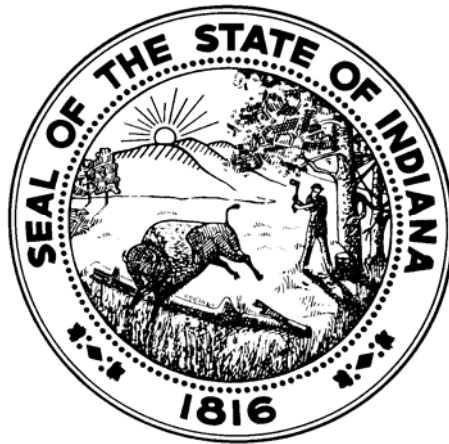


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT
2005

MICHIGAN CITY PORT AUTHORITY
A COMPONENT UNIT OF THE
CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA



FILED
7/21/06

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Harbormaster	Timothy Frame	01-01-05 to 12-31-06
Assistant Harbormaster of Administration	Mary Ann Pawlicke	01-01-05 to 12-31-06
City Controller	John Schaefer	01-01-05 to 12-31-06
Mayor	Charles Oberlie	01-01-04 to 12-31-07
President of the Port Authority Board	James Jaksa	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MICHIGAN CITY PORT AUTHORITY, LAPORTE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Michigan City Port Authority (Port Authority), a component unit of the City of Michigan City, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Port Authority are intended to present the financial position and changes in financial position of the component unit of the City that is attributable to the transactions of the Port Authority. They do not purport to, and do not, present fairly the financial position of the City of Michigan City as of December 31, 2005, and the changes in its financial position, where applicable, for the year then ended in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note I, the Port Authority 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. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the business-type activities of the Port Authority as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the financial statements but is 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port Authority's financial statements. The Schedule of Capital Assets, and Schedule of Long-term Debt are presented for additional analysis and are not a required part of the financial statements. 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 financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

May 31, 2006

MICHIGAN CITY PORT AUTHORITY
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
As of and for the Year Ended December 31, 2005

Operating receipts:	
Slips and overnight rentals	\$ 1,509,909
Storage and rack fees	367,925
Boat maintenance fees	65,100
Fuel and merchandise sales	488,284
Boat show income	81,118
Ramp fees	65,194
Commissions and rental fees	12,774
Local tax distributions - cumulative channel maintenance	224,964
Other	<u>23,252</u>
 Total operating receipts	 <u>2,838,520</u>
Operating disbursements:	
Marina operations:	
Salaries and wages	380,456
Employee pensions and benefits	169,025
Purchased power and utilities	116,091
Repairs and maintenance - equipment	173,042
Repairs and maintenance - building	23,567
Material and supplies	17,956
Fuel and merchandise purchased for resale	395,359
Contractual services	126,858
Advertising and promotional	21,211
Other	14,705
Administration and general:	
Board compensation	22,500
Attorney fees	4,900
Telephone	12,449
Material and supplies	7,637
Contractual services	14,508
Postage	5,372
Insurance	160,861
Other	<u>2,984</u>
 Total operating disbursements	 <u>1,669,481</u>
 Excess of receipts over disbursements	 <u>1,169,039</u>

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

MICHIGAN CITY PORT AUTHORITY
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
As of and for the Year Ended December 31, 2005
(Continued)

Nonoperating receipts (disbursements):	
Interest and investment receipts	95,198
Debt service of principal	(3,480,000)
Interest and investment disbursement	(194,720)
Miscellaneous disbursements	<u>(68,196)</u>
Total nonoperating receipts (disbursements)	<u>(3,647,718)</u>
Deficiency of receipts over disbursements and nonoperating receipts (disbursements)	(2,478,679)
Cash and investment fund balance - beginning	<u>7,753,337</u>
Cash and investment fund balance - ending	<u>\$ 5,274,658</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 1,997,899
Restricted assets:	
Cash and investments	<u>3,276,759</u>
Total cash and investment assets - December 31	<u>\$ 5,274,658</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 831,222
Security deposits	2,821
Cumulative channel maintenance	920,857
Capital improvements	618,079
Other purposes	903,780
Unrestricted	<u>1,997,899</u>
Total cash and investment fund balance - December 31	<u>\$ 5,274,658</u>

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

MICHIGAN CITY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Port Authority was established under the laws of the State of Indiana. The Port Authority operates under an appointed governing board. The financial statements reflect only the activity of the Port Authority and are not intended to present fairly the position of the City of Michigan City (City), and the results of its operation of its business-type activities. The Port Authority represents the City's discretely presented component unit.

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

B. Fund Financial Statements

Financial statements of the reporting entity consist of the Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances - Cash and Investment Basis. The Port Authority relies to a significant extent on fees and charges for support.

C. Measurement Focus and Basis of Accounting

The 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 Port Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

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 are accounted for as capital outlay disbursements.

MICHIGAN CITY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Long-Term Debt

Long-term debt arising from cash basis transactions 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

Fund equity is classified as fund balance.

E. Operating Receipts and Disbursements

The Port Authority distinguishes operating receipts from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods and services in connection with the Port Authority's principal ongoing operations. The principal operating receipts are charges to customers for sales and services. Operating disbursements include the cost of sales and services and administrative disbursements. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

II. Detailed Notes on All Funds

Deposits and Investments

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.

III. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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.

MICHIGAN CITY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees and Dependents

The City of Michigan City, including the Port Authority, has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents (excluding postemployment benefits). 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. Premiums are paid into the fund by all affected funds and entities and are available to pay claims, claim reserves, and administrative costs of the program. The total charge allocated to each of the funds or entities is calculated using trends in actual claims experience.

B. Subsequent Events

According to an agreement between the Port Authority and Blue Chip Casino for the sale of Sprague Marina to the casino, the Blue Chip Casino has conveyed that within thirty days after the date of completion of the Casino's Trail Creek Project that Sprague Marina will be donated back to the Port Authority. The Port Authority anticipates to reacquire the Sprague Marina sometime in 2006.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Port Authority, contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the 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.

MICHIGAN CITY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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:	
Port Authority	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%

MICHIGAN CITY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

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

MICHIGAN CITY PORT AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 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%)

MICHIGAN CITY PORT AUTHORITY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

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>Ending Balance</u>
Business-type activities:	
Port Authority:	
Capital assets, not being depreciated:	
Land	\$ <u>2,038,751</u>
Capital assets, being depreciated:	
Land improvements	992,285
Infrastructure	2,515,542
Buildings	5,800,526
Machinery and equipment	<u>675,390</u>
Totals	<u>9,983,743</u>
Less accumulated depreciation for:	
Land improvements	629,901
Infrastructure	466,034
Buildings	1,257,161
Machinery and equipment	<u>448,912</u>
Totals	<u>2,802,008</u>
Total capital assets, being depreciated, net	<u>7,181,735</u>
Total capital assets, net	<u><u>\$ 9,220,486</u></u>

MICHIGAN CITY PORT AUTHORITY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF DEBT
 For The Year Ended December 31, 2005

	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:		
Port Authority		
Revenue bonds:		
Marina revenue bonds fifth issue - 1998	<u>\$ 3,060,000</u>	<u>\$ 170,000</u>

MICHIGAN CITY PORT AUTHORITY
AUDIT RESULT AND COMMENT

CUSTOMER BILLINGS AND RECEIPTS

As stated in prior audit reports, customers of the Port Authority are billed for slip rentals, rack rentals, storage fees, and other services. The billings are done on a computerized program developed specifically for the Port Authority. Some enhancements to the system were made, but the software vendor sold the company so support services for the program are no longer available. The following deficiencies still exist with this system:

1. Neither prescribed nor approved receipts are issued for payments received for invoiced items. When a payment is received, the computer assigns each payment a number and that payment number, date, check number, and amount are recorded on the invoice. Two copies of this updated invoice are printed; one is issued to the customer, the other is placed with the daily deposit documentation.
2. Daily or monthly billing reports are not run and the information cannot be retrieved at a later date.
3. Invoices can be deleted from the billing program. Employees are no longer routinely deleting invoices when slip rentals are transferred or canceled, however, the ability to do so still exist.

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion.

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. Procedures must also exist to assure that only authorized individuals have access to computer generated output. All receipts or payments generated by the accounting system must include unique document identification numbers preprinted on the form. If the application system prints other numbers on the form (document control numbers) adequate security must be implemented to prevent unauthorized modification of the number sequence. Individuals responsible for computer processing of receipts or payment documents must not have access to the storage locations of these documents. Receipt and payment documents must not include preprinted signatures. All output reports must clearly indicate the effective dates of the information regardless of when the report is generated. Output reports must have appropriate subtotals to allow reconciliation of reports within the system and reconciliation to external documentation. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 11)

The ability must not exist to change data after being posted. If an error is discovered after the entry has been posted, then a separate correcting entry must be made. Both the correcting entry and the original entry must be maintained. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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 Special Districts, Chapter 10)

MICHIGAN CITY PORT AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on May 30, 2006, with James Jaksa, Port Authority Board President; James Baldwin, Port Authority Board Treasurer; John Schaefer, City Controller; Timothy Frame, Harbormaster; and Mary Ann Pawlicke, Assistant Harbormaster of Administration. The official response has been made a part of this report and may be found on page 17.



State Board of Accounts
302 W. Washington Street
Room E 418

RE: Official Response

June 5, 2006

To Whom It May Concern:

Please let this letter serve as an official response to our recent exit conference outlining your audit results for the Michigan City Port Authority.

In reference to your findings of our customer and billing receipts program, the Port Authority recognizes that this issue was in prior audits. We were waiting for the City to purchase a new program and then see if we could acquire a module for accounts receivable. At this point the City has found someone to repair the problems with the Fundware Program.

It is our understanding that changing over to a new system will be costly for the Port Authority. We intend to make certain that any decision regarding a new system is not taken lightly and that it meets the requirements outlined in the audit results.

We have started looking at programs and found that it is a lengthy process. We hope to find one that meets the states needs as well as our own.

At this time we would like to thank you for bringing these issues to our attention. We expect to take the necessary steps to resolve the problem.

Sincerely,

Tim Frame
Harbormaster