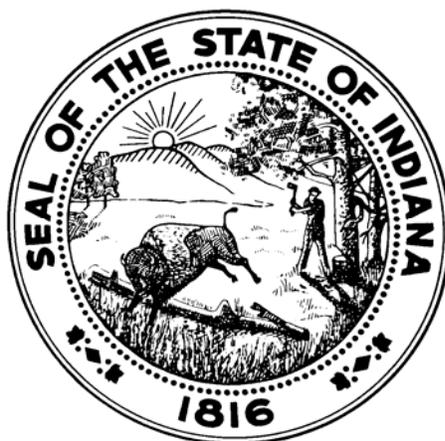


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

SANITARY DISTRICT
CITY OF MICHIGAN CITY
LAPORTE COUNTY, INDIANA



FILED
07/10/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Doretha M. Sanders	01-01-06 to 12-31-07
General Manager	Alan J. Walus	01-01-06 to 12-31-07
Controller	John J. Schaefer	01-01-06 to 12-31-07
President of the Board of Sanitary District Commissioners	Boyd Phelps	01-01-06 to 12-31-07
Mayor	Charles E. Oberlie	01-01-04 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SANITARY DISTRICT,
CITY OF MICHIGAN CITY, LAPORTE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Sanitary District (District), a department of the City of Michigan City, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Sanitary District, City of Michigan City, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City of Michigan City that is attributable to the transactions of the Sanitary District. They do not purport to, and do not, present fairly the financial position of the City of Michigan City as of December 31, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with 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 financial position of the business-type activities of the District as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The District has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 19, 2007

SANITARY DISTRICT
CITY OF MICHIGAN CITY
STATEMENT OF NET ASSETS
December 31, 2006

Assets

Current assets:

Cash and cash equivalents	\$ 906,178
Accounts receivable (net of allowance)	978,358
Taxes receivable (net of allowance)	162,976
Intergovernmental receivable	101,199
Prepaid items	<u>70,950</u>

Total current assets 2,219,661

Noncurrent assets:

Restricted cash, cash equivalents and investments:

Bond and interest cash and investments	1,532,518
Improvement cash and investments	852,230
Excess levy cash and investments	154,727
Loan receivable	<u>1,016,162</u>

Total restricted assets 3,555,637

Deferred charges 187,332

Capital assets:

Land and construction in progress	3,673,189
Other capital assets (net of accumulated depreciation)	<u>47,617,563</u>

Total capital assets 51,290,752

Total noncurrent assets 55,033,721

Total assets 57,253,382

Liabilities

Current liabilities:

Accounts payable	401,708
Accrued wages payable	136,000
Accrued taxes payable	8,683
Compensated absences	4,090
Current liabilities payable from restricted assets:	
Loan payable	25,480
General obligation bonds payable	2,025,000
Revenue bonds payable	685,000
Accrued interest payable	<u>98,267</u>

Total current liabilities 3,384,228

Noncurrent liabilities:

Loan payable	990,682
General obligation bonds payable (net of unamortized discounts)	2,099,922
Revenue bonds payable (net of unamortized premium and deferred amount on refunding)	6,181,905
Compensated absences	<u>92,324</u>

Total noncurrent liabilities 9,364,833

Total liabilities 12,749,061

Net Assets

Invested in capital assets, net of related debt	40,486,257
Restricted for debt service	1,434,251
Restricted for improvements	852,230
Restricted for excess levy	154,727
Unrestricted	<u>1,576,856</u>

Total net assets \$ 44,504,321

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

Operating revenues:	
Residential sales	\$ 4,144,313
Commercial and industrial sales	541,796
Governmental sales	1,352,985
Local tax distributions for stormwater and refuse	2,256,518
Tap and permit fees	48,986
Penalties	102,037
Other	<u>175,019</u>
 Total operating revenues	 <u>8,621,654</u>
Operating expenses:	
Sewer operations and maintenance:	
Salaries	639,371
Employee pension and benefits	304,134
Purchased power	38,795
Materials and supplies	130,665
Contractual services	331,595
Repair and maintenance	88,102
Other	114,015
Disposal charge	5,400
Plant operations and maintenance:	
Salaries	957,431
Employee pension and benefits	413,875
Purchased power	538,242
Fuel	28,018
Materials and supplies	83,478
Repair and maintenance	34,140
Chemicals	71,255
Contractual services	506,293
Professional services	536
Other	51,260
Disposal charge	92,903
Stormwater operations and maintenance:	
Salaries	67,932
Employee pension and benefits	35,212
Contractual services	526,807
Refuse operations and maintenance:	
Salaries	968,136
Employee pension and benefits	543,834
Purchased power	25,435
Fuel	95,833
Materials and supplies	25,087
Contractual services	95,158
Insurance	153,674
Landfill charges	514,465
Repair and maintenance	89,930
Other	5,543

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006
(Continued)

Operating expenses (continued):	
Administrative and general:	
Salaries	367,774
Employee pension and benefits	149,912
Supplies	100,048
Contractual services	166,496
Insurance	147,047
Professional services	41,006
Repair and maintenance	2,050
Other	22,575
Bad debt expense	2,370
Depreciation	<u>1,930,626</u>
 Total operating expenses	 <u>10,506,458</u>
 Operating loss	 <u>(1,884,804)</u>
Nonoperating revenues (expenses):	
Interest revenue	103,861
Intergovernmental revenue	250,600
Loss on sale of asset	(347,022)
Amortization of bond issuance cost	(41,039)
Interest expense	<u>(566,644)</u>
 Total nonoperating revenues (expenses)	 <u>(600,244)</u>
 Loss before contributions and transfers	 (2,485,048)
Capital contributions	6,857,502
Transfer in	<u>2,189,048</u>
 Change in net assets	 6,561,502
Restated total net assets - beginning (Note II.E.)	<u>37,942,819</u>
Total net assets - ending	<u>\$ 44,504,321</u>

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2006

Cash flows from operating activities:	
Receipts from customers and users	\$ 8,645,357
Payments to suppliers and contractors	(5,342,303)
Payments to employees	<u>(3,017,491)</u>
Net cash provided by operating activities	<u>285,563</u>
Cash flows from noncapital financing activities:	
Intergovernmental revenue	250,600
Transfers from city	<u>2,189,048</u>
Net cash provided by noncapital financing activities	<u>2,439,648</u>
Cash flows from capital and related financing activities:	
Proceeds from state revolving loan fund	78,427
Acquisition and construction of capital assets	(61,359)
Principal paid on capital debt	(2,575,000)
Interest paid on capital debt	(534,407)
Principal paid on loan	(27,255)
Loans to Indiana Springs and Whippoorwill	<u>(51,172)</u>
Net cash used by capital and related financing activities	<u>(3,170,766)</u>
Cash flows from investing activities:	
Interest received	<u>103,861</u>
Net decrease in cash and cash equivalents	(341,694)
Cash and cash equivalents, January 1	
(Including \$1,449,866, \$802,159 and \$284,393 for the servicing of debt, improvements, and excess levy, respectively, reported in restricted accounts)	<u>3,787,347</u>
Cash and cash equivalents, December 31	
(Including \$1,532,518, \$852,230 and \$154,727 for the servicing of debt, improvements, and excess levy, respectively, reported in restricted accounts)	<u>\$ 3,445,653</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (1,884,804)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	1,930,626
Bad debt expense	2,370
(Increase) decrease in assets:	
Accounts receivable	(287,700)
Taxes receivable	22,910
Intergovernmental receivable	48,360
Prepaid items	(2,857)
Increase (decrease) in liabilities:	
Accounts payable	236,541
Accrued wages payable	2,533
Accrued taxes	7,671
Contracts payable	(78,427)
Compensated absence payable	<u>48,207</u>
Total adjustments	<u>1,930,234</u>
Net cash provided by operating activities	<u>\$ 45,430</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 6,857,502
Transfer of completed construction in progress projects	7,747,187
Deletion of obsolete capital assets	818,879

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Sanitary District (District) and are not intended to present fairly the position of the City of Michigan City (City), and the results of its operations and cash flows of its enterprise funds. The Sanitary District, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

2. Prepaid Items

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Sanitary District in June and in December. State statutes (IC 6-1.1-17-16) require the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. Delinquent property taxes outstanding at year end, net of allowances for uncollectible accounts, are recorded as a receivable. The property taxes collected for the stormwater and refuse operations and maintenance function are classified as operating revenue since the maintenance expenses are an operating expense. The property taxes collected for debt repayment are classified as nonoperating.

4. Restricted Assets

Certain proceeds set aside for repayment of debt and Sanitary District improvements are classified as restricted assets on the Statement of Net Assets balance sheet in accordance with the debt instruments.

5. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 20,000	Straight-line	15 years
Buildings	50,000	Straight-line	50 years
Building improvements	20,000	Straight-line	20 years
Infrastructure	100,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	4 to 20 years
Transportation equipment	5,000	Straight-line	5 to 10 years

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 12 days per year. Unused sick leave may be accumulated to a maximum of 36 days. Accumulated sick leave is paid to employees through cash payments only upon retirement.
- b. Vacation Leave – District employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Sick leave is accrued when incurred in proprietary funds and reported as a liability.

No liability is reported for vacation leave.

7. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferral of loss on refunding, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferral of loss on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the Sanitary District had no investments.

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Adjustments	Revised Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:						
Land	\$ 720,231	\$ -	\$ 720,231	\$ -	\$ -	\$ 720,231
Construction in progress	<u>13,471,657</u>	<u>(4,146,465)</u>	<u>9,325,192</u>	<u>1,374,953</u>	<u>7,747,187</u>	<u>2,952,958</u>
Total capital assets, not being depreciated	<u>14,191,888</u>	<u>(4,146,465)</u>	<u>10,045,423</u>	<u>1,374,953</u>	<u>7,747,187</u>	<u>3,673,189</u>
Capital assets, being depreciated:						
Land improvements	-	246,500	246,500	474,450	-	720,950
Buildings	-	20,001,559	20,001,559	1,139,867	614,000	20,527,426
Building improvements	-	-	-	2,350,114	-	2,350,114
Infrastructure	87,952,321	(37,295,139)	50,657,182	6,850,577	-	57,507,759
Machinery and equipment	3,832,655	(875,188)	2,957,467	2,313,424	55,879	5,215,012
Transportation equipment	<u>1,483,922</u>	<u>47,283</u>	<u>1,531,205</u>	<u>162,661</u>	<u>149,000</u>	<u>1,544,866</u>
Totals	<u>93,268,898</u>	<u>(17,874,985)</u>	<u>75,393,913</u>	<u>13,291,093</u>	<u>818,879</u>	<u>87,866,127</u>
Less accumulated depreciation for:						
Land improvements	-	246,500	246,500	11,861	-	258,361
Buildings	-	7,257,620	7,257,620	405,290	284,790	7,378,120
Building improvements	-	-	-	58,753	-	58,753
Infrastructure	18,611,083	10,180,649	28,791,732	1,078,650	-	29,870,382
Machinery and equipment	3,276,632	(1,771,011)	1,505,621	256,193	38,067	1,723,747
Transportation equipment	<u>1,483,921</u>	<u>(495,599)</u>	<u>988,322</u>	<u>119,879</u>	<u>149,000</u>	<u>959,201</u>
Totals	<u>23,371,636</u>	<u>15,418,159</u>	<u>38,789,795</u>	<u>1,930,626</u>	<u>471,857</u>	<u>40,248,564</u>
Total capital assets, being depreciated, net	<u>69,897,262</u>	<u>(33,293,144)</u>	<u>36,604,118</u>	<u>11,360,467</u>	<u>347,022</u>	<u>47,617,563</u>
Total capital assets, net	<u>\$ 84,089,150</u>	<u>\$ (37,439,609)</u>	<u>\$ 46,649,541</u>	<u>\$ 12,735,420</u>	<u>\$ 8,094,209</u>	<u>\$ 51,290,752</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Lafayette/Barker	\$ 5,660,000	\$ 117,021	\$ 42,979	\$ 5,500,000
Tyron/Meer Roads	1,485,060	1,476,564	8,496	-
Wabash/Washington 2	<u>4,400,000</u>	<u>1,359,373</u>	<u>3,040,627</u>	<u>-</u>
Totals	<u>\$ 11,545,060</u>	<u>\$ 2,952,958</u>	<u>\$ 3,092,102</u>	<u>\$ 5,500,000</u>

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Long-Term Liabilities

1. General Obligation Bonds

The Sanitary District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1995 Improvement bonds	5%	\$ 4,170,000

General obligation bonds debt service requirements to maturity are as follows:

Year Ended	Principal	Interest
December 31		
2007	\$ 2,025,000	\$ 183,500
2008	2,145,000	80,875
Totals	\$ 4,170,000	\$ 264,375

2. Revenue Bonds

The Sanitary District issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
2005 Refunding revenue bonds	3% to 3.85%	\$ 7,020,000

Revenue bonds debt service requirements to maturity are as follows:

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended		
<u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 685,000	\$ 230,740
2008	705,000	210,040
2009	725,000	188,740
2010	750,000	166,655
2011	775,000	142,884
2012-2015	<u>3,380,000</u>	<u>289,251</u>
Totals	<u>\$ 7,020,000</u>	<u>\$ 1,228,310</u>

3. Loan Payable

The Sanitary District has entered into a State Revolving Loan for the extension of sanitary sewer service to the Indian Springs area. The loan is payable solely from special capital charges collected from Indian Springs residents, which is reported as a loan receivable on the statement of net assets. The \$990,000 loan will not bear interest and is to be repaid quarterly beginning April 1, 2005, and ending January 1, 2047. The term of the loan may be extended beyond 42 years if there are deficiencies in the special capital charges collected as a result of delinquent user charge fees that are not recovered in the due course of business. The District had drawdown the full \$990,000 as of December 31, 2005. As of December 31, 2006, \$51,210 has been collected and remitted to the State to date leaving a balance of \$938,790. Annual debt service requirements to maturity are based upon the monthly collections received from the Indian Springs area residents.

The Sanitary District has entered into a State Revolving Loan for the extension of sanitary sewer service to the Whippoorwill area. The loan is payable solely from special capital charges collected from Whippoorwill residents, which is reported as a loan receivable on the statement of net assets. The \$90,000 bears an interest rate of 2.40% and is to be repaid quarterly beginning April 1, 2006, and ending April 1, 2038. The term of the loan may be extended beyond 32 years if there are deficiencies in the special capital charges collected as a result of delinquent user charge fees that are not recovered in the due course of business. As of December 31, 2006, the District had drawdown \$78,427 and the project is considered complete. \$1,055 has been collected and remitted to the State leaving a balance of \$77,372. Annual debt service requirements to maturity are based upon the monthly collections received from the Whippoorwill area residents.

4. Advance Refunding

In prior years, the Sanitary District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Sanitary District's financial statements. At December 31, 2006, \$895,000 of the 1994 revenue bonds outstanding were considered defeased.

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 6,080,000	\$ -	\$ 1,910,000	\$ 4,170,000	\$ 2,025,000
Less discount	(67,616)	-	(22,538)	(45,078)	-
Revenue bonds	7,685,000	-	665,000	7,020,000	685,000
Add premium	28,975	-	3,050	25,925	-
Less deferred amount on refunding	(200,081)	-	(21,061)	(179,020)	-
Total bonds payable	13,526,278	-	2,534,451	10,991,827	2,710,000
Loan payable	964,990	78,427	27,255	1,016,162	25,480
Compensated absences	48,207	48,207	-	96,414	4,090
Total long-term liabilities	<u>\$ 14,539,475</u>	<u>\$ 126,634</u>	<u>\$ 2,561,706</u>	<u>\$ 12,104,403</u>	<u>\$ 2,739,570</u>

E. Restatements

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the District. Prior period adjustments represent adjustments made to capital assets due to a reevaluation of the assets' value.

Net Assets as Reported December 31, 2005	Prior Period Adjustments	Net Assets as Restated January 1, 2006
<u>\$ 75,382,428</u>	<u>\$ (37,439,609)</u>	<u>\$ 37,942,819</u>

III. Other Information

A. Risk Management

The District 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. 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.

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Sanitary District, has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the City's Employee Health and Life 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 \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for employee payroll. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs).

Information to segregate the assets and liabilities figures between the City, Utilities, and the Port Authority is not available and, therefore, considered an obligation of the City. Thus, claim liabilities cannot be reasonably estimated for the Sanitary District separate from the City.

Job Related Illnesses or Injuries to Employees

During 1992, the Sanitary District joined together with other governmental entities in the Indiana Public Employer's Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Sanitary District pays an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Postemployment Benefits

In addition to the pension benefits described below, the District provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the District on or after attaining age 55 with at least 20 years of service. Currently, no retirees meet these eligibility requirements. The District and retirees provide 67% and 33%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis.

C. Rate Structure

The current rate structure was approved by the Board of Sanitary District Commissioners and the Michigan City Common Council on December 21, 2004. The Sanitary District has 11,470 customers.

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Sanitary District, 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, including the Sanitary District, 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 (including the Sanitary District'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 Sanitary District is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

SANITARY DISTRICT
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 559,453
Interest on net pension obligation	(12,969)
Adjustment to annual required contribution	14,779
Annual pension cost	561,263
Contributions made	542,191
Increase in net pension obligation	19,072
Net pension obligation, beginning of year	(178,881)
Net pension obligation, end of year	\$ (159,809)
Contribution rates:	
Sanitary District	6.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 520,680	84%	\$ (145,792)
	06-30-04	467,021	107%	(178,881)
	06-30-05	561,263	116%	(159,809)

SANITARY DISTRICT
CITY OF MICHIGAN CITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 6,864,219	\$ 8,392,364	\$ (1,528,145)	82%	\$ 7,622,749	(20%)
07-01-04	7,084,173	9,396,394	(2,312,221)	75%	8,118,274	(28%)
07-01-05	7,513,688	10,997,902	(3,484,214)	68%	8,063,595	(43%)

SANITARY DISTRICT
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2007, with Alan J. Walus, General Manager; John J. Schaefer, Controller; Doretha M. Sanders, Office Manager; and Cheryl Bates, Bookkeeper. Our audit disclosed no material items that warrant comment at this time.