
Deficiency of operating receipts over operating disbursements	<u>(11,020,448)</u>	<u>(863,367)</u>	<u>(11,883,815)</u>	<u>(479,493)</u>
Nonoperating receipts (disbursements):				
Property taxes	12,948,488	1,868,743	14,817,231	-
Intergovernmental:				
Excise taxes	613,000	90,793	703,793	-
Payment in lieu of taxes	154,743	-	154,743	-
Grants and contributions	99,549	-	99,549	-
Interest and investment receipts	550,853	22,901	573,754	-
Miscellaneous receipts	743,100	104	743,204	-
Debt service of principal	(2,932,000)	-	(2,932,000)	-
Interest and investment disbursement	(970,911)	-	(970,911)	-
Miscellaneous disbursements	(1,074)	-	(1,074)	-
	<u>11,205,748</u>	<u>1,982,541</u>	<u>13,188,289</u>	<u>-</u>
Total nonoperating receipts				
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	185,300	1,119,174	1,304,474	(479,493)
Interfund loan received	21,233,095	-	21,233,095	-
Interfund loan disbursed	<u>(30,730,222)</u>	<u>(1,000,000)</u>	<u>(31,730,222)</u>	<u>-</u>
Excess (deficiency) of receipts and loan receipts over disbursements and loan disbursements	(9,311,827)	119,174	(9,192,653)	(479,493)
Cash and investment fund balance - beginning	<u>35,093,273</u>	<u>1,465,569</u>	<u>36,558,842</u>	<u>(349,034)</u>
Cash and investment fund balance - ending	<u>\$ 25,781,446</u>	<u>\$ 1,584,743</u>	<u>\$ 27,366,189</u>	<u>\$ (828,527)</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 19,533,551	\$ 1,584,743	\$ 21,118,294	\$ (828,527)
Restricted assets:				
Cash and investments	<u>6,247,895</u>	<u>-</u>	<u>6,247,895</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 25,781,446</u>	<u>\$ 1,584,743</u>	<u>\$ 27,366,189</u>	<u>\$ (828,527)</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 5,633,862	\$ -	\$ 5,633,862	\$ -
Capital outlay	405,498	-	405,498	-
Other purposes	3,425,393	-	3,425,393	-
Unrestricted	<u>16,316,693</u>	<u>1,584,743</u>	<u>17,901,436</u>	<u>(828,527)</u>
Total cash and investment fund balance - December 31	<u>\$ 25,781,446</u>	<u>\$ 1,584,743</u>	<u>\$ 27,366,189</u>	<u>\$ (828,527)</u>

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

CITY OF GARY  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2006

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 8,359,770	\$ -
Plan members	<u>5,402,748</u>	<u>-</u>
Total contributions	<u>13,762,518</u>	<u>-</u>
Investment earnings:		
Interest	<u>341</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>33,892,347</u>
Total additions	<u>13,762,859</u>	<u>33,892,347</u>
Deductions:		
Benefits	13,248,934	-
Administrative and general	4,072	-
Agency fund deductions	<u>-</u>	<u>30,795,774</u>
Total deductions	<u>13,253,006</u>	<u>30,795,774</u>
Excess of total additions over total deductions	<u>509,853</u>	<u>3,096,573</u>
Other financing sources (uses):		
Tax anticipation warrants received	3,767,096	-
Tax anticipation warrants paid	(3,767,096)	-
Interfund loans received	6,540,966	-
Interfund loans paid	<u>(7,241,630)</u>	<u>-</u>
Total other financing uses	<u>(700,664)</u>	<u>-</u>
Excess of deductions and other financing sources over additions and other financing uses	(190,811)	3,096,573
Restated cash and investment fund balance - beginning (Note III.C)	<u>867,307</u>	<u>3,810,019</u>
Cash and investment fund balance - ending	<u>\$ 676,496</u>	<u>\$ 6,906,592</u>

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

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS

I. 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 the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, storm water, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

Primary Government:	City of Gary
Blended Component Units:	Gary Building Corporation Gary Redevelopment Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Blended Component Units

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City's governing body or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The blended component units are presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Fund Included In</u>
Gary Building Corporation	The City appoints a voting majority of the Gary Building Corporation's board and a financial benefit/burden relationship exists between the City and the Gary Building Corporation. Although it is legally separate from the City, the Gary Building Corporation is reported as if it were a part of the City because it provides services entirely or almost entirely to the City.	Special Revenue
Gary Redevelopment Authority	The City appoints a voting majority of the Gary Redevelopment Authority's board and a financial benefit/burden relationship exists between the City and the Gary Redevelopment Authority. Although it is legally separate from the City, the Gary Redevelopment Authority is reported as if it were a part of the City because it provides services entirely or almost entirely to the City.	Debt Service

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Joint Venture

The City is a participant with the City of Hammond and the City of East Chicago in a joint venture to operate the Gary/Hammond/East Chicago Empowerment Zone which was created to provide new jobs empowering low-income persons and families to become economically self-sufficient. The City is obligated by contract to be the lead entity to administer all federal grant funds provided for use in the Empowerment Zone. The Empowerment Zone uses its surplus resources to undertake special projects for the City. The Empowerment Zone's continued existence depends on the City's ability to be awarded continued federal funding. The Empowerment Zone's financial activities are included as agency funds of the City of Gary.

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City appoints board members of the Gary Housing Authority, Gary Public Transportation Corporation, Gary/Chicago International Airport Authority, and the Gary Economic Development Corporation.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The gaming revenues fund is a special revenue fund. It accounts for the financial resources received from the State of Indiana as gaming admissions and wagering taxes.

The redevelopment bond fund is a debt service fund. It accounts for the financial resources to be used to retire the redevelopment general obligation bonds.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The City reports the following major proprietary funds:

The sanitary district fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

The storm water utility fund accounts for the operation of the storm water collection system.

Additionally, the City reports the following fund types:

The internal service funds account for group health insurance, unemployment and workmen's compensation programs provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for the federal government, state government, and other entities.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment 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. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the component unit and various other functions of government. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2006
General Fund	\$ 4,465,289
Local Road and Street	136,730
Motor Vehicle Highway	283,193
Park and Recreation	4,409
Genesis Civic Center	133,358
 Total	 \$ 5,022,979

These disbursements were funded by available cash balances in other funds. The excess of expenditures over appropriations resulted from the failure to obtain additional appropriation authority from the Common Council and, for budgeted funds, the Indiana Department of Local Government Finance.

C. Cash and Investment Balance Deficits

At December 31, 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2006
General Fund	\$ 496,336
Special revenue funds:	
Protective Services Grant 1	995,254
Emergency Shelter	73,236
HIV Substance Abuse Prevention	2,071
COPS in School	3,001
Community Development Block Grant	13,141
Summer Jobs Training Program	347,580
Capital project fund:	
Park Construction	17,815
Internal service funds:	
Self-Insurance	683,128
WCI/UCI Benefit	145,399
Agency fund:	
Redevelopment Depository Trust	282

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. 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. 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 City had the following investments:

Investment Type	Market Value
U.S. treasuries and securities	\$ 840,188
U.S. agencies	524,607
Taxable municipal bonds	750,000
Total	\$ 2,114,795

Investment Policies

Indiana Code 5-13-9 authorizes the City 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 City 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

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 City 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 City does not have a formal investment policy for custodial credit risk for investments. At December 31, 2006, the City held investments in taxable municipal bonds in the amount of \$750,000. Of these investments \$750,000 were held by the Counterparty.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City 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. treasuries and securities	\$ 55,307	\$ 189,483	\$ 595,398
Government sponsored enterprise	54,966	119,195	350,446
Taxable municipal bonds	-	-	750,000
Totals	<u>\$ 110,273</u>	<u>\$ 308,678</u>	<u>\$ 1,695,844</u>

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.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Standard and Poor's Rating	City's Investments		
	U.S. Treasuries and Securities	Government Sponsored Enterprise	Taxable Municipal Bonds
AAA	\$ 840,188	\$ 524,607	\$ -
Unrated	-	-	750,000
Totals	<u>\$ 840,188</u>	<u>\$ 524,607</u>	<u>\$ 750,000</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 City 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. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, were as follows:

Transfer From	Transfer To	2006
General Fund	Other governmental	\$ 88,971
Gaming Revenues	General Fund	9,408,271
	Redevelopment Bond	6,858,385
	Other governmental	5,649,829
Other governmental	General Fund	100,000
	Gaming Revenues	2,863,821
Total		<u>\$ 24,969,277</u>

The City typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the debt service fund for current-year debt service requirements.

C. Restatements and Reclassifications

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the City. The following schedule presents a summary of restated beginning balances by opinion unit:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Opinion Unit	Balance as Reported December 31, 2005	Fund Reclassification	Balance as Restated January 1, 2006
Statement of Activities and Net Assets:			
Governmental activities	\$ 4,619,689	\$ (30,860)	\$ 4,588,829
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances:			
Governmental funds:			
Other governmental funds	6,455,206	(30,860)	6,424,346
Statement of Additions, Deductions, and Changes in Cash and Investment Balances:			
Fiduciary funds:			
Agency funds	3,779,159	30,860	3,810,019

IV. Other Information

A. Risk Management

The City 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; and natural disasters are covered by commercial insurance from independent third parties. The risk of job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits) are covered by commercial insurance from independent third parties for the Sanitary District only. 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.

Group Health Insurance

The City, excluding the Sanitary District and Storm Water Utility, has chosen to establish a risk financing fund for risks associated with employee health claims. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$150,000 and an aggregate of \$1,100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. A premium is charged to each fund that accounts for employee payroll, based upon the percentage of each fund's payroll as it relates to total payroll. These premiums are reported as quasi-external interfund transactions. The total charge allocated to each of the funds is calculated using trends based on actual claim experience. Provisions are also made for unexpected and unusual claims.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Worker's Compensation and Unemployment Insurance

The City, excluding the Sanitary District and Storm Water Utility, has chosen to establish a risk financing fund for risks associated with employee workmen's compensation and unemployment. The risk financing fund is accounted for in the WCI/UCI Benefit Fund, an internal service fund, where assets are set aside for claim settlements. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. A premium is charged to each fund that accounts for employee payroll, based upon the percentage of each fund's current year payroll as it relates to total payroll. These premiums are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Vehicle and Liability Insurance

The City pays for all vehicle and liability claims from the General Fund and the Gaming Revenues Fund.

B. Holding Corporation

The City has entered into a capital lease with the Gary 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. As discussed in Note I.A., the lessor has been determined to be a blended component unit of the City.

The Sears Building facility under the lease is included in the capital assets of the government. Lease payments during the year totaled \$771,280. Since the lease agreement is a funding mechanism for the revenue bonds, and since the Gary Building Corporation is a blended component unit of the City, only the debt of the revenue bond is reported, so as to not duplicate the debt.

C. Subsequent Events

Tax Anticipation Warrants

On December 19, 2006, the Gary City Council passed an ordinance authorizing the issuance of tax anticipation warrants totaling \$31,237,545. On January 3, 2007, the warrants were distributed as follows:

Fund	Amount
General	\$ 26,742,793
Park and Recreation	786,729
Genesis Civic Center	741,114
1925 Police Pension	1,443,807
1937 Firefighters' Pension	1,523,102
Total	\$ 31,237,545

The temporary loans were to be repaid by June 29, 2007, at an interest rate not to exceed 6%; however, because property taxes were not billed or collected by the County in May, the repayment date was extended to December 31, 2007. Additional funds were also borrowed in July 2007 as follows:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund	Amount
General	\$ 26,742,793
Park and Recreation	500,000
Genesis Civic Center	741,114
1925 Police Pension	786,729
Total	\$ 28,770,636

Forgiveness of Temporary Interfund Loans

On June 5, 2007, the Gary City Council passed an ordinance to forgive the repayment of temporary loans totaling \$9,005,718 that were made from the Gaming Revenues Fund in prior years.

Temporary Interfund Loans

On June 5, 2007, the Gary City Council passed an ordinance to authorize interfund loans totaling \$5,260,000 from the Gaming Revenues, Park and Recreation, and the Cumulative Capital Improvement funds. The amounts loaned from these funds were \$4,900,000, \$300,000, and \$60,000, respectively. The loans are to be repaid by December 31, 2007, from the General, Cumulative Capital Development, 1937 Firefighters' Pension, 1925 Police Pension, and the Genesis Civic Center funds.

Revenue Bonds

On August 1, 2006, the Gary City Council passed an ordinance to issue revenue bonds in an amount not to exceed \$25,000,000. In 2007, the City drew \$4,800,000 in bond proceeds to finance various capital improvement projects and to purchase equipment. The bonds will be repaid over five years from casino revenue.

Loans from Sanitary District

During 2005 and 2006, the City has borrowed a total of \$15,497,126.61 from the Gary Sanitary District. The loans were used to meet short-term financial obligations such as payroll and vendor expenses. The need for these loans was attributed to property tax reassessment in prior years which reduced the percentage of property tax collections as well the delayed distribution of the property tax. Also, officials underestimated current requirements. The repayment of these loans will occur over a period of several years.

Refinance of Gary Building Corporation Revenue Bond

During 2007, the City Council passed an ordinance to refinance the Series 1994A revenue refunding bonds totaling \$1,925,000 held by the Gary Department of Redevelopment. The new issue will be paid over five years at an interest rate not to exceed 5.09%.

Brownfield Cleanup Revolving Loan Fund

The City of Gary is a recipient of United States Environmental Protection Agency Brownfield Revolving Loan Funds. The Gary, East Chicago, Hammond Empowerment Zone is authorized to make loans from the Brownfield Revolving Loan Funds. On December 19, 2006, the Gary Redevelopment

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Commission agreed to borrow \$251,000 from the Gary, East Chicago, Hammond Empowerment Zone. The proceeds of the loan are to be used to remove hazardous substances on two properties located at Buffington Harbor.

Reassessment and Property Taxes

In accordance with state statutes, all counties were required to reassess property values prior to billing taxes in 2007. Significant delays in the reassessment process has resulted in delays in billing taxes in 2007. Taxes are normally billed in two installments, the first is due in May, and the second in November. As of August 6, 2007, the May installment has not been billed. Thus, the City has not received a June tax distribution. It is not yet known when the taxes will be billed.

Judgment Bonds

In 2007, the City plans to issue an estimated \$6,000,000 in judgment bonds to settle amounts owed to NIPSCO in the amount of \$3,670,274 and Indiana American Water Company in the amount of \$1,276,681. Repayment will be made from a newly created debt service fund.

Insurance Reimbursement

In 2006, a fire destroyed the Vehicle Maintenance Building. In 2007, the City received insurance reimbursement totaling \$2,013,749.86. This amount included \$1,873,821.34 for replacing the building and \$139,928.52 for replacing some of the contents covered by the insurance policy.

D. Conduit Debt Obligation

From time to time, the City has issued Special Facility Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying notes to the financial statements.

As of December 31, 2006, there were seven series of Special Facility Revenue Bonds outstanding. The aggregate principal amount payable for the seven series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$44,855,000.

E. Postemployment Benefits

In addition to the pension benefits described below, the City provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after attaining age 55 with at least 30 years of service. Currently, 116 retirees meet these eligibility requirements. The City and retirees provide 75% and 25%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, disbursement of \$287,333 were recognized for postemployment benefits.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the Gary Sanitary District Board on August 8, 2000.

Storm Water Utility

The current rate structure was approved by the City Council on February 25, 2002.

G. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City 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 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 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 City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which 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 and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which 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 and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 848,194	\$ 5,391,700	\$ 4,707,600
Interest on net pension obligation	114,458	2,299,400	2,147,600
Adjustment to annual required contribution	<u>(130,433)</u>	<u>(2,506,600)</u>	<u>(2,341,200)</u>
Annual pension cost	832,219	5,184,500	4,514,000
Contributions made	<u>750,067</u>	<u>4,164,903</u>	<u>3,809,399</u>
Increase in net pension obligation	82,152	1,019,597	704,601
Net pension obligation, beginning of year	<u>1,578,726</u>	<u>34,064,559</u>	<u>31,816,482</u>
Net pension obligation, end of year	<u>\$ 1,660,878</u>	<u>\$ 35,084,156</u>	<u>\$ 32,521,083</u>

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Contribution rates:			
City	21%	21%	21%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-06	01-01-06
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

\*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 863,136	67%	\$ 1,283,132
	06-30-05	932,618	68%	1,578,726
	06-30-06	832,219	80%	1,660,878
1925 Police Officers' Pension Plan	12-31-03	8,250,000	61%	29,295,069
	12-31-04	7,971,700	40%	34,064,559
	12-31-05	5,184,000	80%	35,084,156
1937 Firefighters' Pension Plan	12-31-03	7,401,400	41%	27,934,222
	12-31-04	7,022,800	45%	31,816,482
	12-31-05	4,514,000	84%	32,521,083

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	246	257
Current active employees	26	33

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

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

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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:

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

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$5,416,653, \$4,835,920, and \$4,789,641, respectively, equal to the required contributions for each year.

H. Municipal Solid Waste Landfill Closure and Post-Closure Costs

State and federal laws and regulations require the City to place a final cover on its municipal landfill when it stops accepting solid waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expenditure in each period based on landfill capacity used as of each balance sheet date. The City has recognized all the estimated costs of closure and post-closure care since the landfill capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2004. The City closed the landfill on May 1, 1997. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and post-closure care, to obtain a line of credit, obtain a bond in an amount sufficient to finance the estimated closure and post-closure care costs, obtain insurance, or fulfill the financial requirements set forth in 329 IAC 2-12. The City has chosen to make contributions to a trust. At December 31, 2006, investments of \$1,631,527 (\$1,631,527 market value) are held for these purposes. These are reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by future tax revenue.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

I. Environmental Protection Agency Consent Decree

The United States District Court issued a Consent Decree initiated by the Environmental Protection Agency in 2002, whereby the Gary Sanitary District was required to accumulate funds for the Grand Calumet Sedimentation Fund. A limit will be placed on the costs the District will have to incur for the study and remediation of river sediments. This limit was set at \$2,500,000. In addition, a special administrator will be required to certify on January 31 of each year, whether or not the Sanitary District is complying with the terms of the Decree. The Modified Consent Decree Semi-Annual Progress Report, dated February 27, 2006, certified that the District has deposited all required funds into its Grand Calumet River Remediation Fund. The balance of this fund at December 31, 2006, is \$3,216,858. The District is awaiting further instructions from EPA as to how to proceed in the use of those funds.

J. Privatized Operations

On April 10, 1998, the Sanitary District entered into an agreement with White River Environmental Partnership (WREP) for the operation, maintenance, and management of the Sanitary District's wastewater treatment and collection system, with an effective date of July 1, 1998. As part of the agreement, WREP agreed to pay the District \$10,000,000 as an up front payment of savings to the Sanitary District resulting from this ten year contract. In accordance with the agreement, the Sanitary District pays WREP a base amount per year of \$9,500,000, which is adjusted annually for changes in the Consumer Price Index. Contractual services for 2006 were \$11,721,531. If the Sanitary District cancels the contract prior to its expiration, the Sanitary District would be liable for an early termination fee in an amount ranging from a high of \$9,000,000 to a low of \$1,000,000 if cancelled in the final year of the contract. The Sanitary District does not anticipate terminating the contract prior to its expiration in 2007. In 2004, WREP changed its name to United Water SUEZ.

In addition, in accordance with this agreement, the Sanitary District, through a donation from WREP, has contributed \$150,000 to allow for a small business loan program. The WREP has contributed an additional \$150,000 as a loan guarantee. The loan program will be administered by the City of Gary Economic Development Corporation. Currently, no loans have been made.

CITY OF GARY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 22,737,466	\$ 22,448,183	\$ 289,283	101%	\$ 19,938,661	1%
07-01-05	23,236,137	22,460,810	775,327	103%	17,876,919	4%
07-01-06	24,719,172	23,334,431	1,384,741	106%	18,182,141	8%

1925 Police Pension Plan

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)
01-01-01	\$ 3,680,204	\$ 82,245,900	\$ (78,565,696)	4%	\$ 1,706,000	(4,605%)
01-01-02	5,614,371	79,847,000	(74,232,629)	7%	1,662,500	(4,465%)
01-01-03	4,023,585	77,916,200	(73,892,615)	5%	2,091,400	(3,533%)
01-01-04	4,388,057	79,307,600	(74,919,543)	6%	1,605,800	(4,666%)
01-01-05	(69,322)	74,346,900	(74,416,222)	0%	1,493,900	(4,981%)
01-01-06	365,043	71,772,300	(71,407,257)	1%	1,056,600	(6,758%)

1937 Fire Pension Plan

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)
01-01-01	\$ 2,994,863	\$ 77,733,900	\$ (74,739,037)	4%	\$ 1,740,800	(4,293%)
01-01-02	5,614,371	75,448,900	(69,834,529)	7%	1,590,200	(4,392%)
01-01-03	3,273,035	68,127,700	(64,854,665)	5%	1,904,700	(3,405%)
01-01-04	1,662,060	70,580,700	(68,918,640)	2%	1,493,800	(4,614%)
01-01-05	(58,685)	66,035,900	(66,094,585)	0%	1,344,500	(4,916%)
01-01-06	502,264	62,487,000	(61,984,736)	1%	896,300	(6,916%)

CITY OF GARY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULES OF CONTRIBUTIONS FROM THE  
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-00	\$ 8,276,900	12%	27%
	12-31-01	8,659,400	0%	59%
	12-31-02	8,699,000	12%	39%
	12-31-03	9,424,900	28%	25%
	12-31-04	9,448,900	0%	34%
	12-31-05	5,391,700	14%	64%
1937 Firefighters' Pension Plan	12-31-00	7,861,800	13%	29%
	12-31-01	8,198,100	0%	62%
	12-31-02	8,218,500	12%	40%
	12-31-03	8,463,500	8%	27%
	12-31-04	8,431,300	1%	36%
	12-31-05	4,707,600	13%	68%

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - NONMAJOR FUNDS BY FUND TYPE  
 For The Year Ended December 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Funds
Receipts:				
Taxes	\$ 4,856,034	\$ -	\$ 4,003,718	\$ 8,859,752
Intergovernmental	13,825,472	-	3,419,638	17,245,110
Charges for services	1,943,139	-	-	1,943,139
Fines and forfeits	16,969	-	-	16,969
Other	3,691,523	-	1,878,729	5,570,252
	<u>24,333,137</u>	<u>-</u>	<u>9,302,085</u>	<u>33,635,222</u>
Total receipts				
Disbursements:				
General government	1,042,649	-	-	1,042,649
Public safety	2,208,256	-	-	2,208,256
Highways and streets	4,132,790	-	-	4,132,790
Sanitation	600,804	-	-	600,804
Health and welfare	1,876,760	-	-	1,876,760
Economic development	300,541	-	-	300,541
Culture and recreation	5,636,932	-	-	5,636,932
Urban redevelopment and housing	5,843,408	-	-	5,843,408
Debt service:				
Principal	-	2,208,155	-	2,208,155
Interest	-	194,825	-	194,825
Other	-	234	-	234
Capital outlay:				
General government	-	-	1,820,177	1,820,177
Public safety	-	-	171,299	171,299
Highways and streets	-	-	423,790	423,790
Culture and recreation	-	-	201,875	201,875
Urban redevelopment and housing	-	-	4,421,514	4,421,514
	<u>21,642,140</u>	<u>2,403,214</u>	<u>7,038,655</u>	<u>31,084,009</u>
Total disbursements				
Excess (deficiency) of receipts over disbursements	<u>2,690,997</u>	<u>(2,403,214)</u>	<u>2,263,430</u>	<u>2,551,213</u>
Other financing sources (uses):				
Tax anticipation warrants received	2,555,794	-	-	2,555,794
Tax anticipation warrants paid	(3,376,612)	-	-	(3,376,612)
Interfund loans received	5,193,703	-	2,813,582	8,007,285
Interfund loans paid	(2,995,742)	-	(3,833,579)	(6,829,321)
Transfers in	88,971	2,402,980	3,246,849	5,738,800
Transfers out	(253,000)	-	(2,710,821)	(2,963,821)
	<u>1,213,114</u>	<u>2,402,980</u>	<u>(483,969)</u>	<u>3,132,125</u>
Total other financing sources (uses)				
Excess of receipts and other financing sources over disbursements and other financing uses	3,904,111	(234)	1,779,461	5,683,338
Restated cash and investment fund balance - beginning	<u>6,034,962</u>	<u>234</u>	<u>389,150</u>	<u>6,424,346</u>
Cash and investment fund balance - ending	<u>\$ 9,939,073</u>	<u>\$ -</u>	<u>\$ 2,168,611</u>	<u>\$ 12,107,684</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 2,417,118	\$ -	\$ (17,815)	\$ 2,399,303
Restricted assets:				
Cash and investments	<u>7,521,955</u>	<u>-</u>	<u>2,186,426</u>	<u>9,708,381</u>
Total cash and investment assets - December 31	<u>\$ 9,939,073</u>	<u>\$ -</u>	<u>\$ 2,168,611</u>	<u>\$ 12,107,684</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Capital outlay	\$ -	\$ -	\$ 2,186,426	\$ 2,186,426
Other purposes	7,521,955	-	-	7,521,955
Unrestricted	<u>2,417,118</u>	<u>-</u>	<u>(17,815)</u>	<u>2,399,303</u>
Total cash and investment fund balance - December 31	<u>\$ 9,939,073</u>	<u>\$ -</u>	<u>\$ 2,168,611</u>	<u>\$ 12,107,684</u>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 As of and for the Year Ended December 31, 2006

	Welfare To Work	Protective Services Grant 1	Protective Services Grant 2	Civil Defense Relocation	Equal Opportunity Commission Human Relations	Tourism Project	Miss USA Pageant	Local Law Enforcement Block Grant
<b>Receipts:</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	60,594	143,472	-	34,000	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Other	-	325	294	-	-	-	-	154
<b>Total receipts</b>	<b>-</b>	<b>60,919</b>	<b>143,766</b>	<b>-</b>	<b>34,000</b>	<b>-</b>	<b>-</b>	<b>154</b>
<b>Disbursements:</b>								
General government	-	-	-	-	44,209	-	20	-
Public safety	-	206,756	235,528	34,290	-	-	-	17,681
Highways and streets	-	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>-</b>	<b>206,756</b>	<b>235,528</b>	<b>34,290</b>	<b>44,209</b>	<b>-</b>	<b>20</b>	<b>17,681</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>-</b>	<b>(145,837)</b>	<b>(91,762)</b>	<b>(34,290)</b>	<b>(10,209)</b>	<b>-</b>	<b>(20)</b>	<b>(17,527)</b>
<b>Other financing sources (uses):</b>								
Tax anticipation warrants received	-	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-	-
Interfund loans received	-	-	200,000	-	-	-	-	7,000
Interfund loans paid	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,000</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>-</b>	<b>(145,837)</b>	<b>108,238</b>	<b>(34,290)</b>	<b>(10,209)</b>	<b>-</b>	<b>(20)</b>	<b>(10,527)</b>
<b>Cash and investment fund balance - beginning</b>	<b>-</b>	<b>(849,417)</b>	<b>302,805</b>	<b>34,290</b>	<b>20,240</b>	<b>39,001</b>	<b>20</b>	<b>61,441</b>
<b>Cash and investment fund balance - ending</b>	<b>\$ -</b>	<b>\$ (995,254)</b>	<b>\$ 411,043</b>	<b>\$ -</b>	<b>\$ 10,031</b>	<b>\$ 39,001</b>	<b>\$ -</b>	<b>\$ 50,914</b>
<b><u>Cash and Investment Assets - December 31</u></b>								
Cash and investments	\$ -	\$ (995,254)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:								
Cash and investments	-	-	411,043	-	10,031	39,001	-	50,914
<b>Total cash and investment assets - December 31</b>	<b>\$ -</b>	<b>\$ (995,254)</b>	<b>\$ 411,043</b>	<b>\$ -</b>	<b>\$ 10,031</b>	<b>\$ 39,001</b>	<b>\$ -</b>	<b>\$ 50,914</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>								
Restricted for:								
Other purposes	\$ -	\$ -	\$ 411,043	\$ -	\$ 10,031	\$ 39,001	\$ -	\$ 50,914
Unrestricted	-	(995,254)	-	-	-	-	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ -</b>	<b>\$ (995,254)</b>	<b>\$ 411,043</b>	<b>\$ -</b>	<b>\$ 10,031</b>	<b>\$ 39,001</b>	<b>\$ -</b>	<b>\$ 50,914</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 As of and for the Year Ended December 31, 2006  
 (Continued)

	Youth Service Bureau	HOME Program	Emergency Shelter Grant	Brownfield	Healthy Families	Marquette Park	Homeland Security	Gleason Golf Course
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	226,272	2,347,471	122,696	132,458	-	-	-	-
Charges for services	-	-	-	-	-	247,268	-	190,241
Fines and forfeits	-	-	-	-	-	-	-	-
Other	1,292	99,687	63,935	-	6,011	1,107	-	841
<b>Total receipts</b>	<b>227,564</b>	<b>2,447,158</b>	<b>186,631</b>	<b>132,458</b>	<b>6,011</b>	<b>248,375</b>	<b>-</b>	<b>191,082</b>
Disbursements:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	186,631	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-	-
Health and welfare	213,980	-	-	-	3,844	-	-	-
Economic development	-	-	-	163,063	-	-	-	-
Culture and recreation	-	-	-	-	-	399,019	-	230,949
Urban redevelopment and housing	-	488,484	-	-	-	-	-	-
<b>Total disbursements</b>	<b>213,980</b>	<b>488,484</b>	<b>186,631</b>	<b>163,063</b>	<b>3,844</b>	<b>399,019</b>	<b>-</b>	<b>230,949</b>
Excess (deficiency) of receipts over disbursements	13,584	1,958,674	-	(30,605)	2,167	(150,644)	-	(39,867)
Other financing sources (uses):								
Tax anticipation warrants received	-	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-	-
Interfund loans received	260,000	-	-	-	-	-	-	-
Interfund loans paid	-	-	-	-	-	-	-	-
Transfers in	-	4,609	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>260,000</b>	<b>4,609</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	273,584	1,963,283	-	(30,605)	2,167	(150,644)	-	(39,867)
Cash and investment fund balance - beginning	8,630	6,763	888	71,246	15,366	254,772	280	164,467
Cash and investment fund balance - ending	<u>\$ 282,214</u>	<u>\$ 1,970,046</u>	<u>\$ 888</u>	<u>\$ 40,641</u>	<u>\$ 17,533</u>	<u>\$ 104,128</u>	<u>\$ 280</u>	<u>\$ 124,600</u>
<b>Cash and Investment Assets - December 31</b>								
Cash and investments	\$ 282,214	\$ -	\$ -	\$ -	\$ -	\$ 104,128	\$ -	\$ 124,600
Restricted assets:								
Cash and investments	-	1,970,046	888	40,641	17,533	-	280	-
<b>Total cash and investment assets - December 31</b>	<u>\$ 282,214</u>	<u>\$ 1,970,046</u>	<u>\$ 888</u>	<u>\$ 40,641</u>	<u>\$ 17,533</u>	<u>\$ 104,128</u>	<u>\$ 280</u>	<u>\$ 124,600</u>
<b>Cash and Investment Fund Balance - December 31</b>								
Restricted for:								
Other purposes	\$ -	\$ 1,970,046	\$ 888	\$ 40,641	\$ 17,533	\$ -	\$ 280	\$ -
Unrestricted	282,214	-	-	-	-	104,128	-	124,600
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 282,214</u>	<u>\$ 1,970,046</u>	<u>\$ 888</u>	<u>\$ 40,641</u>	<u>\$ 17,533</u>	<u>\$ 104,128</u>	<u>\$ 280</u>	<u>\$ 124,600</u>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 As of and for the Year Ended December 31, 2006  
 (Continued)

	Emergency Shelter	Comprehensive Community Program	Ambulance Nonreverting	Property Disposal	Law Enforcement Training	Unsafe Building	Homeownership	Local Road and Street
<b>Receipts:</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	424,571	-	-	-	-	-	-	1,203,299
Charges for services	12,120	66,408	303,970	-	44,396	-	-	-
Fines and forfeits	-	-	-	-	16,969	-	-	-
Other	62,233	-	48	-	1,250	45,914	4,998	10,418
<b>Total receipts</b>	<b>498,924</b>	<b>66,408</b>	<b>304,018</b>	<b>-</b>	<b>62,615</b>	<b>45,914</b>	<b>4,998</b>	<b>1,213,717</b>
<b>Disbursements:</b>								
General government	-	-	-	-	-	-	-	-
Public safety	-	51,819	434,250	982	173,546	-	-	-
Highways and streets	-	-	-	-	-	-	-	992,764
Sanitation	-	-	-	-	-	-	-	-
Health and welfare	615,742	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	4,454	-
<b>Total disbursements</b>	<b>615,742</b>	<b>51,819</b>	<b>434,250</b>	<b>982</b>	<b>173,546</b>	<b>-</b>	<b>4,454</b>	<b>992,764</b>
Excess (deficiency) of receipts over disbursements	(116,818)	14,589	(130,232)	(982)	(110,931)	45,914	544	220,953
<b>Other financing sources (uses):</b>								
Tax anticipation warrants received	-	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-	-
Interfund loans received	-	-	359,940	-	200,000	-	-	300,000
Interfund loans paid	-	-	-	-	-	-	-	(518,000)
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>359,940</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>(218,000)</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(116,818)	14,589	229,708	(982)	89,069	45,914	544	2,953
Cash and investment fund balance - beginning	43,582	2,448	48,083	982	20,936	69,024	30	523
Cash and investment fund balance - ending	<u>\$ (73,236)</u>	<u>\$ 17,037</u>	<u>\$ 277,791</u>	<u>\$ -</u>	<u>\$ 110,005</u>	<u>\$ 114,938</u>	<u>\$ 574</u>	<u>\$ 3,476</u>
<b><u>Cash and Investment Assets - December 31</u></b>								
Cash and investments	\$ (73,236)	\$ 17,037	\$ 277,791	\$ -	\$ 110,005	\$ 114,938	\$ -	\$ -
Restricted assets:								
Cash and investments	-	-	-	-	-	-	574	3,476
<b>Total cash and investment assets - December 31</b>	<b><u>\$ (73,236)</u></b>	<b><u>\$ 17,037</u></b>	<b><u>\$ 277,791</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 110,005</u></b>	<b><u>\$ 114,938</u></b>	<b><u>\$ 574</u></b>	<b><u>\$ 3,476</u></b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>								
Restricted for:								
Other purposes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 574	\$ 3,476
Unrestricted	(73,236)	17,037	277,791	-	110,005	114,938	-	-
<b>Total cash and investment fund balance - December 31</b>	<b><u>\$ (73,236)</u></b>	<b><u>\$ 17,037</u></b>	<b><u>\$ 277,791</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 110,005</u></b>	<b><u>\$ 114,938</u></b>	<b><u>\$ 574</u></b>	<b><u>\$ 3,476</u></b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 As of and for the Year Ended December 31, 2006  
 (Continued)

	Motor Vehicle Highway	Landfill Closure	Recycling Project	Solid Waste Recycling Project	Environmental Management	PGCI Project Grant	Health and Human Services	Alcohol and Drug Treatment
<b>Receipts:</b>								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	3,887,052	-	-	-	-	-	835,907	-
Charges for services	-	-	-	-	-	-	153,222	-
Fines and forfeits	-	-	-	-	-	-	-	-
Other	-	143,661	-	1,265,876	5,696	-	5,035	-
<b>Total receipts</b>	<b>3,887,052</b>	<b>143,661</b>	<b>-</b>	<b>1,265,876</b>	<b>5,696</b>	<b>-</b>	<b>994,164</b>	<b>-</b>
<b>Disbursements:</b>								
General government	-	-	487	-	-	760	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	3,140,026	-	-	-	-	-	-	-
Sanitation	-	96,812	-	503,992	-	-	-	-
Health and welfare	-	-	-	-	10,788	-	913,948	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>3,140,026</b>	<b>96,812</b>	<b>487</b>	<b>503,992</b>	<b>10,788</b>	<b>760</b>	<b>913,948</b>	<b>-</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>747,026</b>	<b>46,849</b>	<b>(487)</b>	<b>761,884</b>	<b>(5,092)</b>	<b>(760)</b>	<b>80,216</b>	<b>-</b>
<b>Other financing sources (uses):</b>								
Tax anticipation warrants received	-	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-	-
Interfund loans received	1,492,000	-	-	-	-	-	-	-
Interfund loans paid	(1,149,661)	(100,081)	-	-	-	-	(4,000)	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>342,339</b>	<b>(100,081)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,000)</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>1,089,365</b>	<b>(53,232)</b>	<b>(487)</b>	<b>761,884</b>	<b>(5,092)</b>	<b>(760)</b>	<b>76,216</b>	<b>-</b>
<b>Cash and investment fund balance - beginning</b>	<b>(327,745)</b>	<b>1,684,759</b>	<b>487</b>	<b>(148,220)</b>	<b>8,527</b>	<b>19,419</b>	<b>636</b>	<b>256,674</b>
<b>Cash and investment fund balance - ending</b>	<b>\$ 761,620</b>	<b>\$ 1,631,527</b>	<b>\$ -</b>	<b>\$ 613,664</b>	<b>\$ 3,435</b>	<b>\$ 18,659</b>	<b>\$ 76,852</b>	<b>\$ 256,674</b>
<b><u>Cash and Investment Assets - December 31</u></b>								
Cash and investments	\$ -	\$ -	\$ -	\$ 613,664	\$ -	\$ -	\$ -	\$ 256,674
Restricted assets:								
Cash and investments	761,620	1,631,527	-	-	3,435	18,659	76,852	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 761,620</b>	<b>\$ 1,631,527</b>	<b>\$ -</b>	<b>\$ 613,664</b>	<b>\$ 3,435</b>	<b>\$ 18,659</b>	<b>\$ 76,852</b>	<b>\$ 256,674</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>								
Restricted for:								
Other purposes	\$ 761,620	\$ 1,631,527	\$ -	\$ -	\$ 3,435	\$ 18,659	\$ 76,852	\$ -
Unrestricted	-	-	-	613,664	-	-	-	256,674
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 761,620</b>	<b>\$ 1,631,527</b>	<b>\$ -</b>	<b>\$ 613,664</b>	<b>\$ 3,435</b>	<b>\$ 18,659</b>	<b>\$ 76,852</b>	<b>\$ 256,674</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Supplemental Adult Probation Services	Gary Health Department Rental	Assist Interlocal Fund	HIV Substance Abuse Prevention	Workforce Development Services	COPS In School	Park and Recreation
<b>Receipts:</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,334,397
Intergovernmental	-	1,420	-	-	-	-	-
Charges for services	94,957	616	-	-	-	-	142,200
Fines and forfeits	-	-	-	-	-	-	-
Other	59	-	-	81,951	-	-	7,381
<b>Total receipts</b>	<b>95,016</b>	<b>2,036</b>	<b>-</b>	<b>81,951</b>	<b>-</b>	<b>-</b>	<b>2,483,978</b>
<b>Disbursements:</b>							
General government	-	-	174	-	50	-	-
Public safety	107,890	-	-	-	-	257,298	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	419	-	85,078	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	2,033,982
Urban redevelopment and housing	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>107,890</b>	<b>419</b>	<b>174</b>	<b>85,078</b>	<b>50</b>	<b>257,298</b>	<b>2,033,982</b>
Excess (deficiency) of receipts over disbursements	(12,874)	1,617	(174)	(3,127)	(50)	(257,298)	449,996
<b>Other financing sources (uses):</b>							
Tax anticipation warrants received	-	-	-	-	-	-	1,222,784
Tax anticipation warrants paid	-	-	-	-	-	-	(1,649,785)
Interfund loans received	-	-	-	-	-	-	1,212,000
Interfund loans paid	-	-	-	-	-	-	(1,200,000)
Transfers in	-	-	-	-	-	59,079	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,079</b>	<b>(415,001)</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(12,874)	1,617	(174)	(3,127)	(50)	(198,219)	34,995
Cash and investment fund balance - beginning	70,439	4,495	174	1,056	50	195,218	41,875
Cash and investment fund balance - ending	\$ 57,565	\$ 6,112	\$ -	\$ (2,071)	\$ -	\$ (3,001)	\$ 76,870
<b><u>Cash and Investment Assets - December 31</u></b>							
Cash and investments	\$ -	\$ 6,112	\$ -	\$ (2,071)	\$ -	\$ (3,001)	\$ 76,870
Restricted assets:							
Cash and investments	57,565	-	-	-	-	-	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 57,565</b>	<b>\$ 6,112</b>	<b>\$ -</b>	<b>\$ (2,071)</b>	<b>\$ -</b>	<b>\$ (3,001)</b>	<b>\$ 76,870</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>							
Restricted for:							
Other purposes	\$ 57,565	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	6,112	-	(2,071)	-	(3,001)	76,870
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 57,565</b>	<b>\$ 6,112</b>	<b>\$ -</b>	<b>\$ (2,071)</b>	<b>\$ -</b>	<b>\$ (3,001)</b>	<b>\$ 76,870</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Park Nonreverting	Park Pavilion	National Park Service	Vehicle Auction	Tree Planting Grant	Bioterrorism	COPS Technology
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	51,891	135,863
Charges for services	135,423	3,016	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	12,559	-	10,404	70,910	-	-	-
Total receipts	147,982	3,016	10,404	70,910	-	51,891	135,863
Disbursements:							
General government	-	-	-	-	575	-	-
Public safety	-	-	-	23,263	-	56,225	254,940
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	147,247	4,471	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Total disbursements	147,247	4,471	-	23,263	575	56,225	254,940
Excess (deficiency) of receipts over disbursements	735	(1,455)	10,404	47,647	(575)	(4,334)	(119,077)
Other financing sources (uses):							
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-
Interfund loans received	-	-	-	-	-	-	-
Interfund loans paid	-	-	(10,000)	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	(10,000)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	735	(1,455)	404	47,647	(575)	(4,334)	(119,077)
Cash and investment fund balance - beginning	9,397	10,253	398	145,114	575	7,380	341,000
Cash and investment fund balance - ending	\$ 10,132	\$ 8,798	\$ 802	\$ 192,761	\$ -	\$ 3,046	\$ 221,923
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 10,132	\$ 8,798	\$ -	\$ 192,761	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	802	-	-	3,046	221,923
Total cash and investment assets - December 31	\$ 10,132	\$ 8,798	\$ 802	\$ 192,761	\$ -	\$ 3,046	\$ 221,923
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Other purposes	\$ -	\$ -	\$ 802	\$ -	\$ -	\$ 3,046	\$ 221,923
Unrestricted	10,132	8,798	-	192,761	-	-	-
Total cash and investment fund balance - December 31	\$ 10,132	\$ 8,798	\$ 802	\$ 192,761	\$ -	\$ 3,046	\$ 221,923

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Community Development Block Grant	Redevelopment Operating	Summer Jobs Training Program	Fair Housing Project	Genesis Civic Center	Media	Redevelopment Property
<b>Receipts:</b>							
Taxes	\$ -	\$ 346,433	\$ -	\$ -	\$ 2,175,204	\$ -	\$ -
Intergovernmental	3,764,994	14,508	-	106,900	92,633	-	-
Charges for services	-	-	-	-	-	370,332	-
Fines and forfeits	-	-	-	-	-	-	-
Other	43,541	56,609	46,409	1,416	12,361	-	-
<b>Total receipts</b>	<b>3,808,535</b>	<b>417,550</b>	<b>46,409</b>	<b>108,316</b>	<b>2,280,198</b>	<b>370,332</b>	<b>-</b>
<b>Disbursements:</b>							
General government	-	-	469,812	-	1,120	322,056	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	33,338
Culture and recreation	-	-	-	-	2,065,624	-	-
Urban redevelopment and housing	3,974,375	328,750	-	83,426	-	-	-
<b>Total disbursements</b>	<b>3,974,375</b>	<b>328,750</b>	<b>469,812</b>	<b>83,426</b>	<b>2,066,744</b>	<b>322,056</b>	<b>33,338</b>
Excess (deficiency) of receipts over disbursements	(165,840)	88,800	(423,403)	24,890	213,454	48,276	(33,338)
<b>Other financing sources (uses):</b>							
Tax anticipation warrants received	-	-	-	-	1,333,010	-	-
Tax anticipation warrants paid	-	-	-	-	(1,726,827)	-	-
Interfund loans received	-	150,000	-	-	265,875	678,788	-
Interfund loans paid	-	-	-	-	-	-	-
Transfers in	25,283	-	-	-	-	-	-
Transfers out	-	-	-	-	(100,000)	-	-
<b>Total other financing sources (uses)</b>	<b>25,283</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>(227,942)</b>	<b>678,788</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(140,557)	238,800	(423,403)	24,890	(14,488)	727,064	(33,338)
Cash and investment fund balance - beginning	127,416	50,512	75,823	215,216	16,220	12,643	33,338
Cash and investment fund balance - ending	<u>\$ (13,141)</u>	<u>\$ 289,312</u>	<u>\$ (347,580)</u>	<u>\$ 240,106</u>	<u>\$ 1,732</u>	<u>\$ 739,707</u>	<u>\$ -</u>
<b><u>Cash and Investment Assets - December 31</u></b>							
Cash and investments	\$ (13,141)	\$ 289,312	\$ (347,580)	\$ -	\$ 1,732	\$ 739,707	\$ -
Restricted assets:							
Cash and investments	-	-	-	240,106	-	-	-
<b>Total cash and investment assets - December 31</b>	<b><u>\$ (13,141)</u></b>	<b><u>\$ 289,312</u></b>	<b><u>\$ (347,580)</u></b>	<b><u>\$ 240,106</u></b>	<b><u>\$ 1,732</u></b>	<b><u>\$ 739,707</u></b>	<b><u>\$ -</u></b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>							
Restricted for:							
Other purposes	\$ -	\$ -	\$ -	\$ 240,106	\$ -	\$ -	\$ -
Unrestricted	(13,141)	289,312	(347,580)	-	1,732	739,707	-
<b>Total cash and investment fund balance - December 31</b>	<b><u>\$ (13,141)</u></b>	<b><u>\$ 289,312</u></b>	<b><u>\$ (347,580)</u></b>	<b><u>\$ 240,106</u></b>	<b><u>\$ 1,732</u></b>	<b><u>\$ 739,707</u></b>	<b><u>\$ -</u></b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Clerk Perpetuation	Genesis Center Operating	Leased Properties - Gary Building Corporation	State Air Grant	Hazardous Material	Lead Base Training	Dusable Apartments
<b>Receipts:</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	30,976	-	-	-
Charges for services	12,955	-	24,235	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	-	835,429	422,512	-	-	850	-
<b>Total receipts</b>	<b>12,955</b>	<b>835,429</b>	<b>446,747</b>	<b>30,976</b>	<b>-</b>	<b>850</b>	<b>-</b>
<b>Disbursements:</b>							
General government	-	-	-	24,059	-	-	-
Public safety	-	-	-	-	-	1,417	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	755,640	-	-	-	-	-
Urban redevelopment and housing	-	-	837,218	-	-	-	-
<b>Total disbursements</b>	<b>-</b>	<b>755,640</b>	<b>837,218</b>	<b>24,059</b>	<b>-</b>	<b>1,417</b>	<b>-</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>12,955</b>	<b>79,789</b>	<b>(390,471)</b>	<b>6,917</b>	<b>-</b>	<b>(567)</b>	<b>-</b>
<b>Other financing sources (uses):</b>							
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-
Interfund loans received	-	-	-	-	-	-	-
Interfund loans paid	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>12,955</b>	<b>79,789</b>	<b>(390,471)</b>	<b>6,917</b>	<b>-</b>	<b>(567)</b>	<b>-</b>
<b>Cash and investment fund balance - beginning</b>	<b>98,617</b>	<b>226,522</b>	<b>1,033,782</b>	<b>33,905</b>	<b>20,666</b>	<b>1,050</b>	<b>5,240</b>
<b>Cash and investment fund balance - ending</b>	<b>\$ 111,572</b>	<b>\$ 306,311</b>	<b>\$ 643,311</b>	<b>\$ 40,822</b>	<b>\$ 20,666</b>	<b>\$ 483</b>	<b>\$ 5,240</b>
<b><u>Cash and Investment Assets - December 31</u></b>							
Cash and investments	\$ -	\$ 306,311	\$ -	\$ -	\$ 20,666	\$ 483	\$ 5,240
Restricted assets:							
Cash and investments	111,572	-	643,311	40,822	-	-	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 111,572</b>	<b>\$ 306,311</b>	<b>\$ 643,311</b>	<b>\$ 40,822</b>	<b>\$ 20,666</b>	<b>\$ 483</b>	<b>\$ 5,240</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>							
Restricted for:							
Other purposes	\$ 111,572	\$ -	\$ 643,311	\$ 40,822	\$ -	\$ -	\$ -
Unrestricted	-	306,311	-	-	20,666	483	5,240
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 111,572</b>	<b>\$ 306,311</b>	<b>\$ 643,311</b>	<b>\$ 40,822</b>	<b>\$ 20,666</b>	<b>\$ 483</b>	<b>\$ 5,240</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Economic Development Bond Commission	Crime Victim Assistance	New Birth Grant	Boy Scouts	Remote Encoding Center	EDI Bar Code Center	Mayor Donations
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	12,000	-	-	-	-
Charges for services	3,500	-	-	-	-	-	21,800
Fines and forfeits	-	-	-	-	-	-	-
Other	164	-	-	-	180,530	-	-
<b>Total receipts</b>	<b>3,664</b>	<b>-</b>	<b>12,000</b>	<b>-</b>	<b>180,530</b>	<b>-</b>	<b>21,800</b>
Disbursements:							
General government	-	-	-	-	-	-	10,400
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	-	5,350	-	-	-	-
Economic development	818	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	119,596	-	-
<b>Total disbursements</b>	<b>818</b>	<b>-</b>	<b>5,350</b>	<b>-</b>	<b>119,596</b>	<b>-</b>	<b>10,400</b>
Excess (deficiency) of receipts over disbursements	<b>2,846</b>	<b>-</b>	<b>6,650</b>	<b>-</b>	<b>60,934</b>	<b>-</b>	<b>11,400</b>
Other financing sources (uses):							
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-
Interfund loans received	-	-	-	-	-	-	-
Interfund loans paid	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<b>2,846</b>	<b>-</b>	<b>6,650</b>	<b>-</b>	<b>60,934</b>	<b>-</b>	<b>11,400</b>
Cash and investment fund balance - beginning	14,759	5,600	-	500	7,337	8,296	41,055
Cash and investment fund balance - ending	<u>\$ 17,605</u>	<u>\$ 5,600</u>	<u>\$ 6,650</u>	<u>\$ 500</u>	<u>\$ 68,271</u>	<u>\$ 8,296</u>	<u>\$ 52,455</u>
<b><u>Cash and Investment Assets - December 31</u></b>							
Cash and investments	\$ 17,605	\$ -	\$ -	\$ 500	\$ 68,271	\$ 8,296	\$ 52,455
Restricted assets:							
Cash and investments	-	5,600	6,650	-	-	-	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 17,605</b>	<b>\$ 5,600</b>	<b>\$ 6,650</b>	<b>\$ 500</b>	<b>\$ 68,271</b>	<b>\$ 8,296</b>	<b>\$ 52,455</b>
<b><u>Cash and Investment Fund Balance - December 31</u></b>							
Restricted for:							
Other purposes	\$ -	\$ 5,600	\$ 6,650	\$ -	\$ -	\$ -	\$ -
Unrestricted	17,605	-	-	500	68,271	8,296	52,455
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 17,605</b>	<b>\$ 5,600</b>	<b>\$ 6,650</b>	<b>\$ 500</b>	<b>\$ 68,271</b>	<b>\$ 8,296</b>	<b>\$ 52,455</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Lakefront Development	Social Services	Special Events	City Council Donations	Confiscated Property	Special Project Donations	Economic Development Trust
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	43,465	-	-	81,150	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	-	-	101,632	-	-	-	83,962
<b>Total receipts</b>	<b>-</b>	<b>43,465</b>	<b>101,632</b>	<b>-</b>	<b>81,150</b>	<b>-</b>	<b>83,962</b>
Disbursements:							
General government	-	-	32,859	1,880	-	-	-
Public safety	-	-	-	-	122,071	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Health and welfare	-	27,611	-	-	-	-	-
Economic development	-	-	-	-	-	-	103,322
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>-</b>	<b>27,611</b>	<b>32,859</b>	<b>1,880</b>	<b>122,071</b>	<b>-</b>	<b>103,322</b>
Excess (deficiency) of receipts over disbursements	-	15,854	68,773	(1,880)	(40,921)	-	(19,360)
Other financing sources (uses):							
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants paid	-	-	-	-	-	-	-
Interfund loans received	-	-	-	-	68,100	-	-
Interfund loans paid	-	(14,000)	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(14,000)</b>	<b>-</b>	<b>-</b>	<b>68,100</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	1,854	68,773	(1,880)	27,179	-	(19,360)
Cash and investment fund balance - beginning	789	4	28,444	37,804	42,817	4,420	927,857
Cash and investment fund balance - ending	<u>\$ 789</u>	<u>\$ 1,858</u>	<u>\$ 97,217</u>	<u>\$ 35,924</u>	<u>\$ 69,996</u>	<u>\$ 4,420</u>	<u>\$ 908,497</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 789	\$ 1,858	\$ 97,217	\$ 35,924	\$ -	\$ 4,420	\$ -
Restricted assets:							
Cash and investments	-	-	-	-	69,996	-	908,497
<b>Total cash and investment assets - December 31</b>	<u>\$ 789</u>	<u>\$ 1,858</u>	<u>\$ 97,217</u>	<u>\$ 35,924</u>	<u>\$ 69,996</u>	<u>\$ 4,420</u>	<u>\$ 908,497</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Other purposes	\$ -	\$ -	\$ -	\$ -	\$ 69,996	\$ -	\$ 908,497
Unrestricted	789	1,858	97,217	35,924	-	4,420	-
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 789</u>	<u>\$ 1,858</u>	<u>\$ 97,217</u>	<u>\$ 35,924</u>	<u>\$ 69,996</u>	<u>\$ 4,420</u>	<u>\$ 908,497</u>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS  
 As of and for the Year Ended December 31, 2006  
 (Continued)

	Community Development Loan Program	Police Donations	CG/R&R Ministries	Metro Center	Weed and Seed	Totals
<b>Receipts:</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,856,034
Intergovernmental	-	-	-	-	71,880	13,825,472
Charges for services	-	-	-	116,480	-	1,943,139
Fines and forfeits	-	-	-	-	-	16,969
Other	2,670	1,399	-	-	-	3,691,523
<b>Total receipts</b>	<b>2,670</b>	<b>1,399</b>	<b>-</b>	<b>116,480</b>	<b>71,880</b>	<b>24,333,137</b>
<b>Disbursements:</b>						
General government	-	-	19,325	114,863	-	1,042,649
Public safety	-	2,000	-	-	41,669	2,208,256
Highways and streets	-	-	-	-	-	4,132,790
Sanitation	-	-	-	-	-	600,804
Health and welfare	-	-	-	-	-	1,876,760
Economic development	-	-	-	-	-	300,541
Culture and recreation	-	-	-	-	-	5,636,932
Urban redevelopment and housing	7,105	-	-	-	-	5,843,408
<b>Total disbursements</b>	<b>7,105</b>	<b>2,000</b>	<b>19,325</b>	<b>114,863</b>	<b>41,669</b>	<b>21,642,140</b>
Excess (deficiency) of receipts over disbursements	(4,435)	(601)	(19,325)	1,617	30,211	2,690,997
<b>Other financing sources (uses):</b>						
Tax anticipation warrants received	-	-	-	-	-	2,555,794
Tax anticipation warrants paid	-	-	-	-	-	(3,376,612)
Interfund loans received	-	-	-	-	-	5,193,703
Interfund loans paid	-	-	-	-	-	(2,995,742)
Transfers in	-	-	-	-	-	88,971
Transfers out	(153,000)	-	-	-	-	(253,000)
<b>Total other financing sources (uses)</b>	<b>(153,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,213,114</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(157,435)	(601)	(19,325)	1,617	30,211	\$ 3,904,111
Cash and investment fund balance - beginning	302,769	3,456	19,325	419	-	6,034,962
Cash and investment fund balance - ending	<u>\$ 145,334</u>	<u>\$ 2,855</u>	<u>\$ -</u>	<u>\$ 2,036</u>	<u>\$ 30,211</u>	<u>\$ 9,939,073</u>
<b>Cash and Investment Assets - December 31</b>						
Cash and investments	\$ -	\$ 2,855	\$ -	\$ 2,036	\$ -	\$ 2,417,118
Restricted assets:						
Cash and investments	145,334	-	-	-	30,211	7,521,955
<b>Total cash and investment assets - December 31</b>	<b>\$ 145,334</b>	<b>\$ 2,855</b>	<b>\$ -</b>	<b>\$ 2,036</b>	<b>\$ 30,211</b>	<b>\$ 9,939,073</b>
<b>Cash and Investment Fund Balance - December 31</b>						
Restricted for:						
Other purposes	\$ 145,334	\$ -	\$ -	\$ -	\$ 30,211	\$ 7,521,955
Unrestricted	-	2,855	-	2,036	-	2,417,118
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 145,334</b>	<b>\$ 2,855</b>	<b>\$ -</b>	<b>\$ 2,036</b>	<b>\$ 30,211</b>	<b>\$ 9,939,073</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - DEBT SERVICE FUNDS  
 For The Year Ended December 31, 2006

	1994 Judgment Bonds	Fifth Third Lease	Totals
Receipts:			
Other	\$ -	\$ -	\$ -
Disbursements:			
Debt service:			
Principal	-	2,208,155	2,208,155
Interest	-	194,825	194,825
Other	234	-	234
Total disbursements	234	2,402,980	2,403,214
Deficiency of receipts over disbursements	(234)	(2,402,980)	(2,403,214)
Other financing sources (uses):			
Transfers in	-	2,402,980	2,402,980
Transfers out	-	-	-
Total other financing sources (uses)	-	2,402,980	2,402,980
Deficiency of receipts and other financing sources over disbursements and other financing uses	(234)	-	(234)
Cash and investment fund balance - beginning	234	-	234
Cash and investment fund balance - ending	\$ -	\$ -	\$ -
<u>Cash and Investment Assets - December 31</u>			
Restricted assets:			
Cash and investments	\$ -	\$ -	\$ -
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ -	\$ -	\$ -

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS  
 For The Year Ended December 31, 2006

	Buffington Harbor Renovation	FEMA Grant - Fire Department	TIF District	Cumulative Capital Improvement	Cumulative Capital Development	Urban Mass Transit	Baseball Maintenance	Broadway Avenue Beautification	15th and Fulton Project
<b>Receipts:</b>									
Taxes	\$ -	\$ -	\$ 3,326,622	\$ -	\$ 677,096	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	168,000	4,999	367,058	26,520	-	-	-	-
Other	-	292,155	5	-	41	-	161,665	76,123	-
<b>Total receipts</b>	<b>-</b>	<b>460,155</b>	<b>3,331,626</b>	<b>367,058</b>	<b>703,657</b>	<b>-</b>	<b>161,665</b>	<b>76,123</b>	<b>-</b>
<b>Disbursements:</b>									
Capital outlay	30,387	171,299	1,077,317	209,982	532,878	2,256	145,888	-	-
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(30,387)</b>	<b>288,856</b>	<b>2,254,309</b>	<b>157,076</b>	<b>170,779</b>	<b>(2,256)</b>	<b>15,777</b>	<b>76,123</b>	<b>-</b>
<b>Other financing sources (uses):</b>									
Interfund loans received	-	-	2,366,860	180,000	60,000	-	-	-	-
Interfund loans paid	-	-	(3,224,857)	(110,000)	(292,000)	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(857,997)</b>	<b>70,000</b>	<b>(232,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>(30,387)</b>	<b>288,856</b>	<b>1,396,312</b>	<b>227,076</b>	<b>(61,221)</b>	<b>(2,256)</b>	<b>15,777</b>	<b>76,123</b>	<b>-</b>
Cash and investment fund balance - beginning	30,387	(233,355)	1,857	131,633	156,993	2,256	-	(76,123)	3,459
<b>Cash and investment fund balance - ending</b>	<b>\$ -</b>	<b>\$ 55,501</b>	<b>\$ 1,398,169</b>	<b>\$ 358,709</b>	<b>\$ 95,772</b>	<b>\$ -</b>	<b>\$ 15,777</b>	<b>\$ -</b>	<b>\$ 3,459</b>
<b>Cash and Investment Assets - December 31</b>									
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:									
Cash and investments	-	55,501	1,398,169	358,709	95,772	-	15,777	-	3,459
<b>Total cash and investment assets - December 31</b>	<b>\$ -</b>	<b>\$ 55,501</b>	<b>\$ 1,398,169</b>	<b>\$ 358,709</b>	<b>\$ 95,772</b>	<b>\$ -</b>	<b>\$ 15,777</b>	<b>\$ -</b>	<b>\$ 3,459</b>
<b>Cash and Investment Fund Balance - December 31</b>									
Restricted for:									
Capital outlay	\$ -	\$ 55,501	\$ 1,398,169	\$ 358,709	\$ 95,772	\$ -	\$ 15,777	\$ -	\$ 3,459
Unrestricted	-	-	-	-	-	-	-	-	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ -</b>	<b>\$ 55,501</b>	<b>\$ 1,398,169</b>	<b>\$ 358,709</b>	<b>\$ 95,772</b>	<b>\$ -</b>	<b>\$ 15,777</b>	<b>\$ -</b>	<b>\$ 3,459</b>

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Lake Street Public Works	Burr Street Project	Grant/ Buchanan Street Project	Park Construction	Redevelopment Construction	Mainwater Project	Casino Capital	Joint Public Safety Training	Totals
Receipts:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,003,718
Intergovernmental	-	-	319,829	-	-	-	2,533,232	-	3,419,638
Other	-	10,786	15,371	22,180	-	-	1,280,922	19,481	1,878,729
Total receipts	-	10,786	335,200	22,180	-	-	3,814,154	19,481	9,302,085
Disbursements:									
Capital outlay	39,156	8,677	375,957	55,987	38,689	-	4,350,182	-	7,038,655
Excess (deficiency) of receipts over disbursements	(39,156)	2,109	(40,757)	(33,807)	(38,689)	-	(536,028)	19,481	2,263,430
Other financing sources (uses):									
Interfund loans received	-	103,361	103,361	-	-	-	-	-	2,813,582
Interfund loans paid	-	(103,361)	(103,361)	-	-	-	-	-	(3,833,579)
Transfers in	-	-	-	-	-	-	3,246,849	-	3,246,849
Transfers out	-	-	-	-	-	-	(2,710,821)	-	(2,710,821)
Total other financing sources (uses)	-	-	-	-	-	-	536,028	-	(483,969)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(39,156)	2,109	(40,757)	(33,807)	(38,689)	-	-	19,481	1,779,461
Cash and investment fund balance - beginning	39,156	148,414	57,215	15,992	38,689	72,577	-	-	389,150
Cash and investment fund balance - ending	\$ -	\$ 150,523	\$ 16,458	\$ (17,815)	\$ -	\$ 72,577	\$ -	\$ 19,481	\$ 2,168,611
<u>Cash and Investment Assets - December 31</u>									
Cash and investments	\$ -	\$ -	\$ -	\$ (17,815)	\$ -	\$ -	\$ -	\$ -	\$ (17,815)
Restricted assets:									
Cash and investments	-	150,523	16,458	-	-	72,577	-	19,481	2,186,426
Total cash and investment assets - December 31	\$ -	\$ 150,523	\$ 16,458	\$ (17,815)	\$ -	\$ 72,577	\$ -	\$ 19,481	\$ 2,168,611
<u>Cash and Investment Fund Balance - December 31</u>									
Restricted for:									
Capital outlay	\$ -	\$ 150,523	\$ 16,458	\$ -	\$ -	\$ 72,577	\$ -	\$ 19,481	\$ 2,186,426
Unrestricted	-	-	-	(17,815)	-	-	-	-	(17,815)
Total cash and investment fund balance - December 31	\$ -	\$ 150,523	\$ 16,458	\$ (17,815)	\$ -	\$ 72,577	\$ -	\$ 19,481	\$ 2,168,611

CITY OF GARY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 INTERNAL SERVICE FUNDS  
 As of and for the Year Ended December 31, 2006

	<u>Self-Insurance</u>	<u>WCI/UCI Benefit</u>	<u>Totals</u>
Operating receipts:			
Employer contributions	\$ 8,064,349	\$ 729,700	\$ 8,794,049
Employee contributions	1,000,141	-	1,000,141
Other	<u>1,722,774</u>	<u>-</u>	<u>1,722,774</u>
 Total operating receipts	 <u>10,787,264</u>	 <u>729,700</u>	 <u>11,516,964</u>
Operating disbursements:			
Administrative and general	113	-	113
Insurance claims and premiums	<u>11,190,303</u>	<u>806,041</u>	<u>11,996,344</u>
 Total operating disbursements	 <u>11,190,416</u>	 <u>806,041</u>	 <u>11,996,457</u>
 Deficiency of receipts over disbursements	 (403,152)	 (76,341)	 (479,493)
 Cash and investment fund balance - beginning	 <u>(279,976)</u>	 <u>(69,058)</u>	 <u>(349,034)</u>
 Cash and investment fund balance - ending	 <u>\$ (683,128)</u>	 <u>\$ (145,399)</u>	 <u>\$ (828,527)</u>
 <u>Cash and Investment Assets - December 31</u>			
 Cash and investments	 <u>\$ (683,128)</u>	 <u>\$ (145,399)</u>	 <u>\$ (828,527)</u>
 <u>Cash and Investment Fund Balance - December 31</u>			
 Unrestricted	 <u>\$ (683,128)</u>	 <u>\$ (145,399)</u>	 <u>\$ (828,527)</u>

CITY OF GARY  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PENSION TRUST FUNDS  
 For The Year Ended December 31, 2006

	1937 Firefighters' Pension	1925 Police Pension	Totals
Additions:			
Contributions:			
Employer	\$ 4,200,813	\$ 4,158,957	\$ 8,359,770
Plan members	<u>2,505,366</u>	<u>2,897,382</u>	<u>5,402,748</u>
Total contributions	<u>6,706,179</u>	<u>7,056,339</u>	<u>13,762,518</u>
Investment receipts:			
Interest	<u>341</u>	<u>-</u>	<u>341</u>
Total additions	<u>6,706,520</u>	<u>7,056,339</u>	<u>13,762,859</u>
Deductions:			
Benefits	6,343,515	6,905,419	13,248,934
Administrative and general	<u>2,173</u>	<u>1,899</u>	<u>4,072</u>
Total deductions	<u>6,345,688</u>	<u>6,907,318</u>	<u>13,253,006</u>
Excess of total additions over total deductions	<u>360,832</u>	<u>149,021</u>	<u>509,853</u>
Other financing sources (uses):			
Tax anticipation warrants received	1,811,636	1,955,460	3,767,096
Tax anticipation warrants paid	(1,811,636)	(1,955,460)	(3,767,096)
Interfund loans received	3,352,983	3,187,983	6,540,966
Interfund loans paid	<u>(3,620,815)</u>	<u>(3,620,815)</u>	<u>(7,241,630)</u>
Total other financing uses	<u>(267,832)</u>	<u>(432,832)</u>	<u>(700,664)</u>
Excess of additions and other financing sources over deductions and other financing uses	<u>93,000</u>	<u>(283,811)</u>	<u>(190,811)</u>
Cash and investment fund balance - beginning	<u>502,264</u>	<u>365,043</u>	<u>867,307</u>
Cash and investment fund balance - ending	<u>\$ 595,264</u>	<u>\$ 81,232</u>	<u>\$ 676,496</u>

CITY OF GARY  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2006

	County Health	Empowerment Zone	NIMBOC Empowerment Zone	Empowerment Zone Revolving	Microloan	Supplemental Public Defender	Empowerment Zone SBA Microloan	Empowerment Zone SBA Loss Reserve	IEDC - Empowerment Zone
Additions:									
Agency fund additions	\$ 4,669	\$ 1,856,239	\$ 102,870	\$ 3,549,152	\$ 57,974	\$ 7,081	\$ 118,061	\$ 2,246	\$ 255
Deductions:									
Agency fund deductions	4,764	1,725,217	116,849	496,631	118,750	-	73,061	-	10,000
Excess (deficiency) of total additions over total deductions	(95)	131,022	(13,979)	3,052,521	(60,776)	7,081	45,000	2,246	(9,745)
Cash and investment fund balance - beginning	1,625	889	69,666	343,898	163,837	-	23	28,041	30,860
Cash and investment fund balance - ending	<u>\$ 1,530</u>	<u>\$ 131,911</u>	<u>\$ 55,687</u>	<u>\$ 3,396,419</u>	<u>\$ 103,061</u>	<u>\$ 7,081</u>	<u>\$ 45,023</u>	<u>\$ 30,287</u>	<u>\$ 21,115</u>

CITY OF GARY  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2006  
 (Continued)

	Indiana Bond Bank	Gary Hoops Trust	Miscellaneous Refunds	Redevelopment Depository Trust	Withholdings	Payroll	City Clerk - Civil Division	City Clerk - Criminal Division	Totals
Additions:									
Agency fund additions	<u>\$ 120,391,427</u>	<u>\$ 2,586</u>	<u>\$ 1,294</u>	<u>\$ 5,359</u>	<u>\$ 26,485,690</u>	<u>\$ 308,144</u>	<u>\$ 246,191</u>	<u>\$ 1,144,536</u>	<u>\$ 33,892,347</u>
Deductions:									
Agency fund deductions	<u>120,391,427</u>	<u>103,864</u>	<u>-</u>	<u>104,818</u>	<u>26,303,386</u>	<u>289,324</u>	<u>273,700</u>	<u>1,175,410</u>	<u>30,795,774</u>
Excess (deficiency) of total additions over total deductions	-	(101,278)	1,294	(99,459)	182,304	18,820	(27,509)	(30,874)	3,096,573
Cash and investment fund balance - beginning	-	101,278	7,378	99,177	1,683,289	(14,914)	46,790	1,248,182	3,810,019
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,672</u>	<u>\$ (282)</u>	<u>\$ 1,865,593</u>	<u>\$ 3,906</u>	<u>\$ 19,281</u>	<u>\$ 1,217,308</u>	<u>\$ 6,906,592</u>

CITY OF GARY  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2006

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.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 11,824,086
Construction in progress	7,050,873
Capital assets, being depreciated:	
Infrastructure	129,053,692
Buildings	141,310,231
Improvements other than buildings	11,814,346
Machinery and equipment	<u>41,707,314</u>
Total governmental activities, capital assets	<u>\$ 342,760,542</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Sanitary District:	
Capital assets, not being depreciated:	
Land	\$ 453,204
Construction in progress	4,289,768
Capital assets, being depreciated:	
Buildings and improvements	100,198,947
Transmission lines	184,874,444
Machinery and equipment	<u>48,135,587</u>
Total Sanitary District capital assets	<u>337,951,950</u>
Storm Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 114,354
Construction in progress	1,231,642
Capital assets, being depreciated:	
Buildings and improvements	1,367,825
Transmission lines	2,520,227
Machinery and equipment	<u>258,620</u>
Total Storm Water Utility capital assets	<u>5,492,668</u>
Total business-type activities, capital assets	<u>\$ 343,444,618</u>

CITY OF GARY  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Dispatch Center	\$ 146,389	\$ 146,389
Lawn Equipment and Fire Vehicles	842,757	170,919
Ten Ton Trucks and Excavator with accessories	751,880	100,019
Public Safety Equipment	2,764,412	1,348,959
Notes and loans payable	6,295,939	2,733,248
Bonds payable:		
Revenue bonds:		
2004 A Redevelopment Authority Refunding Bonds	3,975,578	937,117
2004 B Redevelopment Authority Refunding Bonds	9,321,041	2,196,883
Gary Building Corporation - Sears Building Renovation	<u>3,220,000</u>	<u>545,000</u>
Total governmental activities long-term debt	<u>\$ 27,317,995</u>	<u>\$ 8,178,533</u>
Business-type Activities:		
Sanitary District:		
Notes and loans payable:		
1993 SRF Loan	\$ 6,830,227	\$ 865,000
2000 SRF Loan	10,135,006	1,050,000
Bonds payable:		
General obligation bonds:		
2003 Sanitary District Improvement Refunding Bonds	<u>8,580,000</u>	<u>1,075,000</u>
Total business-type activities long-term debt:	<u>\$ 25,545,233</u>	<u>\$ 2,990,000</u>

CITY OF GARY  
OTHER REPORTS

The annual report presented herein was prepared in addition to other official reports prepared for the individual City offices listed below:

City Clerk  
City Drug Court

CITY OF GARY  
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The following lists the funds and overdrawn cash balances at December 31, 2006:

Fund Type/Name	Amount
General Fund (101)	\$ 496,336
Special revenue funds:	
Protective Services Grant 1 (202)	995,254
Emergency Shelter (222)	73,236
HIV Substance Abuse Prevention (246)	2,071
COPS in School (249)	3,001
Community Development Block Grant (261)	13,141
Summer Jobs Training Program (266)	347,580
Capital projects fund:	
Park Construction (450)	17,815
Internal service funds:	
Self-Insurance (791)	683,128
WCI/UCI Benefit (792)	145,399
Agency fund:	
Redevelopment Depository Trust (786)	282
Total overdrawn funds	\$ 2,777,243

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROVED DEPOSITORIES

As also noted in the prior audit, the City holds a trust account with Wachovia Securities which includes a sweep account and investments in municipal bonds. Wachovia Securities is not a depository approved by the State of Indiana. At December 31, 2006, the balance of this trust account included cash in the amount of \$44,864.12 and municipal bonds in the amount of \$750,000.

Indiana Code 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds.

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

ANNUAL REPORT

An annual report for 2006 was filed by March 1, 2007, as required. The report was not published until March 8, 2007.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

CAPITAL ASSET POLICY

Ordinance 7485, which addresses capital assets, was passed by the Common Council on August 5, 2003; however, the ordinance does not address some details regarding infrastructure such as resurfacing, pavement rehabilitation, or asphalt paving. Section 4 of the ordinance should include some definitions, defining the difference between infrastructure improvements that are to be included in additions to capital assets and those that are to be considered costs of repairs. A potential infrastructure improvement above the \$75,000 capitalization threshold may not be a capital asset depending upon the definition. Infrastructure assets are grouped into networks or subsystems, rather than reporting the assets as individual items. This should also be addressed in the capitalization policy.

The City is depreciating infrastructure using a 75 year life, but the policy states in section 6: "All infrastructure shall be capitalized over a period of between 15 to 50 years given the nature of the project."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER DISBURSEMENTS

Departments of the City receive vendor invoices which are then attached to claims and submitted to the Controller's Office for payment. Once the check is drafted by the Controller's Office, it is returned to the department. The department will then send the check to the vendor. This procedure demonstrates a significant deficiency as well as a material weakness in the City's internal control structure for the disbursing of City funds. The Controller's Office would not know if a vendor has or has not been paid. Also, if the vendor contended that payment had not been made or had not been made timely, the Controller's Office would not know if the delay occurred within their office or within the respective department.

As illustrated above, the Controller's Office drafted three checks payable to the Gary Genesis Convention Center, which is a department of the City. The checks were drafted on behalf of another agency (Gary, East Chicago, Hammond Empowerment Zone) for whom the City maintains the financial records and writes the checks. The checks were written at various dates during the year; however, the Gary Genesis Convention Center contends they never received payment. The City has stated that the checks were given to the Gary, East Chicago, Hammond Empowerment Zone to forward to the Genesis Convention Center; however, no one has been able to determine what has happened to those checks.

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

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

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund Type/Fund</u>	<u>Excess Amount Expended</u>
General Fund*	\$ 4,465,289
Special Revenue Funds:	
Local Road and Street	136,730
Motor Vehicle Highway	283,193
Park and Recreation	4,409
Genesis Civic Center	133,358

\*A breakdown by department could not be determined.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

APPROPRIATION TRANSFERS BETWEEN DEPARTMENTS

The City Controller transferred appropriations between various departments within the General Fund during 2006. These interdepartmental transfers were not approved by the Indiana Department of Local Government Finance.

When proposing transfers from one department or office to another, in addition to an ordinance of the town council or common council authorizing such transfer, advertising to the taxpayers and prior approval of the Department of Local Government Finance is required. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

SUPPORTING DOCUMENTATION

In accordance with the compliance guidelines and the City's own policy regarding credit card usage, when purchases are made using a credit card, vendor invoices are to be retained and remitted to the Controller with the credit card billing statement; otherwise, payment should not be made.

CITY OF GARY  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

Claims for payment on credit cards held by officials and employees did not always contain receipts to support charges. Upon request that supporting documentation be supplied, some documentation was obtained; however, some documentation still was not provided for audit. The following is a list of credit card payments made without supporting documentation:

Individual	Amount
Former Mayor	\$ 539
Current Mayor	72
Councilman	1,146
City Judge	1,055
City Court Employee	109

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed: . . .

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

MISSING CLAIMS

A random sample was generated from checks issued in 2006 to determine claims to be tested for financial and compliance attributes. From that sample, two claims totaling \$166 could not be located for audit. Additionally, two of the checks were identified in the financial records as having been voided; however, the voided checks could not be found. A claim could not be located for one of the voided checks. For the other, a claim totaling \$1,632.95 was located, but it did not indicate that the check was voided and a replacement issued; nor was the claim voided.

In other audit testing, claims were requested for compliance testing for the HOME Investment Partnerships Program and the Community Development Block Grant. In total, 57 claims were requested. The Controller's Office failed to find 5 which totaled \$207,615. For those 5 claims that could not be located in the Controller's Office, copies retained by the departments were used to verify the compliance requirements.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PURCHASING PREFERENCES

City Ordinance Number 6972 (and also Gary Sanitary District Resolution No. 2113) states in Section 6(e) that "in evaluating the price of any vendor's or contractor's bid or proposal for goods or services, the bids or proposals shall be evaluated as though the prices proposed or bid by a Gary Business were ten percent (10%) lower than actually proposed or bid. The said preference may not exceed ten percent (10%) of the total amount of the lowest, most responsible and most responsive bid by a Gary Business. The Gary Board of Public Works shall adjust the lowest, most responsible, most responsive bid by a Gary Business, and if after said adjustment a Gary Business is the lowest, most responsible and most responsive bid, the Gary Board of Public Works may award said contract to the said Gary Business, at the price originally bid." Section 6(f) states that: "other departments, divisions, components and agencies of the City of Gary letting contracts shall follow the procedures outlined in Section 6(e) above."

A governmental body may adopt rules to implement the statutes governing purchasing preferences.  
[IC 5-22-15-15]

Allowable Preferences

An offeror may claim one of the following types of preference for which the offeror is eligible:

1. An Indiana business preference under rules adopted under IC 5-22-15-20 or IC 4-13.6-6-2.5.
2. A preference for supplies as provided by sections 16, 18, and 19 of IC 5-22-15.
3. An Indiana small business preference as provided by section 23 of IC 5-22-15.

An offeror may not claim more than one preference as provided by sections 16, 18, and 19 of IC 5-22-15 for a given supply item. [IC 5-22-15-7] (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL DEFICIENCIES

As noted in the prior audit period, employees are allowed to carry vacation and sick leave balances in excess of amounts allowed according to the City of Gary Personnel Manual.

The City maintains Employee Service Records which report leave time earned, used, and accumulated for employees. The City also maintains Employee Payroll Earnings Histories which report, by each payroll period, amounts paid to employees. Both records show the employee hire dates; however, the dates on the Employee Service Records did not always agree with the hire dates on the Employees' Payroll Earnings Histories.

Furthermore, approximately 30% of the employee service records tested, either the leave balances were not accurately accumulated, or the balances were not computed at all.

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The City of Gary Personnel Manual, Page 66, Paragraph 16, states in part: "Vacation time may be accumulated up to a maximum of two years accruals."

The City of Gary Personnel Manual, Page 70, Paragraph 4 states: "Sick days may be accumulated to a maximum of 90 working days."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LATE CHARGES AND FEES

The City of Gary paid \$1,750.34 in late charges to Key Government Finance, Inc., as a result of delinquent payments on two equipment leases. Also, we noted that the City pays annual fees for their American Express credit cards, when most other credit card companies do not charge any annual fees.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UNAUTHORIZED PAYMENT

On June 26, 2007, the City Controller reviewed bank activity and found that a credit card payment was made electronically without her authority. The payment was made on June 26, 2007. The payment was initiated by the council person who was issued the credit card by the City. It is not known as to how the council person acquired access to the City bank account numbers.

A claim was not submitted for payment, nor was an invoice provided. At the time, the Controller assumed that the electronic transfer was made for payment on the City's credit card; however, the council person contended that no such payment was made. The Controller researched the payment through the vendor and found that the payment made was on the council person's credit card account. The council person then stated that she had made the payment, but that it was made from the wrong account; it was to have been paid from her personal bank account. As of August 7, 2007, the City has not yet been reimbursed for the erroneous disbursement, nor has any documentation been presented to substantiate the purchases made.

Indiana Code 36-4-8-2 states:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted;
- (2) the warrant is for a salary fixed by statute or ordinance;
- (3) the warrant is for a claim allowed under section 5 of this chapter;

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- (4) he is ordered to issue the warrant under section 3 of this chapter;
- (5) the warrant is for payment of a judgment that the city must pay; or
- (6) the warrant is for interest due on city bonds."

Indiana Code 36-4-8-3 states:

"(a) A city board or legislative body may order the issuance of warrants for payment of money by the city only at a meeting of the board or legislative body.

(b) A city officer who violates this section forfeits his office."

Indiana Code 5-11-10-1(b) states: "No warrant or check shall be drawn by a disbursing officer in payment of any claim unless the same has been fully itemized and its correctness properly certified to by the claimant or some authorized person in the claimant's behalf, and filed and allowed as provided by law."

Indiana Code 5-11-10-3 states: "A person who knowingly violates section 1 of this chapter commits a Class D felony."

The council person will need to provide a claim to the Controller with the credit card invoice and original vendor invoices attached to support the business purpose of the expenditure. If such documentation is not provided and the council person has not reimbursed the City for the personal expenditure, the council person will be requested to reimburse the City for the expenditure in the next audit.

TEMPORARY LOANS

Sixty-five temporary loans between funds were recorded in 2006. The majority of these temporary loans were not authorized by the Common Council and the balance of the majority of these loans was not repaid as of December 31, 2006. Furthermore, an ordinance has not been adopted to extend the loan terms by an additional six months. Included in these loans was a total of \$2,400,000 borrowed from the Police and Fire Pension Funds, which is prohibited by statute. The following details temporary loans still outstanding as of year end:

Loan From	Loan To	Amount
General (101)	1937 Firefighters' Pension (702)	\$ 150,000
Gaming Revenues (277)	General (101)	9,005,718
Gaming Revenues (277)	1925 Police Pension (730)	200,000
Park and Recreation (250)	General (101)	100,000
Park and Recreation (250)	Gaming Revenues (277)	300,000
Confiscated Property (710)	Lakefront Development (704)	31,000
Confiscated Property (710)	Social Services (705)	6,500
TIF District (276)	General (101)	2,243,857
Burr Street Project (429)	General (101)	55,000
Burr Street Project (429)	Cumulative Capital Improvement (401)	145,000
Grant/Buchanan Street Project (430)	Cumulative Capital Improvement (401)	145,000
1937 Firefighters' Pension (702)	General (101)	950,000
1925 Police Pension (730)	General (101)	950,000
1925 Police Pension (730)	Gaming Revenues Fund (277)	100,000
Payroll (102)	1937 Firefighters' Pension (702)	15,000
Sanitary District Funds	General (101)	15,497,127

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Total interfund loans made in 2006 were \$28,902,839. Of this amount, \$10,497,127 were loans from the Sanitary District to the City Governmental Funds, and were approved by the Sanitary District Board of Commissioners. From the remaining amount, \$4,290,000 were noted as approved by the Common Council; thus, temporary interfund loans in the amount of \$14,115,712 were not approved by any governing board as required by statute.

In 2007, the Common Council passed an ordinance to write off (forgive) \$9,005,718 in temporary loans that were disbursed from the Gaming Revenues Fund in 2005 and 2006. The amount of temporary loans disbursed from the Gaming Revenues Fund in 2006 was \$7,290,969. The balance of \$1,714,749 is the amount that remained unpaid from loans made in 2005.

In 2006, four temporary loans totaling \$10,497,127 were made to the City from the Sanitary District. The Common Council approved repayment of these loans when the City received the last tax draw of 2006. The City posted the last tax draw on December 29, 2006. As of August 6, 2007, the General Fund has only repaid \$1,000,000 of these loans and a \$5,000,000 temporary loan made in 2005, but had not been repaid.

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount . . ."

"(3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

(4) The amount transferred must be returned to the other fund at the end of the prescribed period."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

(1) Passes an ordinance or a resolution that contains the following:

(A) A statement that the fiscal body has determined that an emergency exists.

(B) A brief description of the grounds for the emergency.

(C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

(2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

With regard to the Fire Pension Fund, Indiana Code 36-8-7-2.5 (b)(2) states: "No part of the corpus or income of the 1937 fund may be used or diverted to any purpose other than the exclusive benefit of the members and their beneficiaries."

With regard to the Police Pension Fund, Indiana Code 36-8-6-1.5 (b)(2) states: "No part of the corpus or income of the 1925 fund may be used or diverted to any purpose other than the exclusive benefit of the members and their beneficiaries."

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EMERGENCY CONTRACT

The Board of Public Works and Safety approved a contract effective February 13, 2007, with Insulating Roofing Contractors for the emergency repairs of the roof at the Hudson Campbell Fitness Center. The minutes indicated that Insulating Roofing Contractors was the low bidder. There was no documentation in the minutes that other persons or businesses were invited to provide bids or quotes.

Indiana Code 36-1-12-9 states:

"(a) The board, upon a declaration of emergency, may contract for a public work project without advertising for bids if bids or quotes are invited from at least two (2) persons known to deal in the public work required to be done.

(b) The minutes of the board must show the declaration of emergency and the names of the persons invited to bid or provide quotes."

AGREEMENTS FOR TICKET SALES

The Genesis Convention Center (GCC) enters into lease agreements in which ticket sales are split between GCC and the lessee. The collections from the ticket sales are retained so that GCC can pay these lessees in cash on the night of the event. In one instance, a receipt was issued by GCC to document the payment made to the lessee. It was from the same receipt books used by GCC to record collections.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited under this subsection shall be deposited in the same form in which they were received."

Disbursements, other than proper petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

GENESIS CONVENTION CENTER RECEIPTS

- (1) Receipts issued were not listed in chronological order on the Daily Cash Log which accompanies the remittances to the Controller's Office. For example, a Daily Cash Log for June 2007 listed receipts from April and June, but none for May. Other receipts from April were included on a Daily Cash Log in April.
- (2) A prescribed and prenumbered receipt book was not used for the month of August 2006. Collections were receipted on a "petty cash" form.
- (3) One receipt indicated cash had been received; however, further investigation showed that cash had not been received, but had actually been paid. The receipt was used to document the payment of cash to an event promoter.
- (4) One Daily Cash Log was missing. This Daily Cash Log should have included 22 receipts totaling \$9,514.40.
- (5) When receipts were voided, the original copies were not retained.

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At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER GENESIS CENTER RECEIPTS FOR CONTRACTUAL EVENTS

The City's outstanding checklist from December 31, 2006, included three checks which were all made payable to the Genesis Civic Center on behalf of the Gary, East Chicago, Hammond Empowerment Zone for events held in 2006. One check (No. 260482) was payment for a luncheon held on December 21, 2005, for \$600 as well as payment for a catered meeting held on January 18, 2006, for \$585. This check was dated February 17, 2006. A second check (No. 260562) dated April 3, 2006, was for a catered Empowerment Zone Board meeting held on February 28, 2006, for \$264. The third check (No. 260737), dated July 6, 2006, was payment for a catered Minority Grant Construction Training meeting held on July 6, 2006, for \$137.50.

Receipts were not issued by the Genesis Convention Center for these three checks. Genesis Convention Center officials explained that when checks are received for events, they are held by the event coordinator until such time as they can be matched to the event contract. Once that occurs, a receipt is issued and the money is deposited. Officials explained that the checks are received in the box office and given to the event coordinator; however, officials cannot locate these three checks or explain what happened.

On July 2, 2007, Genesis Center officials did produce two additional checks issued by the City in April, 2007. These two checks had just been matched to event contracts; so receipts were written, and the checks were about to be deposited. This illustrates another example of untimely receipt issuance and deposit of funds.

Currently, officials do not have a system for following up on payment on event contracts. Officials do not know which contracts still have outstanding balances. Officials are not writing receipts and depositing funds immediately upon receipt; thus, items are being lost. Also, City officials are not ensuring that they are being issued a receipt for payments made to other City departments, which would enforce that controls have been properly adopted and administered.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

CONTRACT AND INFORMAL AGREEMENT WITH GARY HOOPS, LLC

On July 6, 2001, the Gary Genesis Convention Center Board of Managers and Gary Hoops, LLC, entered into an Arena License Agreement whereby the Genesis Convention Center (GCC) agreed to rent their arena to Gary Hoops, LLC, based on the following:

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<u>Term</u>	<u>From/To Dates</u>	<u>Rent Due GCC Per Event</u>
Initial Term	07-01-01 to 06-30-03	\$ 1,000
Second Term	07-01-03 to 06-30-06	1,100
Third Term	07-01-06 to 06-30-09	1,200
Fourth Term	07-01-09 to 06-30-12	1,300

This licensing agreement also included the exclusive use of office space at an additional cost of \$200 per month by Gary Hoops, LLC. This agreement was modified on August 1, 2003, to include the exclusive use of the La Porter Room at a cost of \$150 per month.

Per Genesis Convention Center management, Gary Hoops paid on the contract as agreed until the 2003-2004 season.

An additional letter titled "Agreement between the Gary Hoops LLC and the Genesis Convention Center" was sent from the attorney for Gary Hoops, LLC (who happens to be the son of the former owner of Gary Hoops, LLC) to the attorney representing the Genesis Convention Center on February 3, 2006. This letter stated that "the City of Gary, by and/or through the Genesis Convention Center, agrees to assume the financial liabilities . . . in consideration for the Hoops agreement to assign the revenues generated by the company from today's date through the conclusion of the current CBA season." The letter goes on to state that the Arena License Agreement entered into by the parties should be amended to reflect this arrangement. As such, the team would agree to an amendment to the Agreement which would allow for the \$150,000 of promotional funding the GCC provided to also be used for other nonmarketing related expenses of the team. Per management and review of the records, the City assumed the liabilities but did not receive any of the revenues generated for the remainder of the CBA season as per the February 3, 2006 "agreement." The liabilities assumed by the City and paid directly to Gary Hoops, LLC, as a result of this agreement totaled \$144,297. These are only the amounts paid directly to the Gary Steelheads (Gary Hoops, LLC) as based on the agreement. There were also items paid directly to vendors on behalf of the Gary Steelheads (Gary Hoops, LLC). We are unable to determine the total amount paid on behalf of the Gary Steelheads by the City of Gary.

Evidence of board approval was not provided. No agreement signed by a representative of the City or GCC could be located for audit. An amendment to change the terms of the original contract was not made available for audit.

As of the end of the 2005-2006 season, the amounts due the City of Gary by Gary Hoops, LLC, as per the February 3, 2006 "agreement," are summarized as follows:

<u>Fiscal Year</u>	<u>Rents Due</u>	<u>Rent Type</u>	<u>Amounts</u>
2003-2004	Season balance		\$ 12,100
2004-2005	Season balance		21,500
2005-2006	Season balance		31,900
2005-2006	Office rents		<u>4,400</u>
Total due			<u>\$ 69,900</u>

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Ticket Sales Collected by Gary Hoops, LLC, per Ticket Master Audit Reports provided by GCC officials:

Date of Report	Amount
March 16, 2006	\$ 9,357
March 16, 2006	22,867
March 16, 2006	13,407
March 16, 2006	12,577
Total	\$ 58,208

Less:

Concession percentages withheld from Gary Hoops, LLC:

Month	Amount
January 2006	\$ 1,838

Thus, the summary of the total due to the Genesis Convention Center is:

Type of Revenue/Deduction	Amount
Rental Fees	\$ 69,900
Ticket Master Ticket Sales	58,208
Less: Concessions	(1,838)
Total due Genesis Convention Center	\$ 126,270

The total due does not include the revenue generated by the basketball team for the six games played in February 2006 as the Ticket Master Audit Reports for these dates could not be located for audit.

Four checks were issued by Gary Hoops, LLC, to the Genesis Center in February 2006 totaling \$3,415 as payments for various February 2006 games; however, these four checks were returned for insufficient funds.

As of the end of the 2005-2006 CBA season, the Gary Steelheads are no longer a part of the Continental Basketball Association (CBA). The Steelheads are now a part of the United States Basketball League (USBL). Also, prior to 2007, the Gary Steelheads were managed by Gary Hoops, LLC. They are currently being managed by Showtime Sports and Entertainment, LLC. The owner of Showtime Sports and Entertainment, LLC, is the previously mentioned attorney for Gary Hoops, LLC, and son of the former owner of Gary Hoops, LLC.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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Indiana Code 36-4-6-18 states: "The legislative body may pass ordinances, orders, resolutions, and motions for the government of the city, the control of the city's property and finances, and the appropriation of money."

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CELLULAR TELEPHONE OVERAGES AT GENESIS CONVENTION CENTER

The Genesis Convention Center (GCC) issued cellular phones to various employees in 2006. In our review of minutes, it was noted that several employees were incurring charges over the monthly cellular package allotment. These employees were, in turn, billed by the Executive Manager for these overages. Of the four overages tested, only two could be traced to receipts for reimbursement to GCC. Management was not able to provide a list of overages charged, collected, and balance due to GCC as no one monitored the overages and/or payments on an ongoing basis. As of 2007, the cellular phones are now only issued to the five department heads at GCC.

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS AT THE YOUTH SERVICES BUREAU

The Youth Services Bureau (YSB) provides activities for Gary youths during spring and summer breaks from school. Programs include providing lunches and field trips. In prior years, fees were not collected for such activities; however, in 2006, the former operations manager established fees for field trips. These fees were not approved by the City Council.

Receipts issued to individuals for the fees collected were not prescribed or approved forms, and were not provided for audit. Copies of some of these receipts were included with other documents, but could not be verified to other YSB receipts which were provided for audit. These receipts could not be verified to receipts of the Controller.

Based upon other documents provided for audit, the Youth Services Bureau had five field trips in the spring and six in the summer of 2006.

A financial report prepared by the former Operations Manager (who is currently the Park Superintendent) regarding the spring trips includes the trips taken, the number of attendees, the fee charged per attendee, and the total fees; however, calculated amounts differed as shown below:

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Trip	Attendees	Cost per Attendee	Reported Total Fees	Calculated Fees	Difference (Calculated Fees Over Reported Fees)
Skating	71	\$ 10.00	\$ 426.00	\$ 710.00	\$ 284.00
Zoo	94	7.00	169.00	658.00	489.00
Bowling	60	6.50	135.00	390.00	255.00
Fun center	77	14.00	872.00	1,078.00	206.00
Navy pier	98	14.00	671.00	1,372.00	701.00
Totals			<u>\$ 2,273.00</u>	<u>\$ 4,208.00</u>	<u>\$ 1,935.00</u>

The Controller's records reflect receipts totaling \$1,576.25 for the spring trips. A reconciliation of the collections report prepared by the former Operations Manager showed the following:

Description	Amount
Bus cost	\$ 2,076.00
Less: deposit to Controller	<u>1,576.25</u>
YSB cost	<u>\$ 499.75</u>

The above reconciliation would indicate that the Youth Services Bureau lost \$499.75 on the trips, because they had not collected sufficient funds to cover the cost of the bus; however, the deposit to the Controller was short by \$696.75 based upon the former Operations Manager's report of fees collected. Based upon our calculation of collections, the deposit to the Controller was short by \$2,631.75.

No collections report for the summer trips was available for audit.

On, July 2, 2007, we met with the former Operations Manager to discuss the lack of records provided. At that time, the former Operations Manager explained that the receipting of field trip fees and the payment of field trip expenses was often done without depositing all receipts and going through the claims process; but, rather, expenses were paid out of the funds on hand. She was also able to provide additional receipts books for 2006.

Of the 11 events held in 2006, only receipts for 1 event appeared in these additional receipt books. These receipts were for a bowling event for the spring of 2006. This documentation showed total receipts issued on nonprescribed forms for \$185 and a disbursement for bowling in the amount of \$90. Subsequently, a receipt was written on a prescribed form in the amount of the difference of \$95; however, this amount could not be verified to a City Controller receipt. Based upon the financial report (of which the details are provided in the chart above) this money would have been remitted with the other spring trips; however, the amounts do not agree to the "bowling" trip amounts reported.

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Discounts Not Cost Effective

Also provided for audit was documentation in regards to the August 11, 2006, trip to Great America. This would have been included as a summer trip. Per the former Operations Manager, the vendor set a minimum required purchase of 107 tickets in order to obtain the special pricing of \$27 per ticket.

The following summarizes the cost for and the collections deposited for the Great America trip and the final cost incurred by the Youth Services Bureau for this event:

Description	Amount
Ticket cost (107 tickets @ \$27 each)	\$ 2,889
Bus cost	1,280
Total cost	4,169
Less: amount remitted to the City Controller	(1,505)
Loss on trip	\$ 2,664

Per a memo prepared by the former Operations Manager, 40 tickets were sold and 45 were given away as "courtesy" tickets to staff. This leaves an accountability difference of 22 tickets.

Based on the 2007 ticket prices for groups under 100, as noted on the sixflags.com website, the ticket price is \$31.07 per ticket. The following schedule shows the cost had only 40 student tickets been ordered:

Description	Amount
Ticket cost (40 tickets @ \$31.07 each)	\$ 1,243
Bus cost	1,280
Total cost	\$ 2,523

Thus, if the YSB had not generated any revenue from the sale of only student tickets, they would have lost less money than they did by charging a fee and giving away more tickets than were sold.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission." Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee.

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Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POOL FEES

An all day pool usage fee is charged for children and adults. This fee is not on the approved fee schedule.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CATERING CONTRACTS AT MARQUETTE PARK PAVILION

Security fees for events at Marquette Park Pavilion were not charged in accordance with the amounts indicated in the contracts.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ACCOUNTS RECEIVABLE PAST DUE AT SANITARY DISTRICT

The Gary Sanitary District has two separate software programs for accounting for accounts receivables. The first is a billing system and the second is the financial accounting system. The billing system determines accounts receivable based upon customer accounts billed less payments made. The financial accounting system accounts for all of the financial activity of the District, and the accounts receivable balance is determined by entries made to record the activity based upon the billing system activity. At December 31, 2006, the accounts receivable balance from the billing system was \$4,963,766, while the accounts receivable balance from the financial accounting system was \$3,501,519. The difference is mostly due to the posting of write-offs to the financial accounting system in the amount of \$1,463,077. Officials have indicated that accounts cannot be written off of the billing software accounts receivable balance.

From the billing software accounts receivable balance, which allows for an aging report to be run, \$2,644,330 was past due by one to more than three years. Officials approved the writing off of accounts in the amount of \$2,496,439 as bad debts. Of the write-offs approved, only residential delinquencies totaling \$1,463,077 were written off.

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The District's Resolution 04-46 states: "The writing off of all bad debts must be pre-approved by the Board of Commissioners. The Finance Manager will present a list of bad debts proposed to be written off to the Board of Commissioners for its consideration in April, August, and December of each year."

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May."

"(l) A board may write off a fee or penalty under subsection (a) that is for less than forty dollars (\$40)."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for City and Towns Courts, Chapter 4)

TOWNSHIP BILLING RECORDS AT THE SANITARY DISTRICT

The Sanitary District has established a separate account for posting amounts due from Calumet Township for customers receiving poor relief assistance. Amounts due from the Township are posted from customer billing stubs and vouchers provided by the Township. The accumulated balance due from the Township based upon these billing stubs and vouchers is billed monthly to the Township. When the District receives the Township's payments, they are to be posted to this account. As in prior audit reports, the amounts billed to the Township differ from amounts posted to the customer history report for the Township. In prior audit periods, there was a problem with some amounts being posted multiple times. Controls have not been corrected to ensure the accuracy of this account.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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LEASE RENTALS

The City of Gary Redevelopment Commission (Commission) is responsible for leasing office space at the building owned by the City. The proceeds from the leases were used to finance debt obligations on the building.

The Gary Sanitary District (District) had a lease with the City of Gary Redevelopment Commission (Commission) for office space which expired July 31, 2006. The Gary Sanitary District has continued to pay the agreed lease rental amount without a current lease. The original lease set annual rent in the amount of \$36,000 less a rent credit of \$15,000. The rent, less the rent credit, brought the lease payment to \$1,750 per month and was due to increase by \$1,250 per month to \$3,000 per month when renewed.

The Commission is currently in the process of attempting to collect the past due rent increase and obtaining a new lease with the District.

A lease with another entity had also expired but the Commission continued to collect rent without a current lease. The Commission has indicated that their attorney is in the process of negotiating a new lease.

Finally, a valid lease was noted in which payments were not received for calendar years 2005, 2006, or 2007. No attempts have been made by the Commission to collect the unpaid rent.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE

The Gary Sanitary District entered into contractual agreements with other governmental agencies for the repayment of a State Revolving Fund Loan. The District has not collected the agreed upon capital contributions for the repayment of the loan from the Hobart Sanitary District. As of December 31, 2006, \$304,792 is due from the Hobart Sanitary District.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LEVY EXCESS FUNDS

On January 24, 2006, the Gary Sanitary District Board passed Resolution 06-01 approving the transfer of the \$2,274,773 cash balance in the Sanitary District Levy Excess Fund to the Sewer Operating Fund.

On January 24, 2006, the Gary Storm Water District Board passed Resolution 06-01 approving the transfer of the \$260,240 cash balance in the Storm Water District Levy Excess Fund to the Storm Water Management District Fund. At December 31, 2006, these funds were still being held in their respective levy excess funds; the transfers were not made.

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE PENSION BENEFITS

While reviewing the police pension payroll, it was noted that there were two pensioners that were over paid in excess of \$700 each, for 2006.

In prior audit periods pensioners' benefits were miscalculated also, but the errors resulted in underpayments to the pensioners, which were subsequently corrected. Thus, we instructed officials to collect the overpayments made in 2006. Additionally, the City needs to implement procedures to prevent such occurrences in the future.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPTS FOR POLICE DEPARTMENT

Receipts for accident and offense reports, as well as for towing release fees, did not always indicate the method of payment (check, cash, or money order).

Nonprescribed receipts were used for the period of July 6, 2006 to November 15, 2006, for the receipting of towing release fees.

Receipts were not always written for checks received through the mail.

The Police Department prepares a form called "City of Gary - Revenue Department - Revenue Verification" to report collections to the City Controller. This form details the collections, but it does not list the receipt numbers corresponding to the money being remitted to the Controller's Office for deposit.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE DEPARTMENT REMITTANCES TO THE CITY CONTROLLER

Fees for gun permits are collected at the Police Department and then are to be remitted to the City Controller. When an individual applies for a gun permit, two money orders are required. One money order is made payable to the City, and the second is made payable to the State of Indiana. The Bureau of Identification (BOI) accepts the applications and payments and performs background checks on the applicants, prior to remitting the money orders and applications to the Chief's Office. The Clerk from this office

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

then notes the date she receives the money orders and applications, prepares a report of collections, and is responsible for timely remittance of the money orders made payable to the City to the Controller. The following schedule notes the dates of receipts, the date money orders were received by the Chief's office (based upon the Clerk's notes), and the date money orders were received by the Controller.

<u>BOI Receipt Dates</u>	<u>Date Received by Police Chief's Office</u>	<u>Date of Controller's Receipt</u>
01-06-06	Not indicated	02-13-06
02-16-06 to 02-17-06	03-14-06	04-06-06
06-15-06 to 06-16-06	06-28-06	07-18-06
08-31-06 to 09-01-06	09-13-06	11-17-06
09-07-06 to 09-08-06	11-21-06	12-08-06
11-09-06	12-12-06	01-22-07
11-16-06 to 11-17-06	12-12-06	02-07-07
12-14-06 to 12-16-06	02-10-07	02-16-07

Receipts and fees collected by a police department should be remitted to the clerk-treasurer or city controller at least once each week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

CORONER'S CONTINUING EDUCATION FUND

Death certificates are issued by the Health Department at a cost of \$7 each. For every death certificate issued, \$6 is retained by the City Health Department, and \$1 is to be remitted to the County for deposit to the Coroner's Continuing Education Fund.

The Health Department collects the fees and remits both portions to the City Controller. A report is completed to instruct the controller to deposit the \$6 fee to the Health Fund, and to deposit the Coroner's Continuing Education fee into an agency fund (Fund 210 - County Health) for subsequent disbursement to the County on a quarterly basis by the Controller.

When a payment is made by credit card for a death certificate, the entire \$7 fee is being deposited into the County Health Fund (Fund 210); thus, the City Health Department is not receiving their proper portion of the fee.

Indiana Code 16-37-1-9 states: "(a) A local health department may make a charge under IC 16-20-1-27 for each certificate of birth, death, or stillbirth registration. (b) If the local department of health makes a charge for a certificate of death under subsection (a), a one dollar (\$1) coroners continuing education fee must be added to the rate established under IC 16-20-1-27. The local department of health shall deposit any coroners continuing education fees with the county auditor within thirty (30) days after collection. The county auditor shall transfer semiannually any coroners continuing education fees to the treasurer of state."

GARY METRO CENTER LEASES AND MANAGEMENT CONTRACT

The Gary Metro Center building was built with federal funds and is owned by the City of Gary. The City had a written agreement with Gary Intercity Lines, Incorporated, for property management of the Metro Center; however, Gary Intercity Lines, Incorporated, was disband January 11, 2002, and Gary Public

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Transportation Corporation (GPTC) now manages the Metro Center. A written agreement for the management of the Metro Center has not been executed between GPTC and the City. GPTC maintains the City's Metro Center bank account. GPTC not only deposits collections into the City metro bank account, but they also approve the claims and write the checks from the bank account.

The City of Gary Board of Works approves, sets the rates, and signs the Metro Center leases. All the leases reviewed have expired but the rent is still being paid at the original rates. One lease expired just one year prior, but others have expired as long as 11 years ago. Records are not maintained in a manner to allow verification of rent payment activity for each tenant, as there was no subsidiary ledger presented for each tenant.

GPTC pays the property and fire insurance for the Metro Center. The Metro Center is to collect pro rata insurance premiums from the tenants and then reimburse GPTC for the insurance costs. In 2006, and for several prior years, the Metro Center has not received all of the tenants' shares and they have not reimbursed GPTC for the insurance costs that they have collected.

Indiana Code 36-4-6-18 states: "The legislative body may pass ordinances, orders, resolutions, and motions for the government of the city, the control of the city's property and finances, and the appropriation of money."

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."

Indiana Code 5-11-10-1.6 states in part:

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

(5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . .

(d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements:

(1) processed in accordance with this section; and

(2) for which funds are appropriated and available."

INTERNAL CONTROLS OVER AMBULANCE BILLINGS

The City contracts with Efficient Billing Systems, Inc. (EBS), a service organization as defined by Statement on Auditing Standards (SAS) 70, to bill, collect, and maintain records on balances due for ambulance services provided. The only reports provided by EBS show each run, and the amounts billed for each run. Checks are remitted to the City for the fees collected, but no supporting documentation is provided to show from whom the fees were collected or any balances still due. The City does not have any policies or

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

procedures in place to assure that all runs were billed or that fees are being collected timely. Based upon amounts received in 2007, for collections made by EBS in 2006, as of December 31, 2006, the City was owed \$105,814; however, City officials cannot determine the amount due the City based upon items billed but not yet collected.

SAS 70 allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SAS 70 examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. A formal report including the auditor's opinion (Service Auditor's Report) is issued to the service organization at the conclusion of a SAS 70 examination.

A SAS 70 report was not available for audit in 2006, so no reliance could be placed on controls for this service organization.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

#### BID DEPOSIT REGISTER

The Department of Redevelopment owns various parcels of property throughout the City. The properties are offered for sale to the highest bidder, contingent that the properties be improved; thus, bid deposits are accepted and held in trust. The bid deposits held in trust are maintained in a separate fund, Depository Trust (Fund 786). Developers are given a specified amount of time to complete the improvements. Inspections are made and, once the inspectors are satisfied that the improvements have been properly made, the bids are returned to the Developers. If the improvements are not made, the Redevelopment Commission Board meets in public and declares the sale cancelled. At this time, one-half of the deposit is to be returned to the developer and one-half is retained by the Department of Redevelopment.

Inquiries were made as to whether or not a deposit register is maintained. Such a register would list who has made a deposit, the date the deposit was made, and the amount of the deposit. Then, upon cancellation or successful completion, the register would document the disposition of the deposit. At least once a month, the balance of the nonrefunded deposits should be reconciled to the Depository Trust Fund cash balance. Currently, such a register is not maintained; thus, a reconciliation is not performed.

Through our testing procedures, we noted that deposits retained upon successful completion are not transferred out of the Depository Trust Fund to the Redevelopment Operating Fund (261). Additionally, some refunds were not completed timely. Based upon a review of the minutes, some sales were cancelled in November 2006, but the refunds were not distributed until June 2007, after we made inquiries.

CITY OF GARY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Although the following addresses deposits taken for the cutting of streets and curbs, the procedures would apply for any type of deposits being taken and held based upon performance of a specific act.

When a city or town requires a cash deposit from utilities, contractors, or individuals for cutting streets and curbs, the following accounting procedure is recommended:

1. Receipt such deposits into a separate fund entitled "Street Cut Deposit Fund" (or similar wording).
2. If the utility, contractor or individual is not required to repair the street or curb, or does not repair same satisfactorily, pay the costs or labor and materials from the street fund in the regular manner from appropriations available therefore.
3. After the repair work is completed satisfactorily, reimburse the street fund for any labor and materials required and refund the balance of the deposit (if any) to the depositor from the "Street Cut Deposit Fund." Claims should be filed to support both transactions; however, no appropriation is required for either type of expenditure from the street cut deposit fund.
4. A record or card file should be kept for each deposit, showing the receipt and any disbursements applicable to such deposit. Utility Form No. 314, *Guarantee Deposit Register*, could be used for such record. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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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 CITY OF GARY, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Gary (City) 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 year ended December 31, 2006. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in items 2006-2 through 2006-4, and 2006-6 through 2006-8, in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Davis-Bacon Prevailing Wage Requirements, Cash Management, Period of Availability, and Financial Reporting that are applicable to its Community Development Block Grants/Entitlement Grants, HOME Investment Partnerships Program, Public Safety Partnership and Community Policing Grants, and Highway Planning and Construction Grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

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

Internal Control Over Compliance

The management of the City 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 City's internal control over compliance with

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)

requirements that could have a direct and material effect on a major federal program in order to determine 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 City'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 City'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 items 2006-2 and 2006-4 through 2006-8, of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2006-2 and 2006-4 through 2006-8, to be material weaknesses.

The City'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 City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City'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

August 6, 2007

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 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
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education Child Nutrition Cluster Summer Food Service Program for Children	10.559		\$ 189,677
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant CDBG - Entitlement and (HUD Administered) Small Cities Cluster Community Development Block Grants/Entitlement Grants	14.218		
		B-02-MC-18-0005	52,589
		B-04-MC-18-0005	612,628
		B-05-MC-18-0005	2,400,704
		B-06-MC-18-0005	<u>729,176</u>
Total for cluster			<u>3,795,097</u>
Direct Grant Emergency Shelter Grants Program	14.231		
		S-05-MC-18-0005	18,831
		45-05-09-0732-02	13,210
		S-06-MC-18-0005	<u>137,698</u>
Total for program			<u>169,739</u>
Direct Grant Supportive Housing Program	14.235		
		IN36B201004	<u>138,067</u>
Direct Grant HOME Investment Partnerships Program	14.239		
		M-99-MC-18203	81,719
		M-00-MC-18203	22,667
		M-01-MC-18203	152,612
		M-04-MC-18203	12,785
		M-05-MC-18203	92,055
		M-06-MC-18203	65,556
		Unknown	<u>61,090</u>
Total for program			<u>488,484</u>
Direct Grant Fair Housing Assistance Program - State and Local	14.401		
		FF205K055012	<u>9,500</u>
Total for federal grantor agency			<u>4,600,887</u>
<u>U.S. DEPARTMENT OF INTERIOR - NATIONAL PARK SERVICE</u>			
Direct Grant Rivers, Trails, and Conservation Assistance Groundwork	15.921		
		H4520030007	<u>44,063</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant Byrne Formula Grant Program Protective Service Fund Excess Forfeitures (Share Seizure)	16.579		
			104,014
			<u>39,458</u>
Total for program			<u>143,472</u>
Direct Grant Community Capacity Development Office Weed and Seed Competitive	16.595		
		2006-WS-06-0136	<u>41,669</u>

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

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2006  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF JUSTICE (continued)</u>			
Direct Grant			
Public Safety Partnership and Community Policing Grants	16.710		
COPS In School		2002-SH-WX-0398	225,825
COPS Technology Grant		2005-CK-WX-0024	<u>30,490</u>
Total for program			<u>256,315</u>
Pass-Through Indiana Department of Criminal Justice Institute Crime Victim Assistance	16.575		
		05VA067	51,720
		06VA070	<u>63,202</u>
Total for program			<u>114,922</u>
Pass-Through Partnership for a Drug Free Lake County, Inc. Drug Free Communities Support Program Grants	16.729	2004-JV-FX-0042	<u>19,504</u>
Total for federal grantor agency			<u>575,882</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	STP-N-501 (011)	<u>394,012</u>
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety	20.600	PT-06-04-07-27	<u>52,594</u>
Pass-Through Indiana Department of Transportation Development and Promotion of Ports and Intermodal Transportation Gary Marina Access Road	20.801	DEM IN 17 (002) 45001201	152,488 <u>14,264</u>
Total for program			<u>166,752</u>
Total for federal grantor agency			<u>613,358</u>
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	5-FFSLP-0157	<u>44,209</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant			
Environmental Policy and Innovation Grants	66.611	PI-83232301-0	<u>27,074</u>
Direct Grant			
Brownfield Pilots Cooperative Agreements	66.811	BT97589601	<u>48,468</u>
Direct Grant			
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BF96530201	<u>14,294</u>
Total for federal grantor agency			<u>89,836</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Department of Health Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	U52/CCU500520-23-4	<u>46,419</u>
Pass-Through Purdue University Injury Prevention and Control Research and State and Community Based Programs	93.136	VF1/CCV519921-02-4	<u>9,325</u>

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

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2006  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>			
Pass-Through Indiana Department of Health Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Prevention and Surveillance of Blood Lead Levels in Children	93.197	CLP-775-2 (2005) CLP-775-2 (2006)	58,599 <u>52,360</u>
Total for program			<u>110,959</u>
Pass-Through Indiana Department of Health Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	CCU517024-05 CCU517024-06	42,725 <u>26,435</u>
Total for program			<u>69,160</u>
Pass-Through Indiana Family and Social Services Administration Social Services Block Grant	93.667	45-07-5B-0732	<u>36,605</u>
Pass-Through Indiana Family and Social Services Administration Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	45-05-OT-0732-02	<u>28,346</u>
Pass-Through Indiana Department of Environmental Management HIV Prevention Activities - Health Department Based	93.940	196-8 (2006)	<u>16,608</u>
Pass-Through Indiana Department of Health Block Grants for Prevention and Treatment of Substance Abuse 05-PSUP-775-1 06-PSUP-775-1	93.959	05-B1-IN-SAPT 06-B1-IN-SAPT	41,214 <u>40,275</u>
Total for program			<u>81,489</u>
Pass-Through Indiana Department of Health Preventive Health Services - Sexually Transmitted Diseases Control Grants 196-4 2006	93.977	H25/CCH504340-13	<u>140,061</u>
Pass-Through Indiana Department of Health Preventive Health and Health Services Block Grant West Nile Virus Prevention	93.991		<u>1,420</u>
Pass-Through Indiana Department of Health Maternal and Child Health Services Block Grant to the States 2005-06 2006-07	93.994	196-1 196-1	140,307 <u>43,296</u>
Total for program			<u>183,603</u>
Total for federal grantor agency			<u>723,995</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Lake Area United Way Emergency Food and Shelter National Board Program	97.024	271600-005	<u>2,637</u>
Total federal awards expended			<u>\$ 6,884,544</u>

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

CITY OF GARY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Gary (City) 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.

II. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2006:

Program Title	Federal CFDA Number	2006
Community Development Block Grants/Entitlement Grants	14.218	\$ 258,614
Emergency Shelter Grants Program	14.231	171,008
HOME Investment Partnerships Program	14.239	128,550

CITY OF GARY  
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?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	no

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?	no

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

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	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.239	HOME Investment Partnerships Program
16.710	Public Safety Partnership and Community Policing Grants
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1, INTERNAL CONTROLS OVER DISBURSEMENTS

Departments of the City receive vendor invoices which are then attached to claims and submitted to the Controller's Office for payment. Once the check is drafted by the Controller's Office, it is returned to the department. The department will then send the check to the vendor. This procedure demonstrates a significant deficiency as well as a material weakness in the City's internal control structure for the disbursing of City funds. The Controller's Office would not know if a vendor has or has not been paid. Also, if the vendor contended that payment had not been made or had not been made timely, the Controller's Office would not know if the delay occurred within their office or within the respective department.

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

As illustrated above, the Controller's Office drafted three checks payable to the Gary Genesis Convention Center, which is a department of the City. The checks were drafted on behalf of another agency (Gary, East Chicago, Hammond Empowerment Zone) for whom the City maintains the financial records and writes the checks. The checks were written at various dates during the year; however, the Gary Genesis Convention Center contends they never received payment. The City has stated that the checks were given to the Gary, East Chicago, Hammond Empowerment Zone to forward to the Genesis Convention Center; however, no one has been able to determine what has happened to those checks.

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

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

We recommended that the Controller's Office take the responsibility for not only drafting the checks, but also for directly remitting the checks to the vendors. The Controller's Office should not allow the departments to perform this function of the disbursement process. Taking such responsibility will help to ensure that remittances are made timely as well as reducing the opportunity for loss of funds.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-2, DAVIS-BACON, COMMUNITY DEVELOPMENT BLOCK GRANTS AND HOME INVESTMENT PARTNERSHIPS PROGRAM

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

Federal Programs: Community Development Block Grants/Entitlement Grants and HOME Investment Partnerships Program

CFDA Numbers: 14.218, 14.239

Award Numbers: B-02-MC-18-0005, B-04-MC-18-0005, B-05-MC-18-0005, B-06-MC-18-0006,  
M-99-MC-18203, M-00-MC-18203, M-01-MC-18203, M-04-MC-18203,  
M-05-MC-18203, M-06-MC-18203

The City contracts with various contractors for housing rehabilitation projects. The contracts reviewed were all in excess of \$2,000, and all but two contained clauses indicating that contractors are responsible for paying prevailing wages; however, the contractors either did not provide statements of wages paid, or the statements provided did not demonstrate compliance with payment of prevailing wages. For example, a contract was entered into with a contractor for asbestos removal and disposal in the amount of \$179,500, but wage statements were not provided. For another contract issued for rehabilitation of a home, the wages paid were less than those established as prevailing wages for the area. In another case, the contractor indicated on the certificate that he subcontracted the work. None of the subcontractors provided wage certifications.

The construction oversight manager indicated that he verifies the wage certification for commercial and residential construction projects, but not for those involving rehabilitation projects. He indicated that he had believed that rehabilitation projects were excluded from the Davis Bacon requirements. The construction oversight manager contacted the contractors in an attempt to get the information on the wages paid for two

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

projects, but was unsuccessful. For a few projects where the contractors did provide documentation of wages paid, some of those indicated that employees were paid at wages less than those indicated as the minimum required to be paid by the prevailing wages set for this area. This would indicate that the construction oversight manager is not reviewing the information he receives to ensure contractors are paying the correct wages.

29 CFR§ 3.11 states: "All contracts made with respect to the construction, prosecution, completion, or repair of any public building or public work or building or work financed in whole or in part by loans or grants from the United States covered by the regulations in this part shall expressly bind the contractor or subcontractor to comply with such of the regulations in this part as may be applicable."

29 CFR 3.2 states in part:

"(b) The terms construction, prosecution, completion, or repair mean all types of work done on a particular building or work at the site thereof, including, without limitation, altering, remodeling, painting and decorating, the transporting of materials and supplies to or from the building or work by the employees of the construction contractor or construction subcontractor, and the manufacturing or furnishing of materials, articles, supplies, or equipment on the site of the building or work, by persons employed at the site by the contractor or subcontractor."

"(e) Every person paid by a contractor or subcontractor in any manner for his labor in the construction, prosecution, completion, or repair of a public building or public work or building or work financed in whole or in part by loans or grants from the United States is employed and receiving wages, regardless of any contractual relationship alleged to exist between him and the real employer."

29 CFR 3.3 states in part:

"(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH 348, "Statement of Compliance", or on an identical form on the back of WH 347, "Payroll (For Contractors Optional Use)" or on any form with identical wording. Sample copies of WH 347 and WH 348 may be obtained from the Government contracting or sponsoring agency, and copies of these forms may be purchased at the Government Printing Office.

(c) The requirements of this section shall not apply to any contract of \$2,000 or less."

We recommended that the City establish controls for monitoring compliance with Davis-Bacon Act requirements. This would include ensuring that for all contracts for all construction over \$2,000 have clauses indicating that the contractors or subcontractors are responsible for paying prevailing wages and providing supporting documentation. Such supporting documentation should be reviewed by the Community Development construction oversight manager and compared to the prevailing wage rates established for this area. Finally, such documentation should be retained for audit.

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 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

FINDING 2006-3, CASH MANAGEMENT, HOME INVESTMENT PARTNERSHIP PROGRAM

Federal Agency: U.S. Department of Housing and Urban Development  
 Federal Program: HOME Investment Partnerships Program  
 CFDA Number: 14.239  
 Awarding Numbers: M-01-MC-18203, M-02-MC-18203, M-03-MC-18203, M-04-MC-18203,  
 M-05-MC-18203

On November 14, 2006, the City received \$1,920,000 from the U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships Program. The following lists the award numbers and amounts drawn from each award:

Award Number	Amount
M-01-MC-18203	\$ 474,619
M-02-MC-18203	392,235
M-03-MC-18203	413,596
M-04-MC-18203	438,704
M-05-MC-18203	200,846
Total drawn	\$ 1,920,000

The Director indicated that the money was to be used as "loan gap financing" assistance for the purchase of an apartment building. This "loan gap financing" she indicated is a loan for which repayment will be expected. The closing had been scheduled at the time the drawdown was made, but then the "equity investor" had some concerns which significantly delayed the closing. The funds were not disbursed until April 9, 2007.

Based upon a review of the claim paid on April 9, 2007, the funds were disbursed to an escrow account for Gary Progress Development. The documentation attached to the claim from Gary Progress Development, LP, indicated that:

"Upon closing, the following funds would be expended from these accounts (categories) as follows:

Description	Amount
Engineering Design	\$ 20,000.00
Architectural Design	20,000.00
Demolition	29,500.00
General Contractor Fee	15,000.00
Framing Stud/Drywall	323,201.96
Total	\$ 407,701.96 "

CITY OF GARY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

Another document also submitted on the same date by Gary Progress Development, LP, indicated:

"Upon closing, the following funds would be expended from these accounts (categories) as follows:

Description	Amount
Electrical	\$ 450,000
Metal Studs and Drywall	350,000
HVAC	600,000
 Total	 \$ 1,400,000 "

These were the only documents attached to the claim to support the subsequent disbursement of HOME Funds. For other HOME Rehabilitation projects, claims included copies of invoices to document amounts paid, as well as inspection reports to show that the work had been performed prior to the payment being made.

After the funds received were not immediately disbursed, the City did not return the funds to HUD as required; nor was any interest earned on the funds, as the funds were retained in a noninterest bearing checking account. If the money had been invested by the City, even at an interest rate as low as 1%, the interest earned would have been \$7,575; all of which should have been returned to HUD, less \$100. According to City officials, the building renovations have not yet been completed as of June 20, 2007.

24 CFR 92.502 (c) (2) states: "HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction's United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.)."

24 CFR 92.251 (a) (1) states: "Housing that is constructed or rehabilitated with HOME funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion, except as provided in paragraph (b) of this section. The participating jurisdiction must have written standards for rehabilitation that ensure that HOME-assisted housing is decent, safe, and sanitary. In the absence of a local code for new construction or rehabilitation, HOME-assisted new construction or rehabilitation must meet, as applicable, one of three model codes: Uniform Building Code (ICBO), National Building Code (BOCA), Standard (Southern) Building Code (SBCCI); or the Council of American Building Officials (CABO) one or two family code; or the Minimum Property Standards (MPS) in 24 CFR 200.925 or 200.926. To avoid duplicative inspections when FHA financing is involved in a HOME-assisted property, a participating jurisdiction may rely on a Minimum Property Standards (MPS) inspection performed by a qualified person. Newly constructed housing must meet the current edition of the Model Energy Code published by the Council of American Building Officials."

We recommended that officials return any funds not disbursed within 15 days of receipt as required by the U.S. Department of Housing and Urban Development. Once the closing had been cancelled the funds should have been returned immediately. Also, officials need to ensure that inspections are made and that contractors on this project are complying with prevailing wage requirements.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

FINDING 2006-4, PERIOD OF AVAILABILITY, HOME INVESTMENT PARTNERSHIP PROGRAM

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: HOME Investment Partnership Program  
CFDA Number: 14.239  
Award Number: M-99-MC-18203, M-00-18203, M-01-18203

According to the guidelines for the Home Investment Partnerships Program in the Catalog of Federal Financial Assistance, "Grant funds are drawn down from the U.S. Treasury based upon individual project development progress. The HOME program uses an electronic fund transfer disbursement and information system. Once drawn down, funds must be expended within fifteen days. All funds must be committed within 24 months and expended within 5 years."

In 2006, funds were drawn against program grant awards from the years 1999, 2000, and 2001, in the amounts of \$81,719, \$22,667, and \$627,231, respectively. The City requests all drawdowns electronically through the HOME program's electronic fund transfer disbursement and information system (IDIS). After a grant award is approved, the fiscal officer at the local unit enters the projects to be funded through the approved grant award as well as the budget amount. The system then assigns each project or budget line item a project number; thus, when requests for funds are entered on the system, the clerk simply enters the project number and the dollar amount being requested. The IDIS system then withdraws the funds from the program award to which the assigned project number applies. The guidelines indicate that funds must be spent within five years; however, the electronic system for requesting funds will not stop someone from drawing down funds after the deadline as indicated above.

The City relies upon the IDIS system to adequately track activities and enforce the HOME Investment Trust Fund compliance requirements. The records maintained by the City do not adequately track activity by program year. The receipts and disbursements are entered into the same fund without distinguishing the program year to which the receipts and disbursements apply. This is also the reason that not all federal expenditures for the HOME Investment Partnerships Program could be accurately reported to a program year in the Schedule of Expenditures of Federal Awards.

24 CFR 92.500 (d) (1) states in part:

"HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of: . . .

(C) Any funds in the United States Treasury account that are not expended within five years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement . . ."

24 CFR 92.508 states in part:

"(a) General. Each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part. At a minimum, the following records are needed: . . .

(5) Financial Records. (i) Records identifying the source and application of funds for each fiscal year, including the formula allocation, any reallocation (identified by federal fiscal year appropriation), and any State or local funds provided under § 92.102(b). (ii) Records concerning the HOME Investment Trust Fund Treasury account and local account required to be established and maintained by § 92.500,

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

including deposits, disbursements, balances, supporting documentation and any other information required by the program disbursement and information system established by HUD. (iii) Records identifying the source and application of program income, repayments and recaptured funds. (iv) Records demonstrating adequate budget control, in accordance with 24 CFR 85.20, including evidence of periodic account reconciliations.

- (6) Program administration records. (i) Records demonstrating compliance with the written agreements required by § 92.504. (ii) Records demonstrating compliance with the applicable uniform administrative requirements required by § 92.505. (iii) Records documenting required inspections, monitoring reviews and audits, and the resolution of any findings or concerns."

We recommended that the City maintain records to adequately track receipt and disbursement of funds by program year. Currently, the City is relying upon the IDIS records to track program year budgets and drawdowns. Records maintained by the City are based upon combining program years into one fund and with several departments; however, the departments are based only upon projects, and are not separated by program year. If the City maintained their records by program year, then they would be able to track program year dollars to ensure that period of availability compliance guidelines are being met.

FINDING 2006-5, CONTROLS OVER MATCHING REQUIREMENTS, PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Number: 2002-SH-WX-0398

The Public Safety Partnership and Community Policing (COPS) in School grant will pay the salary and associated benefits of an officer up to a maximum of \$125,000 per officer over a three year period. This basically means that the City can be paid up to \$41,667 per officer per year from the grant, but any amounts paid in excess of this amount must be paid with local funds. Officials have indicated that the City pays certain fringe benefits from the General Fund to help meet this requirement. Such benefits include unemployment compensation, clothing allowance, and insurance; however, we observed insurance being paid from the COPS in School Grant Fund (Fund 249). When we computed the salary, retirement, and insurance amounts being paid from the COPS in School Grant Fund per officer for 2006, the cost was \$51,460. This would indicate that the City is not including all necessary fringe benefits in the General Fund as would be necessary to meet the matching requirements of this grant.

In 2006, the City complied with the matching requirements as the City transferred \$59,079 from the General Fund to the Grant Fund to cover a deficit cash balance. This transfer of funds occurred on December 29, 2006.

The COPS Owners Manual states: "The COPS in Schools program provides up to \$125,000 for the entry level salary and approved fringe benefits for a newly hired law enforcement officer over a three-year grant period. Any costs associated with the approved salaries and fringe benefits above and beyond the \$125,000 dollar threshold are the sole responsibility of the local agency. The match must be a cash match, made from local, state or other non-COPS funds and may not be paid through reallocating funds already budgeted for law enforcement purposes. COPS in Schools grants are not eligible for waivers of the local match."

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

CFR 28 § 66.24 states in part:

"(a) Basic rule: Costs and contributions acceptable. With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:

- (1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties.
- (2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements applies."

We recommended that City officials establish controls to ensure that the local matching requirements will be met on an annual basis. This could mean paying excess fringe benefits from the General Fund, or establishing a policy for money to be transferred from the General fund on a regular basis to cover amounts needed to meet the matching requirements.

FEDERAL FINDING 2006-6, CASH MANAGEMENT, PUBLIC SAFETY  
PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Number: 2004-CK-WX-0085, 2005-CK-WX-0024

The City purchases equipment through the Community Policing Grants (COPS Technology) program. Officials explained that when an invoice is received, a request for cash is made from the U.S. Department of Justice.

In the prior audit period, funds were requested based upon entering into a contractual agreement for equipment. Subsequently, problems were encountered with the contract, and \$224,450 of the \$600,000 requested in March 2005, had to be returned. The funds were not returned until June 2006. After returning the funds, the City was still left with a balance of \$116,550 of unspent federal funds for award number 2004-CK-WX-0085.

The next activity was not until December 2006, when the City received an invoice for a partial payment on a contract for maintenance on the equipment purchased. The invoice was in the amount of \$30,489.55, but the full contract price of \$87,113 was drawn down from award number 2005-CK-WX-0024. From this same award number, another \$48,750 was drawn within 13 days, on December 19, 2006. This money was not spent until January 26, 2007. Both of these amounts were drawn down despite the fact that the City had a cash balance on hand well in excess of current needs from the 2004-CK-WX-0085 award.

At this point the City had an overall cash balance of \$173,173.45 (\$116,550.00 from the 2004-CK-WX-0085 award, and \$56,625.45 from the 2005-CK-WX-0024 award), which was returned to the Department of Justice on January 31, 2007. Officials were not considering cash balances remaining prior to requesting additional funding. Also, officials explained that they believed they were allowed to maintain a cash balance for the amount of funds encumbered.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

By requesting funds in excess of current needs, the City runs the risk of earning program income (interest) on these funds, which will have to be returned.

28CFR66.21(b) states: "Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

31CFR205.11 states in part:

"(a) A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

(b) A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs."

31CFR205.12 states in part:

"(4) Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks or initiates EFT payments.

(5) Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

We recommended that officials first review the cash balance remaining prior to requesting funds. Also, officials must ensure that the invoice is ready to be paid prior to requesting the drawdown.

FINDING 2006-7, FINANCIAL REPORTING, PUBLIC SAFETY  
PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice

Federal Program: Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Award Numbers: 2002-SH-WX-0398, 2004-CK-WX-0085, 2005-CK-WX-0024, 2006-CK-WX-0375

In accordance with compliance requirements for the Public Safety and Community Policing Grants, Financial Status Reports are to be filed quarterly. These reports document, as of the end of each quarter, the federal cash that was spent within that quarter, and to date.

Community Policing (COPS) Technology Grants (2004-CK-WX-0085,  
2005-CK-WX-0024, 2006-CK-WX-0375)

For the Community Policing (COPS) Technology Grants, the first two quarterly reports for award number 2004-CK-WX-0085 were filed 25 and 15 days late, respectively. Also, for the first three quarters, the cumulative federal cash disbursements in the amount of \$375,550 were reported. This was in excess of actual cash disbursements by \$116,550. All funds spent from this award were spent prior to January 1, 2006.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

For the other two award numbers (2005-CK-WX-0024 and 2006-CK-WX-0375), the first three quarterly reports were not filed until November 28, 2006, which made all of those reports late; however, there were not any disbursements to report. The fourth quarter report for award number 2005-CK-WX-0024 reported disbursements of \$79,239.55, but only \$30,489.55 was spent. This was the only award for which there were disbursements made in 2006. The City has since filed an amended report to correct the erroneous reporting of disbursements.

The reports are based upon disbursements posted to the ledger. All three of these federal awards are accounted for in the City's records under the same fund and account; thus, we inquired as to how disbursements are allocated to which grant program. Personnel responsible for preparing the reports indicated that they use the drawdown requests to ensure that the disbursements reported correspond to the award for which the drawdown was submitted. Currently, the number of transactions are few, but as activity increases it may become more difficult to adequately match disbursements to receipts.

COPS in School (2002-SH-WX-0398)

For the COPS in School Grant, the federal award activity is maintained in a separate fund and account. As previously reported, the disbursements per the Quarterly Financial Status Reports could not be verified to the cash disbursements posted to the fund for this grant award. Overall federal disbursements reported totaled \$191,045 for 2006, but disbursements posted to the ledger for 2006 totaled \$198,219. This was after adjusting for amounts that were paid with local funds from this federal fund. Furthermore, the first three quarterly reports were late. The first quarter was 45 days late, the second was 15 days late, and the third was 2 days late.

The late reporting and lack of ability to provide documentation as to the source of the reports indicates that the City had not established controls to ensure that reports were prepared timely and accurately. Based upon inquiries and testing of controls since the change in personnel in late November 2006, controls have been established to help in correcting the deficiencies.

By not filing reports timely or accurately, the U.S. Department of Justice cannot adequately monitor whether or not their funds are being spent timely, nor can needs be adequately assessed.

CFR 28 Section 66.41 states in part:

"(b) Financial Status Report—(1) Form. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with § 66.41(e)(2)(iii). . . .

- (3) Frequency. The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support.
- (4) Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support."

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The instructions from the Office of Justice for Financial Status Reporting (SF269A) indicate the following:

Reporting Quarter Reports Due Not Later Than:

January 1 through March 31	May 15
April 1 through June 31	August 14
July 1 through September 30	November 14
October 1 through December 31	February 14

CFR 28 Section 66.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

We recommended that officials prepare reports accurately, and that they be submitted timely.

FINDING 2006-8, CASH MANAGEMENT, HIGHWAY PLANNING AND CONSTRUCTION GRANTS

Federal Agency: U.S. Department of Transportation  
Federal Program: Highway Planning and Construction Grants  
CFDA Number: 20.205  
Award Number: STP-N501(011)  
Pass through Agency: Indiana Department of Transportation

The City received a grant which was to reimburse construction engineering expenses on a road construction project (Grant Street). The City contracted with an engineering firm who performed the engineering services. This firm would invoice the City for the services. The invoices were then submitted to the Indiana Department of Transportation for reimbursement under the grant agreement. The schedule below details the information on the invoices submitted for reimbursement, including the invoice amount, the federal share being reimbursed, the dates the reimbursements were made, the subsequent payment of the invoice to the engineering firm, and the number of days the City held the reimbursement prior to paying the invoice.

CITY OF GARY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

Invoice Number	Invoice Amount	80% Federal Share	Date of Federal Reimbursement Check	Date of Disbursement By City of Gary	Number of days Disbursement Was Held
1	\$ 82,370.00	\$ 65,896.00	04-21-06	07-12-06	75
2	23,944.32	19,155.47	04-21-06	11-22-06	208
3	23,944.32	19,067.81	04-21-06	07-12-06	75
4	32,663.14	26,130.51	06-07-06	09-01-06	44
5	46,620.39	37,305.91	07-13-06	10-02-06	75
6	41,660.80	33,328.64	07-13-06	11-22-06	126

As this is a reimbursement basis grant, the funds should be obligated or paid prior to the request for reimbursement being generated; thus, the contractors should not have had to wait in excess of 44 days for payment. Currently, no one is monitoring the receipts and disbursements of this grant to ensure that funds are being spent prior to the money being reimbursed, or to ensure that the obligation is paid immediately upon receipt of the federal reimbursement.

For the invoice submitted on July 13, 2006, in the amount of \$41,660.80, for which the City issued a check on November 22, 2006, the City check was issued in the amount of \$4,166.80. The check was immediately returned to the City by the engineering firm when they were unable to verify it to one of their invoices. The check was then included as an outstanding check on the bank reconciliations as the finance department was unable to verify it to any claim; thus, they were unaware as to what to do with the check until this situation was brought to their attention by examiners. As of May 30, 2007, the original check was receipted back to the fund, and a check was reissued for the correct amount to rectify this matter.

31 CFR 205.11 subsection (a) states: "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds."

31 CFR 205.12 subsection (5) states: "Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

Failure to adhere to this requirement could cause the City to have to repay federal funds or interest earned on those funds received in advance.

We recommended that officials establish controls to ensure that either funds are spent prior to requesting reimbursement, or that checks are issued to vendors immediately upon receipt of the reimbursement.



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Deputy Mayor

**M. CELITA GREEN**  
Director of Finance

**KAREN TINSLEY**  
Interim Deputy Finance Director

**SUMMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2005 -1 Payroll Internal Controls and Documentation**

**Federal Agency:** U.S. Department of Justice  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.:** 2002-SH-WX-0398  
**Pass-Through Entity:** N/A

**Federal Agency:** U. S. Department of Justice  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Award Number:** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council  
**Auditee Contact Person:** M. Celita Green  
**Title of Contact Person:** Director of Finance

Pursuant to the corrective action plan, The City of Gary accountability to use proper allocation of hours paid from timesheets and transmittals for eligible employees implemented during the period of our annual audit examination late last year.

Time sheets in order to correspond with the pay periods and comparison to the Payroll Earning Forecast, (transmittal), we made changes regarding the tracking of officers by the police department cost allocation structure. The accounting for records (timesheets) identifies the source of the disbursement of funds provided for financial verification of grants activities, which been reported in the correct period, and resolved.

A review of time worked each payroll period on time sheets, along with proper classification of the appropriate grant listed as a part of the payroll transmittal.

Time Sheets will show pre-printed dates for each payroll period to assure that time worked is reported on the appropriate Payroll Earnings Forecast Reports.

In contrast, the City of Gary will maintain accountability of the above grant funds through internal controls.

M. Celita Green  
M. Celita Green, Director of Finance

5/20/07  
Date



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

RUDOLPH M. CLAY

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

M. CELITA GREEN

Director of Finance

KAREN TINSLEY

Interim Deputy Finance Director

## SUMMARY OF PRIOR AUDIT FINDINGS

### FINDING NO. 2005 -2 CASH MANAGEMENT

**Federal Agency:** U. S. Department of Justice  
**Federal Program:** Public Safety Partnership and Community Oriented Policing Grant  
**CFDA Number:** 16.710  
**Award Number:** 2004-CKWX0085

**Auditee Contact Person:** M. Celita Green  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363

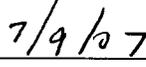
Pursuant to the corrective action plan, a change in financial management resulted in the continuing review of the actual drawn downs and expenditures associated with the COPS in School, COPS Ahead, COPS Technology and the COPS Homeland Security Grant funds.

Our ongoing review of the above grants will assure that the accountability of funds drawn down were used as required or if unused returned appropriately to the granting agency.

As mentioned in the corrective action response, the draw downs receipted was returned FY 2006 due to problems occurring with the vendors meeting the requirements needed to assure proper specification on the equipment and from further review of the transactions throughout the year resulted into the remaining unused amount being returned as of January 31, 2007.

The receipting of draw downs during the period of FY 2006 has yet to be revealed in the review or reasoning of the predecessor actions pertaining to the requested amounts on the quarterly reports, however, the city's system for requesting draw downs of funds and tracking expenditures being associated with the purchasing of equipment will be monitored along with accurate fiscal accountability in a timely manner for the future.

  
M. Celita Green, Director of Finance

  
Date



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Interim Deputy Finance Director

**SUMMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2005- 3 Local Match**

**Federal Agency:** U.S. Department of Justice  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2002-SH-WX-0398  
**Pass-Through Entity:** N/A

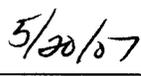
**Federal Agency:** U.S. Department of Justice  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council

**Auditee Contract Person:** M. Celita Green  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363

As in indicated in the corrective action report, the City maintained spreadsheets and that account for all costs incurred by officers on the COPS grants, to reflect the proper percentage that the city is paying. However, the city will meet the criteria specified for the number of officers, as well as the percentage necessary for city expenses not to exceed the total grant amount agreed upon in the contract.

This procedure will allow a review process for each program as well as cash matches, which is deposited into each fund. Any additional accounting items processed was accumulated and cash matches made to the fund.

  
\_\_\_\_\_  
**M. Celita Green, Director of Finance**

  
\_\_\_\_\_  
**Date**



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Interim Deputy Finance Director

**SUMMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2005- 4 Period of Availability**

<b>Federal Agency:</b>	<b>U.S. Department of Justice</b>
<b>Federal Program:</b>	<b>Public Safety Partnership and Community Oriented Policing Grant</b>
<b>CFDA Number:</b>	<b>16.710</b>
<b>Federal Award No.</b>	<b>2003-OM-WX-0067</b>
<b>Pass-Through Entity:</b>	<b>Indiana Counter-Terrorism and Security Council</b>
<b>Auditee Contract Person:</b>	<b>M. Celita Green</b>
<b>Title of Contact Person:</b>	<b>Director of Finance</b>
<b>Phone Number:</b>	<b>219 881-1363</b>

The City of Gary is processing and reviewing the events surrounding the administration and operation process related to the Homeland Security grant. A change in financial management resulted in the continuing review of the actual drawn downs and expenditures associated with the grant. We will charge cost only related to the original funding period unless an extension for the grant warranted.

The City will maintain an accurate schedule to outline the beginning and ending of the grant period as required.

*M. Celita Green*  
**M. Celita Green, Director of Finance**

5/20/07  
**Date**



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**KAREN TINSLEY**  
Interim Deputy Finance Director

**SUMMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2005-5 Financial Reporting**

**Federal Agency:** U.S. Department of Justice  
**Federal Program:** Public Safety Partnership and Community Policing Grants  
**CFDA Number:** 16.710  
**Federal Award No.** 2002-SH-WX-0398, 2004-CK-WX-0085

**Federal Agency:** U.S. Department of Justice  
**Federal Program:** Public Safety Partnership and Community Policing Grants  
**CFDA Number:** 16.710  
**Federal Award No.** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council

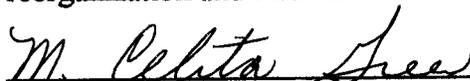
**Auditee Contract Person:** M. Celita Green  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363

As stated in the corrective action report due to the Department of Finance data conversion and comparison accurate tracking of eligible officers and officers that are in retention, from the timesheets and eligibility lists provided by the police department cost allocation, the reports will reflect a breakdown of all expenditures related to matches and unobligated amounts.

In addition, we have implemented the procedures to process expenditures related to the drawn down disbursements from the grantors associated with the appropriate documentation for support. This will reflect the required time frame of the transactions and reporting on all monies spent. We have also assigned a Sr. Accountant to monitor the draw downs, and timeliness and accuracy in reporting.

Our records will identify the source of the disbursement of funds provided for financial verification of the grant activities.

In contrast, the City of Gary will continue to improve its accountability of the above grant funds through reorganization and internal controls.

  
M. Celita Green, Director of Finance

1/9/07  
Date



**City Of Gary**  
**Department of Finance**

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**SUMMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2005- 6 Period of Availability**

**Federal Agency:** Department of Housing and Urban Development  
**Federal Program:** HOME Investment Partnerships Program  
Policing Grant  
**CFDA Number:** 14.239  
**Federal Award No.** M-99-MC-18-203

**Auditee Contract Person:** M. Celita Green  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363

As mentioned in the corrective action report, the Home investment Partnerships Program Grant awarded in 1999 will be expended as specified in the grant agreement with charges relating to the obligations during the appropriate allowed time.

The City will develop and maintained spreadsheets and disbursement schedules to account for all costs within the scope of the grant obligation.

The City of Gary will continue to assure compliance and accountability of the administrative, and fiscal responsibilities with the analyses associated with the operation of grant funds.

M. Celita Green  
M. Celita Green, Director of Finance

7/9/07  
Date



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Interim Deputy Finance Director

**SUMMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2005 -7 CASH MANAGEMENT**

**Federal Agency:** U. S. Department of Transportation  
**Federal Program:** Development and Promotion of Posts and Intermodal Transportation  
**CFDA Number:** 20.810  
**Award Number:** 45001201  
**Pass-Through Entity:** Indiana Department of Transportation

**Auditee Contact Person:** M. Celita Green  
**Title of Contact Person:** Director of Finance

As mentioned in the corrective action report, we have researched our records to determine the status of claims filed with INDOT crossed checked with American Consultant Engineers (ACE) and found the discrepancies.

According to INDOT's Records, The original invoice No. 21171 was paid in full for \$27,241.55 (80% of \$34,051.94) on 10/05/05. When revised invoice No. 22520 was received, the difference (\$34,051.04 - \$32,811.94 = \$1,240.00) was deducted from invoice No. 21856 (11,922.06 - \$1,240.00 = \$10,682.06). Therefore invoice No. 21856 was paid in the amount of \$8,545.65 (80% of \$10,682.06) on 3/20/06.

In addition, we have requested INDOT to provide us copies of the reimbursement claims related to the series of payments for the FY2000 original contract in which the \$63,997.75 is associated with that project number. The City of Gary will assure the accountability of grants relating to the audit findings.

  
\_\_\_\_\_  
M. Celita Green, Director of Finance

  
\_\_\_\_\_  
Date



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Interim Deputy Finance Director

**CORRECTIVE ACTION PLAN**

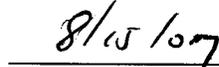
**FINDING NO. 2006 -1 Internal Controls Over Disbursement**

Auditee Contact Person: M. Celita Green  
Title of Contact Person: Director of Finance

In pursuant to the recent audit exception regarding check disbursements, the Department of Finance will continue all efforts to adhere to the provisions of adequate procedures for internal controls as to the allocation or remitting payment directly to those vendors upon the approval of the appropriate City Departments.

Although the City of Gary current policy established two years before a check is voided, we are reviewing this process in order to revise this policy, but meanwhile, an internal control mechanism will provide a status on outstanding checks after 90 days. We have instituted a procedure for vendor's checks to be mailed or received by authorized agent of the vendor directly from the Department of Finance.

  
M.Celita Green, Director of Finance

  
Date



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### CORRECTIVE ACTION PLAN

#### **FINDING NO. 2006 -2 DAVIS-BACON, COMMUNITY DEVELOPMENT BLOCK GRANTS AND HOME INVESTMENT PARTNERSHIP PROGRAM**

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

**Federal Program:** Community Development Block Grants and Home Investment Partnerships Program

**CFDA Number:** 14.218,14.239

**Award Numbers:** B-02-MC-18005, B-04-MC-180005, B-05-MC- 18-0006, M-99-MC-180203, M-00-MC-180203, M-01-MC-180203, M-04-MC-180203, M-05-MC-180203,M-06-MC-180203

**Auditee Contact Person:** M. Celita Green

**Title of Contact Person:** Director of Finance

The City administers housing rehabilitation programs that serve to the benefit of income eligible single-family owner occupants. The projects are contractual transactions by and between the homeowner and the contractor where the Program acts as a liaison to protect the interest of the contractor and the homeowner.

In addition, the Program ensures compliance with the Department of Housing and Urban Development requirements and statutes on contracting opportunities, eligible costs and supporting documentation. Each unit is defined as a single-family residence and is an independent project.

As such, Program staff facilitate cost estimating the scope of work, bidding procedures, inspections/monitoring of work in progress and completion, contracting, payment packages, and other required support documentation.

d. (1) Threshold: "Davis-Bacon applicability threshold for residential property is 8 or more units; for mixed-use property, there is no unit threshold except that if the entire rehabilitation is clearly limited to the residential portion, the residential threshold applies."

The City requires, as a matter of general practice, compliance with HUD Form-4010, Federal Labor Standards Provisions as expressed under the Dept. of Housing and Urban Development Office of Labor Relations particularly where federal resources are used for projects or programs.

HOME Investment Partnership 24 CFR 92.354

Unlike CDBG, Davis-Bacon is triggered regardless whether HOME assistance finances construction or non-construction of affordable housing units with 12 or more units that are HUD-assisted units. Applicability depends on how many units are in the HOME project.

Again, as in the case of CDBG assisted rehabilitation, the housing rehabilitation program serves income eligible owner occupants. Each unit is an independent project that is facilitated by program staff to ensure program compliance, and to secure the appropriate and necessary documentation according to Program regulations.

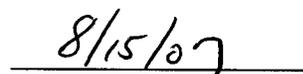
There are cases where CDBG assisted projects are administered by sub-recipients. In those instances all documentation is not housed within this department. In the case of the contract for the asbestos removal and disposal, in the amount of \$179,500.00, the contract was generated and let by a sub-recipient, therefore this documentation was not readily accessible, but was available from a different office.

**Corrective Action:**

As a result of this experience for future projects and activities the Department of Community Development will require payroll certifications and wage determination as part of all payment packages when required or as triggered by HUD Form-4010, Federal Labor Standards Provisions Davis-Bacon/Copeland Act. In addition, the department will provide education to all sub-recipients for contract purposes on the Davis-Bacon/Copeland Act requirements.

In summary, the City's Department of Community Development will employ stronger practices for documenting Program expenditures that are in compliance with all criteria set forth in 24 CFR 85.20; 24 CFR 92.501-510; 92.251; 92.500; 24 CFR 570 and other federal regulations as deemed appropriate.

  
M. Celita Green, Director of Finance

  
Date



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Interim Deputy Finance Director

## CORRECTIVE ACTION PLAN

### FINDING NO. 2006 -3 CASH MANAGEMENT, HOME INVESTMENT PARTNERSHIP PROGRAM

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

**Federal Program:** Public Safety Partnership and Community Policing Grants

**CFDA Number:** 14.239

**Award Numbers:** M-01-MC -18203, M-02-MC-18203, M-03-MC-18203, M-04-MC-18203, M-05-MC-18203

**Auditee Contact Person:** M.Celita Green

**Title of Contact Person:** Director of Finance

In November 14, 2006, the City drew down \$1,920,000 from the U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnership Program in anticipation of the Project closing. As previously stated there were unexpected concerns by the equity investors, which prompted rescheduling of the closing to approximately 2-3 weeks as expressed by the investor. There were a series of postponements on the closing date due to various equity investor concerns. The equity investor did not indicate the closing would not happen but rather that more information was required for the project by Gary Progress LP.

In retrospect, the City should have returned the HOME funds at the time notice was given the first closing was rescheduled. Consistent with past practice, the City's future action will be to return all Program funds to the Department of Housing and Urban Development within 15 days.

Gary Progress LP submitted the correspondence dated March 22, 2007 in request for a funds draw for the listed costs associated with the project as follows:

Item Description	Amount
Engineering design	\$20,000
Architectural design	20,000
Demolition	29,500
General Contract Fee	15,000
Framing Stud/Drywall	323,201.96
Total	\$407,701.96

The request was to disburse at the time of closing; however, not all of the divisions listed in the request were completed or at a state to receive release approval by the City. The request for disbursement, as listed in the table, was not approved by the City and expenditures as outlined were not disbursed.

All expenditures are supported by documentation as maintained within department files. The files include claims as processed with copies of invoices to support the amounts disbursed. In addition, the construction inspector conducts onsite inspections and maintains reports with photos on work completed prior to payments.

It is common practice for an escrow account to be established for the investor/owner developer, Gary Progress, as in the project known as Dalton Apartments, for the loan amount proceeds. To that end, an escrow account was established with Chase Bank that included funds from all financing entities to the project including the HOME Investment Partnership Program dollars.

For the purpose of maintaining control and oversight over future HOME Program disbursements, the City provided a letter of instruction to the title company. The letter of instruction requires written approval by the City on all HOME fund requests prior to fund disbursement. It is also the City's requirement and standard operating procedure to monitor project activity and attain satisfaction by the in-house Program inspector and City Building Department inspector on all work performed prior to release of funds. This process is documented by inspection reports and sign offs by all inspectors. This practice is in compliance with 24 CFR 92.251 (a) (1) and 24 CFR 92.502 and City standards.

The most recent letter of instruction (dated March 23, 2007) submitted to the title company, at the time of closing, outlines the required documents and respective amounts for the release of funds at the time of closing as:

“Upon closing, we will instruct you to release funds to Gary Progress Development, LLC in exchange for appropriate invoicing and executed contracts to be provided to this department at or prior to the time of closing for the following cost items: “

- |    |                        |                 |
|----|------------------------|-----------------|
| 1. | Architectural Design   | \$20,000        |
| 2. | General Contractor fee | <u>\$15,000</u> |
|    |                        | \$35,000        |

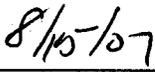
All future HOME Program expenditures will be addressed similarly, as stated in the letter of instruction. The letter further states that:

“There is to be no release of funds for the stated items unless the supporting documentation has been provided to the City and approved. We understand that a closing has been scheduled for March 27, 2007.”

“Gary Progress Development, LLC (“Owner”) is to submit to the City of Gary, Department of Community Development invoice packets in support of any draw for HOME funds. Requested draws must be approved in writing for payment prior to the release of any City dollars held in escrow. “

As this project progresses the City will ensure copies of the appropriate support documentation will be provided to the City by the Gary Progress LP team prior to the release of Program funds held in escrow by the Title Company.

  
\_\_\_\_\_  
M. Celta Green, Director of Finance

  
\_\_\_\_\_  
Date



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Interim Deputy Finance Director

## CORRECTIVE ACTION PLAN

### FINDING NO. 2006 -4 PERIOD OF AVAILIBLTY, HOME INVENTMENT PARTNERSHIP PROGRAM

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

**Federal Program:** Home Investment Partnership Program

**CFDA Number:** 14.239

**Award Numbers:** M-99-MC -18203, M-00-18203, M-01-18203

**Auditee Contact Person:** M.Celita Green

**Title of Contact Person:** Director of Finance

The City has relied upon the Integrated Disbursement Information System for the tracking of all program activities. The system was created by the Department of Housing and Urban Development as a tool that would provide an array of financial reports. These financial reports are used by HUD staff as well as at the local level.

#### **Corrective Action:**

In the effort to provide program year by year receipts and disbursements, the department's fiscal division will employ an internal information system that will provide:

accurate records by source

application of the funds by each fiscal year

Records for the HOME Program and Program Income that will include:

Deposits

Disbursements

Fund balances

Required supporting documentation

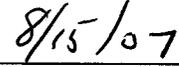
Evidence of periodic account reconciliations

Much of the documentation indicated is currently maintained; however, information on the formula allocation period can be made easier to access by breaking down the IDIS reports.

The program demonstrates compliance with requirements for program administration on maintaining records overall. Program administration records include written agreements as set forth in 92.504. All subrecipient/subgrantee expenditures with the use of HOME funds are preceded by contracts/agreements. The exception to the contracting rule is limited the direct cost for program administration (i.e. salaries/fringes).

All contracted work is inspected during and after completion by an in-house inspector and the City' building department. Records are maintained and will continue to be maintained by the Construction Services Division by documenting all inspections and site reviews through text and photos.

  
\_\_\_\_\_  
M. Celta Green, Director of Finance

  
\_\_\_\_\_  
Date



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### CORRECTIVE ACTION PLAN

#### FINDING NO. 2006 -5 CONTROLS OVER MATCHING REQUIREMENTS, PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

**Federal Agency:** U. S. Department of Justice  
**Federal Program:** Public Safety Partnership and Community Policing Grants  
**CFDA Number:** 16.710  
**Award Numbers:** 2002-SH-WX-0398

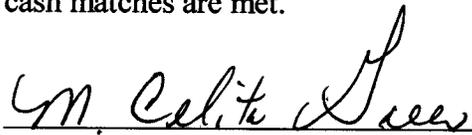
**Auditee Contact Person:** M.Celita Green  
**Title of Contact Person:** Director of Finance

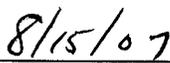
As mentioned in the audit report, in 2006, the City complied with the Matching requirements as the City transferred \$59, 079.00 from the General Fund to the Grant fund to cover a deficit cash balance. This Transferred of funds occurred on December 29, 2006.

However, the city will accumulate all costs per officer and appropriately determine cash matches have been met through budgeted line items in the General Fund, or if additional cash needs to be transferred to the respective COPS funds.

Moreover, a transmittal, which establishes COPS in School program, records payroll expenditures into the fund. This procedure allows separate accounting for the program and cash matches deposits. The City will maintain spreadsheets to account for all costs incurred during the program to reflect the percentage that the city is paying.

We will conduct a periodic review of this process throughout the year to assure that the cash matches are met.

  
M. Celita Green, Director of Finance

  
Date



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## CORRECTIVE ACTION PLAN

### FINDING NO. 2006 -6 CASH MANAGEMENT, PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

**Federal Agency:** U. S. Department of Justice

**Federal Program:** Public Safety Partnership and Community Policing Grants

**CFDA Number:** 16.710

**Award Numbers:** 2004-CK-WX-0085, 2005-CK-WX-0024

**Auditee Contact Person:** M.Celita Green

**Title of Contact Person:** Director of Finance

As stated in the Summary of Prior Audit Finding, a change in financial management resulted in the continuing review of the actual drawn downs and expenditures associated with COPS Technology Grant funds.

Our ongoing review of the above grants will assure that the accountability of funds drawn down were used as required or if unused returned appropriately to the granting agency as discussed during the City's FY2006 annual audit..

Moreover, as mentioned in the FY 2005 corrective action response, the draw downs receipted was returned FY 2006 due to problems occurring with the vendors meeting the requirements needed to assure proper specification on the equipment and from further review of the transactions throughout the year resulted into the remaining unused amount being returned as of January 31, 2007.

The receipting of draw downs during the period of FY 2006 has yet to be revealed in the review or reasoning of the predecessor actions pertaining to the requested amounts on the quarterly reports, however, the city's system for requesting draw downs of funds and tracking expenditures being associated with the purchasing of equipment will be monitored along with accurate fiscal accountability in a timely manner for the future.



M. Celta Green, Director of Finance

8/15/07

Date



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Interim Deputy Finance Director

### CORRECTIVE ACTION PLAN

#### FINDING NO. 2006 -7 FINANCIAL REPORTING, PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

**Federal Agency:** U. S. Department of Justice

**Federal Program:** Public Safety Partnership and Community Policing Grants

**CFDA Number:** 16.710

**Award Numbers:** 2002 -SH-WX 0398, 2004-CK-WX-0085, 2005-CK-WX-0024, 2006 - CK-WX-

**Auditee Contact Person:** M.Celita Green

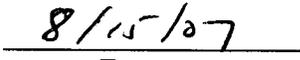
**Title of Contact Person:** Director of Finance

As stated in the Summary of Prior Audit Finding, a change in financial management resulted in the continuing review of the reporting of expenditures associated with COPS Technology and COPS in School Grant funds.

Our ongoing review and monitoring of the above grants will assure that the accountability of quarterly reporting is accurately documented and submitted in a timely manner as required by the granting agency.

These changes established at the end of FY2006 are noted in the FY 2006 City of Gary annual audit.

  
M. Celita Green, Director of Finance

  
Date



**City Of Gary**

**Department of Finance**

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

RUDOLPH M. CLAY

Mayor

M. CELITA GREEN

Director of Finance

GERALDINE B. TOUSANT

Deputy Mayor

KAREN WOODS-TINSELY  
Interim Deputy Finance Director

**CORRECTIVE ACTION PLAN**

**FINDING NO. 2006 -8 CASH MANAGEMENT, HIGHWAY PLANNING AND CONSTRUCTION**

**Federal Agency:** U. S. Department of Transportation Justice

**Federal Program:** Highway Planning and Construction Grants

**CFDA Number:** 20.205

**Award Numbers:** STP- N501 (011)

**Pass through Agency:** Indiana Department of Transportation

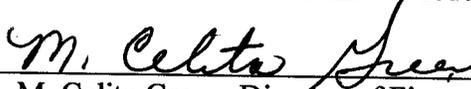
**Auditee Contact Person:** M.Celita Green

**Title of Contact Person:** Director of Finance

The Department of Public Works will in the immediate future, minimize the amount of time elapsing between the transfer of funds from INDOT and the City of Gary's payment of these funds for federal assistance programs.

While the Department recognizes that the amount of time elapsing between when a grant or payment is received and then actually paid out to the contractor, we will follow-up as to when payment is sent to the contractor and reimbursed.

Moreover, from this point forward, the Department of Public Works A/P person will make sure this turnaround time is reduced if not eliminated.

  
M. Celita Green, Director of Finance

8/15/07  
Date

CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2007, with M. Celita Green, Controller; Nathaniel Williams, Internal Auditor; Jerome Prince, President of the Common Council; Rachelle Ceaser, Council member; Marilyn D. Krusas, Council member; Hamilton Carmouche, City Attorney; and Geraldine B. Tousant, President of the Board of Public Works and Safety. The official response has been made a part of this report and may be found on pages 118 through 129.

The contents of this report were mailed on August 8, 2007, to Husain G. Mahmoud, former City Controller.

## **Gary Sanitary District 2006 Audit Comment Responses**

### **Accounts Receivable Past Due – Gary Sanitary District**

The District is currently reviewing A/R Aged reports of active and inactive customers for the past one (1) to three (3) years. From this information, the District will determine accounts that appear to be uncollectible and receive permission by the Gary Sanitary District Board of Commissioners to write-off the bad debt. The District is also working with its software vendor to lien accounts and certifying to the county auditor a list of liens that remain unpaid. The District will ensure that internal controls are in effect which provides reasonable assurance regarding the reliability of the financial information and records, effectiveness and efficiency of operations, proper execution of management objectives, and compliance with laws and regulations. It is the goal of the District to regularly review its accounts receivable balances and make every effort to collect amounts owed. Going forward, the Finance Manager will present a list of bad debts proposed to be written off to the Gary Sanitary District Board of Commissioners for its consideration at least annually.

### **Township Billing Records – Gary Sanitary District**

The Collections Office is in the process of revising the current procedure in place to address Calumet Township Trustee payments. When the Collections Office receives payments for the vouchers received, there are sometimes discrepancies due to accounts the township has opted not to pay for various reasons (i.e., customer's eligibility, etc.) There are also discrepancies as to matching the customer billing to the payments sent from Calumet Township Trustee due to the timing of when they (Calumet Township Trustee) forwards the payments to the Collections Office. The Collections staff has been instructed that going forward it is necessary that both GSD and Township accounts be reconciled on a quarterly basis. At this point, we believe it is best to do an accounting adjustment to bring GSD and the Township account's into balance.

### **Lease Rentals**

The District will work with the City of Gary Redevelopment Commission to negotiate a new lease for office space and amounts past due. The District will ensure that payments made or received for contractual services will be supported by a written contract.

### **Collection of Amounts Due**

The District received a loan from the State Revolving Loan (SRF) Program for wastewater improvement projects in 2000. The contract communities make capital contributions for the repayment of the SRF loan. To date, the District has received capital contributions from Merrillville Conservancy District and the City of Lake Station. The District has received partial capital contributions from the Hobart Sanitary District. The final Report on Recalculation of Contract Users' 2006 Rates Based on Actual Expenses and the Capital Cost Report will be sent out in the next couple of months and the balance due the District will be due within 45 days. The District will attempt to collect the past due amount by contacting the Hobart Sanitary District or their financial

advisor. If the District is not successful, they will notify their attorney to attempt to collect the past due amount.

**Sanitary District and Storm Water Management District - Levy Excess Funds**

The District will transfer the \$2,274,773 cash balance in the Sanitary District Levy Excess Fund to the Sewer Operating Fund or respective tax based funds.

The Storm Water Management District will transfer the \$260,240 cash balance in the Storm Water District Levy Excess Fund to the Storm Water Management District Fund.

**Temporary Loans**

It was necessary for the City of Gary ("City") to pay necessary expenditures during the year 2006 to meet its responsibilities and the City needed an advance to meet its obligations until outstanding loans have been repaid and property taxes and other taxes would be received. Due to circumstances beyond the control of the City, revenues sufficient to pay back said loan were not available by December 31, 2006. GSD is currently working with the City on a repayment plan.

Sincerely,



Vern E. Webbs  
Deputy Director/Finance Manager  
Gary Sanitary District  
Gary Storm Water Management District

July 30, 2007



**City Of Gary**  
**Department of Finance**

401 Broadway  
Gary, Indiana 46402  
(219) 881-1363 / Fax (219) 881-1340

RUDOLPH M. CLAY  
Mayor

M. CELITA GREEN  
Director of Finance

GERALDINE B. TOUSANT  
Deputy Mayor

KAREN TINSLEY  
Interim Deputy Finance Director

September 13, 2007

State Board of Accounts  
302 W. Washington Street  
4th Floor, Room E418  
Indianapolis, Indiana 46204

**Re: FY 2006 Audit Results & Comments**

Dear Sir/Madame:

Enclosed are the Responses to the Audit Results and Comments regarding the City of Gary FY 2006 Annual Audit and the U.S Department of Housing and Urban Development extension letter.

If you have any questions, please contact me at (219) 881-1382 Ext. 235.

Thank you.

Sincerely,

M. Celita Green  
Director of Finance/ City Controller

Cc: Nathaniel T. Williams, Internal Auditor



**City Of Gary**  
**Department of Finance**

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Interim Deputy Finance Director

**Memorandum**

To: M. Celita Green, Director of Finance

From: Nathaniel T. Williams, Internal Auditor

Date: September 14, 2007

Subject: **Revised FY 2006 Audit Results & Comments**

In pursuant to the audit findings issued from the Indiana State Board of Accounts (SBA) for FY 2006, attached is a revise **CITY OF GARY RESPONSES TO AUDIT RESULTS AND COMMENTS FY 2006 ANNUAL AUDIT section Appropriation Transfers Between Departments** report, which unsigned copies has been sent to SBA's lead examiner again today. If you concur with the report, please review and sign for final submission.

If you have any questions, please give a call.



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

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M. CELITA GREEN

Director of Finance

KAREN WOODS-TINSLEY

Interim Deputy Finance Director

### CITY OF GARY RESPONSES TO AUDIT RESULTS AND COMMENTS FY 2006 ANNUAL AUDIT

#### OVERDRAWN CASH BALANCE

As indicated in the prior audit comments, there are several overdrawn cash balances, which were reimbursable grants. These grants must incur an expense, before the cash can be drawn for reimbursement. The City is unable to satisfy the overdrawn fund balances for tax-based fund until all prior year tax distributions or settlements are received.

However, we are a year behind in tax distributions. Anticipated tax warrants only satisfy 80% of the projected budget. The City will make all efforts to maintain positive fund balances in all funds. The City will continue to diligently work and maintain positive Cash Balances at year-end for other non-reimbursable funds.

#### APPROVED DEPOSITORIES

The City of Gary has closed the Wachovia securities account as June 2007.

#### ANNUAL REPORT

To assure that the City of Gary annual report is available for the next audit period, we will request a schedule timeline during our entrance audit conference for consistency between staff personnel and auditors

#### CAPITAL ASSET POLICY

Due to the change in financial management, the preparations to complete the Capitalization Policy to include information regarding the definition of re-surfacing, pavement rehabilitation, and asphalt paving will be coordinated with effort through the Department of Public Works and the Department of Finance to properly identify the process for capitalization.

This insertion and modification will address and establish the thresholds and differentiate cost of repairs to be expensed. We will establish policy to depreciate infrastructure at 75 years instead of 50 years, which is indicated in our current ordinance.

## **INTERNAL CONTROLS OVER DISBURSEMENTS**

In pursuant to the recent audit exception regarding check disbursements, the Department of Finance will continue all efforts to adhere to the provisions of adequate procedures for internal controls as to the allocation or remitting payment directly to those vendors upon the approval of the appropriate City Departments.

Although the City of Gary current policy established two years before a check is voided, we are reviewing this process in order to revise this policy, but will establish an internal review after 90 days.

## **APPROPRIATIONS**

The City will operate within the legislative approved appropriations. Unfortunately, due to the City not receiving an Indiana State certified FY 2006 budget until late during the year, adjustments were in order. At that point, appropriations already been expended.

## **APPROPRIATION TRANSFERS BETWEEN DEPARTMENTS**

The City will assure that all appropriation transfers are within the guidelines of the of the Department of Local Government Finance requirements.

## **SUPPORTING DOCUMENTATION**

The City of Gary will assure that supporting documentation will accompany the use of credit cards related to purchases. All elected officials been notified that in the process of using their municipal credit card, it is required that a statement or receipt and other pertinent documentation be obtained for accountability purposes.

## **MISSING CLAIMS**

We are continuing the assurance of accountability in the process of locating source documents needed to support disbursements generated by FY 2006 claims including, the specific claims tested during the audit review.

As explained during the audit examination, with the relocation of claims to a new area, and the substitution of the staff personnel processing claims as well as generally assisting examiners during most of the audit examination, some items were unable to be located at that time. In the future, we will assure accountability and organization of all claims.

## **PURCHASING PREFERENCES**

The City of Gary has submitted information regarding the city's position or purchasing preference two years ago to the State of Indiana Attorney General's office and has yet to hear a response.

## **PAYROLL DEFICIENCIES**

Currently, we are reviewing the status of all employees vacation, sick, and compensatory time, and has establish a City Council approved personnel policy manual to adequately enforce

through the City's computerized time and attendance accounting system to disallowed any time extended over the time required in the personnel manual.

### **LATE CHARGES AND FEES**

We will pay claims in a timely manner to avoid unreasonable or excessive costs related to finance charges and taxes against the City of Gary.

### **UNAUTHORIZED PAYMENT**

The Department of Finance is reviewing the matter surrounding the events related to the credit card invoice and the original invoices attached to support the business purpose of the expenditure from the Councilperson. We will make available our review with the necessary results for the next audit period.

### **TEMPORARY LOANS**

As of January 1, 2007, in order to maintain services and meet the fiscal obligations of the City of Gary, all respective temporary loans utilized are classified appropriately so that upon receipt of tax distribution from the County will be recorded in its proper account. However, the County projects the present tax situation will continue throughout 2006. The City will make every effort to repay temporary loans by year-end as revenue becomes available, and create an ordinance to extend loans as required.

### **EMERGENCY CONTRACT**

In review because of irregularities, concerning the initial process, the City of Gary has retracted the contract.

### **AGREEMENTS FOR TICKETS SALES**

The Genesis Convention Center will make daily deposits on tickets sale. The City will disburse a check on the day of the event.

### **GENESIS CONVENTION CENTER RECEIPTS**

The Genesis Convention Center will implement the following with no exceptions at all times:

1. Voided receipts - both white and yellow copies of all voids must be retained in books.
2. You may not write over on carbon (yellow) copies, so make certain writing is clearly legible before removing white copy.
3. All receipts being logged and submitted to city hall for deposit must be in sequence.
4. Receipted dollars are to be taken to controller's office on a daily y basis (exception being the weekend when office is closed)
5. Only state board of account approved receipt books are to be used. No other forms are acceptable.
6. When writing receipts include event name and date of event on the receipt.
7. If payment has been made by check write check number on receipt as well.

After logging, deposit with controller and receipt received note controller's receipt information on all receipt copies.

## **INTERNAL CONTROLS OVER GENESIS CENTER RECEIPTS FOR CONTRACTUAL EVENTS**

In pursuant to the recent audit exception regarding receipts for events, the Department of Finance will continue all efforts to adhere to the provisions of adequate procedures for internal controls. We will review the process and procedures regarding receipts for contractual events. It will be determined our approach to assure an efficient more reliable method of accountability for internal control.

## **CONTRACT AND INFORMAL AGREEMENT WITH GARY HOOPS, LLC.**

Currently, the City of Gary Corporation Council is reviewing all matters regarding the Gary, Hoops, and LLC.

## **CELLULAR TELEPHONE OVERAGES AT GENESIS CONVENTION CENTER**

As noted, remedy was taken to eliminate use of cell phones for personal use by those other than supervisors and board earlier this year. This does not, however, excuse those who have cell phones from adhering to state guidelines. The compliance to these guidelines is mandatory and monthly phone records are being reviewed by the director and employees maybe asked to verify. that these calls were for business purposes

## **CONDITION OF RECORDS AT THE YOUTH SERVICES BUREAU**

The City of Gary has reviewed the fiscal activities regarding the Youth Service Bureau predecessor. The internal controls and timeliness of monies received and disbursed for field programs has been reemphasis to the successor, which will be monitored by the Finance Department for accountability.

## **POOL FEES**

There will be a Fee schedule presented to the Park Board of Directors for approval.

## **CATERING CONTRACTS AT MARQUETTE PARK PAVILION**

The security fees will be accounted for separately regarding catering contracts.

## **ACCOUNTS RECEIVABLE PAST DUE – GARY SANITARY DISTRICT**

The District is currently reviewing A/R Aged reports of active and inactive customers for the past one (1) to three (3) year. From this information, the District will determine accounts that appear to be uncollectible and receive permission by the Gary Sanitary District Board of Commissioners to write-off the bad debt. The District is also working with its software vendor to lien accounts and certifying to the county auditor a list of liens that remain unpaid. The District will ensure that internal controls are in effect which provides reasonable assurance regarding the reliability of the financial information and records, effectiveness and efficiency of operations, proper execution of management objectives, and compliance with laws and regulations. It is the goal of the District to regularly review its accounts receivable balances and make every effort to collect amounts owed. Going forward, the Finance Manager will present a list of bad debts proposed to be written off to the Gary Sanitary District Board of Commissioners for its consideration at least annually.

## **TOWNSHIP BILLING RECORDS – GARY SANITARY DISTRICT**

The Collections Office is in the process of revising the current procedure in place to address Calumet Township Trustee payments. When the Collections Office receives payments for the vouchers received, there are sometimes discrepancies due to accounts the township has opted not to pay for various reasons (i.e., customer's eligibility, etc.) There are also discrepancies as to matching the customer billing to the payments sent from Calumet Township Trustee due to the timing of when they (Calumet Township Trustee) forwards the payments to the Collections Office. The Collections staff has been instructed that going forward it is necessary that both GSD and Township accounts be reconciled on a quarterly basis. At this point, we believe it is best to do an accounting adjustment to bring GSD and the Township account's into balance.

## **LEASE RENTALS**

The District will work with the City of Gary Redevelopment Commission to negotiate a new lease for office space and amounts past due. The District will ensure that payments made or received for contractual services will be supported by a written contract.

## **COLLECTION OF AMOUNTS DUE**

The District received a loan from the State Revolving Loan (SRF) Program for wastewater improvement projects in 2000. The contract communities make capital contributions for the repayment of the SRF loan. To date, the District has received capital contributions from Merrillville Conservancy District and the City of Lake Station. The District has received partial capital contributions from the Hobart Sanitary District. The final Report on Recalculation of Contract Users' 2006 Rates Based on Actual Expenses and the Capital Cost Report will be sent out in the next couple of months and the balance due the District will be due within 45 days. The District will attempt to collect the past due amount by contacting the Hobart Sanitary District or their financial advisor. If the District is not successful, they will notify their attorney to attempt to collect the past due amount.

## **SANITARY DISTRICT AND STORM WATER MANAGEMENT DISTRICT - LEVY EXCESS FUNDS**

The District will transfer the \$2,274,773 cash balance in the Sanitary District Levy Excess Fund to the Sewer Operating Fund or respective tax based funds. The Storm Water Management District will transfer the \$260,240 cash balance in the Storm Water District Levy Excess Fund to the Storm Water Management District Fund.

## **TEMPORARY LOANS**

It was necessary for the City of Gary to pay necessary expenditures during the year 2006 to meet its responsibilities and the City needed an advance to meet its obligations until outstanding loans have been repaid and property taxes and other taxes would be received. Due to circumstances beyond the control of the City, revenues sufficient to pay back said loan were not available by December 31, 2006. GSD is currently working with the City on a repayment plan. Inter-fund borrowing continued in 2006, due to the tax reassessment and delayed property tax distributions in Lake County to Cities and Towns.

## **POLICE PENSION BENEFITS**

The Department of Finance requested the Police Pension Secretary to recover the over payments.

**RECEIPT FOR POLICE DEPARTMENT**

The City is developing procedures to process for receipting checks and money orders. We will assure that State Board of Accounts prescribed receipts are utilized and that all collections will be reported to the Controller's Office.

**POLICE DEPARTMENT REMITTANCES TO THE CITY CONTROLLER**

The Department of Finance will perform periodic review of the Police Department receipts against the Finance Department daily receipt.

**CORONER'S CONTINUING EDUCATION FUND**

The City of Gary will determine the amount of Fees indivertibly submitted to the county, and request an immediate refund if necessary.

**GARY METRO CENTER LEASE AND MANAGMENTE CONTRACT**

The City will establish a written agreement with GPTC management of the Metro Center to include bank activities, leases, and insurance.

**INTERNAL CONTROLS OVER AMBULANCE BILLINGS**

The City of Gary will notify EBS regarding the SAS No. 70 Audit report. We are also seeking other agencies to provide relevant monitor billing and collections. We are researching the current amount owed to the city.

**BID DEPOSIT REGISTER**

We will develop a Bid deposit register. It will be reconciled with the county finance cash ledger vs. the bank account.

  
M. Celita Green  
Director of Finance/Controller

9/13/07  
Date



U.S. Department of Housing and Urban Development  
Wanamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, PA 19107-3380

Regional Inspector General for Audit

September 4, 2007

City of Gary  
Department of Finance  
401 Broadway  
Gary, IN 46402  
Attn: M. Celita Green, City Controller

Dear Ms. Green:

We received your letter dated August 16, 2007, requesting an extension to November 30, 2007, for filing the Federal Single Audit for the City of Gary, Indiana, for the year ended December 31, 2006.

We will approve your request for an extension to November 30, 2007. Although an extension to file your audit report is granted, please be aware that we still consider your report to be filed late which will affect your status to be considered as a low-risk auditee in accordance with OMB Circular A-133, Paragraph 530.

Please note that our approval of your request for an extension is for your audit report and does not cover the submission of Financial Reports or unaudited financial statements required to be submitted to HUD.

In accordance with OMB Circular A-133, Subpart C, Paragraph .300 (e), please notify the Clearinghouse and each pass-through entity providing Federal awards of the extension.

This approval covers all funded activities except for the Low-Income Public Housing Program, the Section 8 Voucher or Moderate Rehabilitation Program or any other HUD-funded program administered by a public housing agency having responsibility for such programs in your jurisdiction. If your request for an audit extension includes HUD's financial statements for any of the previously cited programs, you must send a separate request for an extension to cover those programs to the following address:

HUD - Real Estate Assessment Center  
550 12<sup>th</sup> Street SW  
Washington, DC 20410  
Attn: Elizabeth Hanson

Failure to submit your financial statement on time to the Real Estate Assessment Center may have an effect on the score you will receive in the Public Housing Assessment System.

If you have any questions or need additional information you may contact me at (215) 430-6733.

Sincerely,

A handwritten signature in cursive script, appearing to read "George A. Datto".

George A. Datto  
National Single Audit Coordinator