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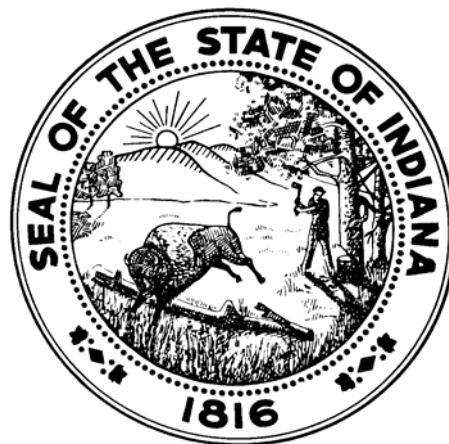
**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2005

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA



**FILED**  
09/11/2006



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	John J. Schaefer	01-01-05 to 12-31-06
Mayor	Charles E. Oberlie	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Anthony Metzcus	01-01-05 to 12-31-06
President of the Common Council	Charles Lungren Ronald Meer	01-01-05 to 12-31-05 01-01-06 to 12-31-06
Superintendent of Water Utility	Randall Russell	01-01-05 to 12-31-06
Sanitary District Manager	Alan Walus	01-01-05 to 12-31-06
Port Authority Harbormaster	Timothy Frame	01-01-05 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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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 MICHIGAN CITY, LAPORTE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Michigan City (City), as of and for the year ended December 31, 2005, 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. 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 governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City 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.

In accordance with Government Auditing Standards, we have also issued a report dated July 10, 2006, 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.

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

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

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities and Budgetary Comparison Schedules, 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 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 a required part 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

July 10, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the City of Michigan City (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated July 10, 2006. 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2005-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely

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

period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2005-1 to be a material weakness.

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

July 10, 2006

CITY OF MICHIGAN CITY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2005

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Michigan City Port Authority
<b>Primary government:</b>								
<b>Governmental activities:</b>								
General government	\$ 17,828,381	\$ 3,520,386	\$ 45,262	\$ 3,920,645	\$ (10,342,088)	\$ -	\$(10,342,088)	\$ -
Public safety	12,188,686	60,178	10,509	46,566	(12,071,433)	-	(12,071,433)	-
Highways and streets	1,376,412	6,900	1,740,998	350,141	721,627	-	721,627	-
Health and welfare	-	1,001	-	-	1,001	-	1,001	-
Economic development	-	-	37,888	-	37,888	-	37,888	-
Culture and recreation	3,814,969	1,612,434	133,180	100,311	(1,969,044)	-	(1,969,044)	-
Urban redevelopment and housing	711,977	-	189,820	-	(522,157)	-	(522,157)	-
Debt service	668,881	-	-	-	(668,881)	-	(668,881)	-
Interest on long-term debt	429,326	-	-	-	(429,326)	-	(429,326)	-
Capital outlay	13,632,565	-	-	-	(13,632,565)	-	(13,632,565)	-
<b>Total governmental activities</b>	<b>50,651,197</b>	<b>5,200,899</b>	<b>2,157,657</b>	<b>4,417,663</b>	<b>(38,874,978)</b>	<b>-</b>	<b>(38,874,978)</b>	<b>-</b>
<b>Business-type activities:</b>								
Water	7,761,978	9,033,399	-	-	-	1,271,421	1,271,421	-
Sanitary District	12,601,173	6,159,921	-	388,000	-	(6,053,252)	(6,053,252)	-
<b>Total business-type activities</b>	<b>20,363,151</b>	<b>15,193,320</b>	<b>-</b>	<b>388,000</b>	<b>-</b>	<b>(4,781,831)</b>	<b>(4,781,831)</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 71,014,348</b>	<b>\$ 20,394,219</b>	<b>\$ 2,157,657</b>	<b>\$ 4,805,663</b>	<b>(38,874,978)</b>	<b>(4,781,831)</b>	<b>(43,656,809)</b>	<b>-</b>
<b>Component unit:</b>								
Michigan City Port Authority	\$ 5,412,397	\$ 2,613,556	\$ -	\$ -	-	-	-	(2,798,841)
<b>Total component units</b>	<b>\$ 5,412,397</b>	<b>\$ 2,613,556</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,798,841)</b>
<b>General receipts:</b>								
Property taxes					16,012,575	4,722,697	20,735,272	211,277
<b>Intergovernmental revenues:</b>								
Excise taxes					884,195	-	884,195	12,371
Financial institution taxes					107,385	-	107,385	1,316
CAGIT					1,465,061	-	1,465,061	-
CEDIT					2,113,739	-	2,113,739	-
Gaming taxes					10,684,169	200,212	10,884,381	-
Cigarette and alcohol gallonage taxes					96,847	-	96,847	-
Other local sources					1,030,492	-	1,030,492	-
Bonds and loans					-	120,880	120,880	-
Unrestricted investment earnings					624,303	205,243	829,546	95,198
<b>Total general receipts</b>					<b>33,018,766</b>	<b>5,249,032</b>	<b>38,267,798</b>	<b>320,162</b>
<b>Change in net assets</b>					<b>(5,856,212)</b>	<b>467,201</b>	<b>(5,389,011)</b>	<b>(2,478,679)</b>
<b>Net assets - beginning</b>					<b>39,362,618</b>	<b>7,570,350</b>	<b>46,932,968</b>	<b>7,753,337</b>
<b>Net assets - ending</b>					<b>\$ 33,506,406</b>	<b>\$ 8,037,551</b>	<b>\$ 41,543,957</b>	<b>\$ 5,274,658</b>
<b>Assets</b>								
Cash and investments					\$ 18,070,177	\$ 2,335,138	\$ 20,405,315	\$ 1,997,899
<b>Restricted assets:</b>								
Cash and investments					15,436,229	5,702,413	21,138,642	3,276,759
<b>Total assets</b>					<b>\$ 33,506,406</b>	<b>\$ 8,037,551</b>	<b>\$ 41,543,957</b>	<b>\$ 5,274,658</b>
<b>Net Assets</b>								
<b>Restricted for:</b>								
Debt service					\$ 1,943,754	\$ 1,856,792	\$ 3,800,546	\$ 831,222
Capital projects					10,992,377	3,040,595	14,032,972	618,079
Customer deposits					-	520,633	520,633	-
Other purposes					3,005,003	284,393	3,289,396	1,827,458
Unrestricted					17,565,272	2,335,138	19,900,410	1,997,899
<b>Total net assets</b>					<b>\$ 33,506,406</b>	<b>\$ 8,037,551</b>	<b>\$ 41,543,957</b>	<b>\$ 5,274,658</b>

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

CITY OF MICHIGAN CITY  
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, 2005

	General	Riverboat Gaming	CEDIT	Franklin Square Project	Blue Chip Development	Other Governmental Funds	Totals
<b>Receipts:</b>							
Taxes	\$ 12,298,292	\$ -	\$ -	\$ 985,427	\$ -	\$ 2,728,856	\$ 16,012,575
Licenses and permits	478,557	-	-	-	-	3,528	482,085
Intergovernmental	3,231,168	10,684,168	2,113,739	-	-	2,404,543	18,433,618
Charges for services	402,510	-	-	-	-	2,216,256	2,618,766
Fines and forfeits	107,367	-	-	-	-	-	107,367
Other	1,087,161	19,947	-	83,857	3,339,976	559,720	5,090,661
<b>Total receipts</b>	<b>17,605,055</b>	<b>10,704,115</b>	<b>2,113,739</b>	<b>1,069,284</b>	<b>3,339,976</b>	<b>7,912,903</b>	<b>42,745,072</b>
<b>Disbursements:</b>							
General government	5,199,343	13,264,156	-	-	-	936,419	19,399,918
Public safety	12,112,842	-	-	-	-	75,844	12,188,686
Highways and streets	-	-	-	-	-	1,376,412	1,376,412
Culture and recreation	-	-	-	-	-	3,814,969	3,814,969
Urban redevelopment and housing	-	-	-	-	-	711,977	711,977
Debt service:							
Principal	-	-	440,000	-	-	228,881	668,881
Interest	-	-	169,930	-	-	259,396	429,326
Capital outlay	-	-	2,988,955	790,459	7,054,180	2,798,971	13,632,565
<b>Total disbursements</b>	<b>17,312,185</b>	<b>13,264,156</b>	<b>3,598,885</b>	<b>790,459</b>	<b>7,054,180</b>	<b>10,202,869</b>	<b>52,222,734</b>
Excess (deficiency) of revenue over (under) disbursements	292,870	(2,560,041)	(1,485,146)	278,825	(3,714,204)	(2,289,966)	(9,477,662)
<b>Other financing sources (uses)</b>							
Transfers in	-	-	-	-	-	1,496,551	1,496,551
Transfers out	(193,563)	(533,964)	(216,743)	-	-	(552,281)	(1,496,551)
<b>Total other financing sources (uses)</b>	<b>(193,563)</b>	<b>(533,964)</b>	<b>(216,743)</b>	<b>-</b>	<b>-</b>	<b>944,270</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	99,307	(3,094,005)	(1,701,889)	278,825	(3,714,204)	(1,345,696)	(9,477,662)
Cash and investment fund balance - beginning	2,103,095	12,831,507	4,772,709	3,803,431	6,072,703	8,466,512	38,049,957
Cash and investment fund balance - ending	<u>\$ 2,202,402</u>	<u>\$ 9,737,502</u>	<u>\$ 3,070,820</u>	<u>\$ 4,082,256</u>	<u>\$ 2,358,499</u>	<u>\$ 7,120,816</u>	<u>\$ 28,572,295</u>
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.							
							4,934,111
Net assets of governmental activities							<u>\$ 33,506,406</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 2,202,402	\$ 9,737,502	\$ -	\$ -	\$ -	\$ 682,066	\$ 12,621,970
Restricted assets:							
Cash and investments	-	-	3,070,820	4,082,256	2,358,499	6,438,750	15,950,325
<b>Total cash and investment assets - December 31</b>	<u>\$ 2,202,402</u>	<u>\$ 9,737,502</u>	<u>\$ 3,070,820</u>	<u>\$ 4,082,256</u>	<u>\$ 2,358,499</u>	<u>\$ 7,120,816</u>	<u>\$ 28,572,295</u>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,943,754	\$ 1,943,754
Capital projects	-	-	3,070,820	4,082,256	2,358,499	1,480,802	10,992,377
Other purposes	-	-	-	-	-	3,005,003	3,005,003
Unrestricted	2,202,402	9,737,502	-	-	-	691,257	12,631,161
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 2,202,402</u>	<u>\$ 9,737,502</u>	<u>\$ 3,070,820</u>	<u>\$ 4,082,256</u>	<u>\$ 2,358,499</u>	<u>\$ 7,120,816</u>	<u>\$ 28,572,295</u>

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

CITY OF MICHIGAN CITY  
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, 2005

	Water Utility	Sanitary District	Total	Internal Service Fund
Operating receipts:				
Charges for services	\$ 6,828,525	\$ 6,092,142	\$ 12,920,667	\$ -
Local tax distribution for stormwater and refuse	-	2,632,374	2,632,374	-
Employee contributions	-	-	-	327,759
Employer contributions	-	-	-	7,510,138
Other	<u>2,204,874</u>	<u>67,779</u>	<u>2,272,653</u>	<u>91</u>
 Total operating receipts	 <u>9,033,399</u>	 <u>8,792,295</u>	 <u>17,825,694</u>	 <u>7,837,988</u>
Operating disbursements:				
Water - operations and maintenance	3,016,453	-	3,016,453	-
Collection system - operations and maintenance	-	1,457,310	1,457,310	-
Pumping - operations and maintenance	-	2,241,302	2,241,302	-
Stormwater - operations and maintenance	-	168,359	168,359	-
Refuse - operations and maintenance	-	2,476,903	2,476,903	-
Administration and general	-	1,017,001	1,017,001	4,724
Insurance claims and premiums	81,447	-	81,447	4,311,165
Miscellaneous disbursements	<u>3,678,352</u>	<u>-</u>	<u>3,678,352</u>	<u>-</u>
 Total operating disbursements	 <u>6,776,252</u>	 <u>7,360,875</u>	 <u>14,137,127</u>	 <u>4,315,889</u>
 Excess of operating receipts over operating disbursements	 <u>2,257,147</u>	 <u>1,431,420</u>	 <u>3,688,567</u>	 <u>3,522,099</u>
Nonoperating receipts (disbursements):				
Loan proceeds	-	120,880	120,880	-
Interest and investment receipts	122,400	82,843	205,243	99,351
Intergovernmental	-	200,212	200,212	-
Local tax distributions for debt service	-	2,090,323	2,090,323	-
Debt service of principal	(575,000)	(2,435,010)	(3,010,010)	-
Interest and investment disbursement	(410,726)	(730,686)	(1,141,412)	-
Loan to Indian Springs	-	(120,880)	(120,880)	-
Capital outlay	<u>-</u>	<u>(1,953,722)</u>	<u>(1,953,722)</u>	<u>-</u>
 Total nonoperating receipts (disbursements)	 <u>(863,326)</u>	 <u>(2,746,040)</u>	 <u>(3,609,366)</u>	 <u>99,351</u>
 Excess (deficiency) of receipts over (under) disbursements and nonoperating receipts (disbursements)	 1,393,821	 (1,314,620)	 79,201	 3,621,450
Capital contributions	<u>-</u>	<u>388,000</u>	<u>388,000</u>	<u>-</u>
 Excess (deficiency) of receipts and contributions over (under) disbursements	 1,393,821	 (926,620)	 467,201	 3,621,450
Cash and investment fund balance - beginning	<u>2,856,383</u>	<u>4,713,967</u>	<u>7,570,350</u>	<u>1,312,661</u>
Cash and investment fund balance - ending	<u>\$ 4,250,204</u>	<u>\$ 3,787,347</u>	<u>\$ 8,037,551</u>	<u>\$ 4,934,111</u>
 <u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 1,084,209	\$ 1,250,929	\$ 2,335,138	\$ 4,934,111
Restricted assets:				
Cash and investments	<u>3,165,995</u>	<u>2,536,418</u>	<u>5,702,413</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 4,250,204</u>	<u>\$ 3,787,347</u>	<u>\$ 8,037,551</u>	<u>\$ 4,934,111</u>
 <u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 406,926	\$ 1,449,866	\$ 1,856,792	\$ -
Capital improvements	2,238,436	802,159	3,040,595	-
Customer deposits	520,633	-	520,633	-
Other purposes	-	284,393	284,393	-
Unrestricted	<u>1,084,209</u>	<u>1,250,929</u>	<u>2,335,138</u>	<u>4,934,111</u>
Total cash and investment fund balance - December 31	<u>\$ 4,250,204</u>	<u>\$ 3,787,347</u>	<u>\$ 8,037,551</u>	<u>\$ 4,934,111</u>

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

CITY OF MICHIGAN CITY  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For The Year Ended December 31, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Additions:			
Contributions:			
Employer	\$ 484,510	\$ -	\$ -
Plan members	40,462	-	-
State	2,158,701	-	-
Other	<u>705</u>	<u>13,987</u>	<u>-</u>
Total contributions	<u>2,684,378</u>	<u>13,987</u>	<u>-</u>
Investment earnings:			
Interest	<u>-</u>	<u>1,885</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>-</u>	<u>3,383,199</u>
Total additions	<u>2,684,378</u>	<u>15,872</u>	<u>3,383,199</u>
Deductions:			
Benefits	3,343,558	-	-
Administrative and general	4,800	9,555	-
Other	879	-	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>2,597,198</u>
Total deductions	<u>3,349,237</u>	<u>9,555</u>	<u>2,597,198</u>
Excess (deficiency) of total additions over (under) total deductions	(664,859)	6,317	786,001
Cash and investment fund balance - beginning	<u>2,753,813</u>	<u>61,601</u>	<u>713,607</u>
Cash and investment fund balance - ending	<u>\$ 2,088,954</u>	<u>\$ 67,918</u>	<u>\$ 1,499,608</u>

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

CITY OF MICHIGAN CITY  
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, water, wastewater, and urban redevelopment and housing.

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

Primary Government:	City of Michigan City, Michigan City Water Utility, Michigan City Sanitary District
Blended Component Unit:	Michigan City Redevelopment Authority
Discretely Presented Component Unit:	Michigan City Port Authority

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

Blended Component Unit

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 unit is presented below:

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

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

CITY OF MICHIGAN CITY  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Component Unit	Description/Inclusion Criteria
Michigan City Port Authority	The Michigan City Port Authority is a significant discretely presented component unit of the City. The primary government appoints a voting majority of the Michigan City Port Authority's board and a financial benefit/burden relationship exists between the City and the Michigan City Port Authority.

Related Organization

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 the board members of the Michigan City Housing Authority.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis display 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 riverboat gaming fund is a special revenue fund. It accounts for the financial resources received from the State of Indiana as gaming admissions taxes.

The credit fund is a capital projects fund. It accounts for the financial resources received from the County for the economic development income taxes.

The Franklin Square project fund is a capital projects fund. It accounts for the financial resources received from the County for the tax increment financing taxes.

The Blue Chip development fund is a capital projects fund. It accounts for the financial resources received from the Blue Chip Casino in an agreed upon contract.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

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

Additionally, the City reports the following fund types:

The permanent funds report trust arrangements under which only earnings are used for the maintenance of the cemeteries.

The internal service fund accounts for employee health insurance 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.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit certain family gravesites.

Agency funds account for assets held by the City as an agent for federal, state, and other local governmental and non-governmental 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.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 City, the water utility and sanitary district. 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 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 (2) law through constitutional provisions or enabling legislations.
- 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.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds).

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:

1. 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 – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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. Cash and Investment Balance Deficits

At December 31, 2005, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and State statute:

Fund	2005
Golf	\$ 57,942
Hometown Forestry Project	9,191
Municipal Coach Capital Improvement	272,013
Geberet Project	232,892

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. 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.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the City had the following investments:

Investment Type	Primary Government	Investment Maturities (in Years)		
	Market Value	Less Than 1	1-2	More Than 2
U.S. Agencies	\$ 3,863,660	\$ 117,900	\$ 274,038	\$ 3,471,722
Mutual Funds	343,630	343,630	-	-
Totals	<u>\$ 4,207,290</u>	<u>\$ 461,530</u>	<u>\$ 274,038</u>	<u>\$ 3,471,722</u>

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 fifty percent (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 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.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, 2005, the City held investments in U.S. Agencies and Mutual Funds in the amount of \$4,207,290. Of these investments \$4,207,290 were held by the counterparty's trust department.

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.

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.

<u>Standard and Poor's Rating</u>	<u>City's Investments</u>	
	<u>U.S. Agency Bonds</u>	<u>Mutual Funds</u>
AAA	\$ 3,863,660	\$ -
Unrated	-	343,630
Totals	<u>\$ 3,863,660</u>	<u>\$ 343,630</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, 2005, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>
General fund	Nonmajor governmental funds	\$ 193,563
Riverboat Gaming Fund	Nonmajor governmental funds	533,964
CEDIT Fund	Nonmajor governmental funds	216,743
Nonmajor governmental funds	Nonmajor governmental funds	<u>552,281</u>
Totals		<u>\$ 1,496,551</u>

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The City typically uses transfers to fund ongoing operating subsidies and to transfer the local match for grants.

IV. Other Information

A. Risk Management

The City, including the component unit, 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.

Medical Benefits to Employees, Retirees, and Dependents

The City, including the component unit, 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 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 based upon each fund's percentage of current 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.

Job Related Illnesses or Injuries to Employees

During 1992, the City 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 City 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. Subsequent Events

On January 17, 2006, the Water Utility Board of Directors awarded the On-Shore Intake Placement Project to Woodruff and Sons in the amount of \$681,640.

On May 17, 2005, the Common Council approved Resolution No. 4284 approving the issuance of special taxing district bonds not to exceed \$4,550,000, at an interest rate not to exceed 8% with a final maturity date not later than August 1, 2028, to finance the southside redevelopment area allocation project to extend and widen County Road 400N. As of June 13, 2006, the bonds have not been sold.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

On July 22, 2005, the Department of the Local Government Finance approved a lease between the Redevelopment Commission (Commission) of the City and the Redevelopment Authority (Authority) providing for the lease to finance the construction of a stormwater outfall and the first phase of the Lafayette Street Storm Sewer for a term of 22 years, beginning on the date the project is complete and ready for use, at an annual lease rental not to exceed \$825,000. The Commission intends to use tax increment financing revenues for the payment of the lease rentals. The Authority intends to issue lease rental revenue bonds not to exceed \$5,500,000. As of June 13, 2006, the bonds have not been sold.

On October 15, 2005, the Sanitary District approved an agreement with the Indiana Finance Authority for a \$90,000 loan, with an annual interest rate of 2.4%, to construct a sewer extension to an area near Trail Creek. The loan is drawn down on an as-needed basis upon presentation of accurate and complete claims to the Indiana Finance Authority. Drawdowns totaling \$78,427 were requested and received in February 2006. The loan is payable solely from special capital charges collected from users served by the sewer extension. The loan will mature quarterly over a period ending April 1, 2038.

On December 21, 2005, the Sanitary District Board of Commissioners approved to provide retiree health insurance to noncontract employees who have at least 20 years of service, is not yet age 65, be a minimum of 55 years of age, or eligible for PERF disability effective January 1, 2006. The retired employee shall contribute one-third (1/3) of the total health insurance premium cost and the City shall contribute two-thirds (2/3).

On July 6, 2006, the Board of Public Works and Safety approved Phase II of the Wabash/Washington Street Project for \$2,400,000.

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 hopes to have Sprague Marina back sometime in 2006.

C. Conduit Debt Obligation

From time to time, the City has issued Economic Development and Health 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, 2005, there were five series of Economic Development Revenue Bonds and one series of Health Facility Revenue Bonds outstanding. The aggregate principal amount payable for four series issued after July 1, 1995, was \$9,193,153. The aggregate principal amount payable for the two series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$10,185,000.

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Postemployment Benefits

In addition to the pension benefits described below, the City provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after attaining age 55 to 65 with at least 20 years of service. Currently, 3 retirees meet these eligibility requirements. The City and retirees provide 66 2/3% and 33 1/3%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. Disbursements for postemployment benefits cannot be reasonably estimated.

E. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 31, 2004.

Sanitary District

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

F. 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

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, the Sanitary District, and the Port Authority is not available.

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 MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 559,453	\$ 2,917,600	\$ 2,698,000
Interest on net pension obligation	(12,969)	603,700	349,300
Adjustment to annual required contribution	<u>14,779</u>	<u>(1,007,100)</u>	<u>(582,800)</u>
Annual pension cost	561,263	2,514,200	2,464,500
Contributions made	<u>542,191</u>	<u>1,190,254</u>	<u>1,304,119</u>
Increase in net pension obligation	19,072	1,323,946	1,160,381
Net pension obligation, beginning of year	<u>(178,881)</u>	<u>8,943,422</u>	<u>5,174,882</u>
Net pension obligation, end of year	<u>\$ (159,809)</u>	<u>\$ 10,267,368</u>	<u>\$ 6,335,263</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	6.50%	464%	890%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-05	01-01-04	01-01-04
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	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

<u>Actuarial Assumptions</u>	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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)
1925 Police Officers' Pension Plan	12-31-01	2,517,500	68%	7,570,340
	12-31-02	2,549,200	46%	8,943,422
	12-31-03	2,514,200	47%	10,267,368
1937 Firefighters' Pension Plan	12-31-01	2,555,300	104%	4,523,588
	12-31-02	2,389,900	73%	5,174,882
	12-31-03	2,464,500	53%	6,335,263

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2005, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	66	79
Current active employees	13	5

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.

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:

CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, 2005, 2004, and 2003, were \$1,405,941, \$1,394,578, and \$1,311,523, respectively, equal to the required contributions for each year.

3. Defined Contribution Pension Plan

Water Utility Pension

Plan Description

The Water Utility has a defined contribution pension plan administered by McKready and Keene, Inc. as authorized by Indiana Code 8-1.5-3-7. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the governing board of the unit (Water Board of Directors) and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

McKready and Keene, Inc.  
7941 Castleway Drive  
P.O. Box 50460  
Indianapolis, IN 46250-0460  
Ph. (317) 849-4333

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the governing board of the unit and the Plan Administrator. Plan members are required to contribute 3% of the annual covered salary. The Water Utility is required to contribute at an actuarially determined rate. The current rate is 0% of annual covered payroll. Employer and employee contributions to the plan were \$0 and \$44,084, respectively.

CITY OF MICHIGAN CITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES 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%)

1925 Police Officers' 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)
01-01-99	\$ 333,424	\$ 26,067,200	\$ (25,733,776)	1%	\$ 714,000	(3,604%)
01-01-00	351,482	25,285,500	(24,934,018)	1%	671,800	(3,712%)
01-01-01	440,286	25,998,500	(25,558,214)	2%	670,700	(3,811%)
01-01-02	1,022,597	25,920,400	(24,897,803)	4%	697,500	(3,570%)
01-01-03	1,182,865	24,739,300	(23,556,435)	5%	765,700	(3,076%)
01-01-04	1,141,261	25,178,500	(24,037,239)	5%	628,700	(3,823%)

1937 Firefighters' 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)
01-01-99	\$ 400,597	\$ 24,834,500	\$ (24,433,903)	2%	\$ 313,500	(7,794%)
01-01-00	358,365	24,324,600	(23,966,235)	1%	252,400	(9,495%)
01-01-01	335,907	23,451,300	(23,115,393)	1%	252,400	(9,158%)
01-01-02	1,344,751	23,988,000	(22,643,249)	6%	275,600	(8,216%)
01-01-03	1,784,058	21,295,000	(19,510,942)	8%	291,500	(6,693%)
01-01-04	1,585,094	24,054,900	(22,469,806)	7%	303,100	(7,413%)

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

1925 Police Officers' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-98	\$ 2,579,700	12%	25%
12-31-99	2,623,000	17%	21%
12-31-00	2,609,200	13%	24%
12-31-01	2,764,800	20%	42%
12-31-02	2,856,600	14%	29%
12-31-03	2,917,600	6%	26%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-98	\$ 2,373,600	15%	34%
12-31-99	2,426,200	27%	28%
12-31-00	2,432,500	21%	34%
12-31-01	2,423,700	34%	61%
12-31-02	2,573,600	32%	38%
12-31-03	2,698,000	6%	34%

The accompanying notes to required supplementary information are an integral part of the required supplementary information.

CITY OF MICHIGAN CITY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULES  
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS  
For The Year Ended December 31, 2005

	General Fund				Riverboat Gaming Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Postive (Negative)	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Postive (Negative)
	Original	Final			Original	Final		
Revenues:								
Taxes:								
Property	\$ 12,358,159	\$ 12,358,159	\$ 12,830,803	\$ 472,644	\$ -	\$ -	\$ -	\$ -
Other taxes	2,193,481	2,193,481	2,396,845	203,364	9,560,000	9,560,000	10,684,168	1,124,168
Licenses and permits	606,000	606,000	778,178	172,178	-	-	-	-
Intergovernmental	753,016	753,016	834,322	81,306	-	-	-	-
Charges for services	171,200	171,200	102,889	(68,311)	-	-	-	-
Fines and forfeits	56,000	56,000	107,367	51,367	-	-	-	-
Other	708,000	708,000	1,087,163	379,163	-	-	19,947	19,947
Total revenues	<u>16,845,856</u>	<u>16,845,856</u>	<u>18,137,567</u>	<u>1,291,711</u>	<u>9,560,000</u>	<u>9,560,000</u>	<u>10,704,115</u>	<u>1,144,115</u>
Expenditures:								
Current:								
General government:								
Controller	272,852	272,454	267,818	4,636	-	-	-	-
Clerk	137,351	134,087	130,646	3,441	-	-	-	-
Mayor	163,059	162,582	162,564	18	-	-	-	-
Common Council	134,478	134,478	123,808	10,670	-	-	-	-
Board of Public Works and Safety	2,413,600	859,551	773,984	85,567	11,434,048	14,106,343	13,264,156	842,187
Planning and Inspection	476,658	442,510	396,139	46,371	-	-	-	-
Personnel	64,607	64,816	62,263	2,553	-	-	-	-
Central Maintenance	1,284,373	1,267,975	1,300,381	(32,406)	-	-	-	-
City Hall	245,480	232,471	221,082	11,389	-	-	-	-
Historic Review Board	6,900	8,700	5,000	3,700	-	-	-	-
City Attorney	199,581	178,657	201,600	(22,943)	-	-	-	-
Public Transit	974,322	996,315	978,787	17,528	-	-	-	-
City Engineer	97,969	96,987	96,365	622	-	-	-	-
Human Rights Commission	131,176	130,579	129,328	1,251	-	-	-	-
Central Services	262,911	257,194	252,929	4,265	-	-	-	-
Tree Board	8,800	8,800	4,850	3,950	-	-	-	-
Vector Control	75,173	74,373	70,837	3,536	-	-	-	-
Total general government	<u>6,949,290</u>	<u>5,322,529</u>	<u>5,178,381</u>	<u>144,148</u>	<u>11,434,048</u>	<u>14,106,343</u>	<u>13,264,156</u>	<u>842,187</u>
Public safety:								
Police Commission	33,362	35,387	24,062	11,325	-	-	-	-
Fire Commission	21,820	21,820	18,000	3,820	-	-	-	-
Emergency Management Agency	55,513	55,220	54,432	788	-	-	-	-
Fire Department	6,062,581	5,983,033	5,830,342	152,691	-	-	-	-
Police Department	6,378,166	6,635,827	6,032,865	602,962	-	-	-	-
Animal Control	83,640	83,538	82,739	799	-	-	-	-
Total public safety	<u>12,635,082</u>	<u>12,814,825</u>	<u>12,042,440</u>	<u>772,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>19,584,372</u>	<u>18,137,354</u>	<u>17,220,821</u>	<u>916,533</u>	<u>11,434,048</u>	<u>14,106,343</u>	<u>13,264,156</u>	<u>842,187</u>
Other financing sources (uses):								
Operating transfers in	279,884	279,884	264,884	(15,000)	-	-	-	-
Operating transfers out	-	-	(797,395)	(797,395)	-	-	(533,964)	(533,964)
Total other financing sources (uses)	<u>279,884</u>	<u>279,884</u>	<u>(532,511)</u>	<u>(812,395)</u>	<u>-</u>	<u>-</u>	<u>(533,964)</u>	<u>(533,964)</u>
Special item:								
Unappropriated expenditures	-	-	(285,238)	(285,238)	-	-	-	-
Net change in fund balances	(2,458,632)	(1,011,614)	98,997	1,110,611	(1,874,048)	(4,546,343)	(3,094,005)	1,452,338
Fund balances - beginning	<u>2,496,161</u>	<u>2,496,161</u>	<u>2,103,095</u>	<u>(393,066)</u>	<u>3,833,423</u>	<u>3,833,423</u>	<u>12,831,507</u>	<u>8,998,084</u>
Fund balances - December 31	<u>\$ 37,529</u>	<u>\$ 1,484,547</u>	<u>\$ 2,202,092</u>	<u>\$ 717,545</u>	<u>\$ 1,959,375</u>	<u>\$ (712,920)</u>	<u>\$ 9,737,502</u>	<u>\$ 10,450,422</u>

CITY OF MICHIGAN CITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgets and Budgetary Accounting

The government follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedules:

1. After conferring with members of the Common Council, the City Controller, and department heads, the Mayor submits to the Common Council a proposed operating and capital budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
2. Prior to adoption, the City advertises the budget and the Common Council holds public hearings to obtain taxpayer comments. The Common Council may reduce, but not increase the budget from the advertised amounts.
3. No later than September 30<sup>th</sup> of each year, the budget for the next year is approved by the Common Council through the passage of an ordinance.
4. Copies of the budget ordinance and advertisements for funds for which property taxes are levied or for which highway use taxes are received and sent to the Department of Local Government Finance (DLGF) for their review and approval. The budget becomes legally enacted after the City Controller receives approval from the DLGF. This approval is required by Indiana Statute and ad valorem property tax rates are to be set by February 15<sup>th</sup> of the year budgeted. The budget ordinance as approved by the DLGF becomes the City's expenditure budget. The City's maximum tax levy is restricted by Indiana law, with certain adjustments and exceptions. If the advertised budget, for funds for which property taxes are levied or for which highway use taxes are received, exceeds the spending and tax limits of the state control laws, an excess levy can be granted by the DLGF, upon appeal by the City.
5. The legal level of budgetary control (the level at which expenditures may not exceed appropriations without the governing body's approval) is by object classification for all funds except for the General Fund and Parks and Recreation Fund, which are by object classification within each department. The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. Any revisions that alter the total appropriations for any fund or any department of the General Fund or Parks and Recreation Fund must be approved by the Common Council and, in some instances, by the DLGF.
6. Formal budgetary integration is required by State statute for those funds for which property taxes or highway use taxes are received and is employed as a management control device. In addition, the Common Council has enacted legislation to require that formal budgets be prepared for certain funds (the budgets for these funds do not require approval by the DLGF). Annual budgets were legally adopted for the following funds:

CITY OF MICHIGAN CITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(Continued)

Major funds:

- General
- Riverboat Gaming (special revenue fund)
- County Economic Development Income Tax (capital projects fund)
- Blue Chip Development (capital projects fund)

Nonmajor funds:

Special revenue funds:

- Motor Vehicle Highway
- Local Road and Street
- Parks and Recreation
- Aviation
- Park and Recreation Nonreverting
- Park Concession Nonreverting
- Golf
- Barker Civic Center
- Law Enforcement Continuing Education
- Aviation Nonreverting
- Zoo Education Nonreverting
- DEA Forfeiture
- Cemetery

Capital projects funds:

- Cumulative Capital Improvement
- Cumulative Capital Development
- Senior Center Nonreverting

Pension trust funds:

- Police Pension
- Firefighters Pension

Component unit – Port Authority:

- Cumulative Channel Maintenance

7. The City's budgetary process is based upon cash outflows, which is a Non-GAAP basis. Appropriations lapse with the expiration of the budgetary period unless encumbered by a purchase order or contract. Encumbered appropriations are carried over and added to the subsequent year's budget.
8. Budgeted amounts are as originally adopted, or as amended by the Common Council and approved by the DLGF in the regular legal manner. The net effect of individual amendments increased the original appropriations by \$6,424,294 in 2004.

CITY OF MICHIGAN CITY  
 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, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Trust Funds	Total Nonmajor Funds
Receipts:					
Taxes	\$ 1,574,850	\$ 747,734	\$ 406,272	\$ -	\$ 2,728,856
Licenses and permits	3,528	-	-	-	3,528
Intergovernmental	1,782,151	-	622,392	-	2,404,543
Charges for services	2,082,030	-	97,012	37,214	2,216,256
Other	478,575	21,347	23,645	36,153	559,720
Total receipts	<u>5,921,134</u>	<u>769,081</u>	<u>1,149,321</u>	<u>73,367</u>	<u>7,912,903</u>
Disbursements:					
General government	929,739	1,500	-	5,180	936,419
Public safety	75,844	-	-	-	75,844
Highways and streets	1,376,412	-	-	-	1,376,412
Culture and recreation	3,802,155	-	12,814	-	3,814,969
Urban redevelopment and housing	711,977	-	-	-	711,977
Debt service:					
Principal	30,532	198,349	-	-	228,881
Interest	5,424	253,972	-	-	259,396
Capital outlay	-	-	2,798,971	-	2,798,971
Total disbursements	<u>6,932,083</u>	<u>453,821</u>	<u>2,811,785</u>	<u>5,180</u>	<u>10,202,869</u>
Excess (deficiency) of revenue over (under) disbursements	<u>(1,010,949)</u>	<u>315,260</u>	<u>(1,662,464)</u>	<u>68,187</u>	<u>(2,289,966)</u>
Other financing sources (uses)					
Transfers in	727,645	357,163	411,743	-	1,496,551
Transfers out	(332,500)	(163,600)	-	(56,181)	(552,281)
Total other financing sources (uses)	<u>395,145</u>	<u>193,563</u>	<u>411,743</u>	<u>(56,181)</u>	<u>944,270</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(615,804)</u>	<u>508,823</u>	<u>(1,250,721)</u>	<u>12,006</u>	<u>(1,345,696)</u>
Cash and investment fund balance - beginning	<u>3,460,069</u>	<u>1,434,931</u>	<u>2,226,618</u>	<u>1,344,894</u>	<u>8,466,512</u>
Cash and investment fund balance - ending	<u>\$ 2,844,265</u>	<u>\$ 1,943,754</u>	<u>\$ 975,897</u>	<u>\$ 1,356,900</u>	<u>\$ 7,120,816</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 1,186,971	\$ -	\$ (504,905)	\$ -	\$ 682,066
Restricted assets:					
Cash and investments	<u>1,657,294</u>	<u>1,943,754</u>	<u>1,480,802</u>	<u>1,356,900</u>	<u>6,438,750</u>
Total cash and investment assets - December 31	<u>\$ 2,844,265</u>	<u>\$ 1,943,754</u>	<u>\$ 975,897</u>	<u>\$ 1,356,900</u>	<u>\$ 7,120,816</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Debt service	\$ -	\$ 1,943,754	\$ -	\$ -	\$ 1,943,754
Capital projects	-	-	1,480,802	-	1,480,802
Other purposes	1,648,103	-	-	1,356,900	3,005,003
Unrestricted	<u>1,196,162</u>	<u>-</u>	<u>(504,905)</u>	<u>-</u>	<u>691,257</u>
Total cash and investment fund balance - December 31	<u>\$ 2,844,265</u>	<u>\$ 1,943,754</u>	<u>\$ 975,897</u>	<u>\$ 1,356,900</u>	<u>\$ 7,120,816</u>

CITY OF MICHIGAN CITY  
 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, 2005

	Motor Vehicle Highway	Local Road and Street	Parks and Recreation	Aviation	Park and Recreation Nonreverting	Park Concession Nonreverting	Golf
Receipts:							
Taxes	\$ -	\$ -	\$ 1,360,528	\$ 95,739	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	1,031,844	350,141	108,491	7,817	-	-	-
Charges for services	6,900	-	476,451	-	158,826	57,816	849,470
Other	-	-	34,077	14,482	21,854	4,900	3,390
Total receipts	<u>1,038,744</u>	<u>350,141</u>	<u>1,979,547</u>	<u>118,038</u>	<u>180,680</u>	<u>62,716</u>	<u>852,860</u>
Disbursements:							
General government	-	-	-	156,336	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	977,864	398,415	-	-	-	-	-
Culture and recreation	-	-	2,307,035	-	149,966	35,392	1,026,668
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total disbursements	<u>977,864</u>	<u>398,415</u>	<u>2,307,035</u>	<u>156,336</u>	<u>149,966</u>	<u>35,392</u>	<u>1,026,668</u>
Excess (deficiency) of revenue over disbursements	<u>60,880</u>	<u>(48,274)</u>	<u>(327,488)</u>	<u>(38,298)</u>	<u>30,714</u>	<u>27,324</u>	<u>(173,808)</u>
Other financing sources (uses)							
Transfers in	-	-	7,500	-	-	-	-
Transfers out	-	-	-	-	-	(7,500)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>(7,500)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>60,880</u>	<u>(48,274)</u>	<u>(319,988)</u>	<u>(38,298)</u>	<u>30,714</u>	<u>19,824</u>	<u>(173,808)</u>
Cash and investment fund balance - beginning	<u>341,092</u>	<u>216,554</u>	<u>651,214</u>	<u>51,521</u>	<u>44,035</u>	<u>32,753</u>	<u>115,866</u>
Cash and investment fund balance - ending	<u>\$ 401,972</u>	<u>\$ 168,280</u>	<u>\$ 331,226</u>	<u>\$ 13,223</u>	<u>\$ 74,749</u>	<u>\$ 52,577</u>	<u>\$ (57,942)</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ 331,226	\$ 13,223	\$ 74,749	\$ 52,577	\$ (57,942)
Restricted assets:							
Cash and investments	<u>401,972</u>	<u>168,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and investment assets - December 31	<u>\$ 401,972</u>	<u>\$ 168,280</u>	<u>\$ 331,226</u>	<u>\$ 13,223</u>	<u>\$ 74,749</u>	<u>\$ 52,577</u>	<u>\$ (57,942)</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Other purposes	\$ 401,972	\$ 168,280	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	<u>-</u>	<u>-</u>	<u>331,226</u>	<u>13,223</u>	<u>74,749</u>	<u>52,577</u>	<u>(57,942)</u>
Total cash and investment fund balance - December 31	<u>\$ 401,972</u>	<u>\$ 168,280</u>	<u>\$ 331,226</u>	<u>\$ 13,223</u>	<u>\$ 74,749</u>	<u>\$ 52,577</u>	<u>\$ (57,942)</u>

CITY OF MICHIGAN CITY  
 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, 2005  
 (Continued)

	Building Demolition	Barker Civic Center	Law Enforcement Continuing Education	Redevelopment	Aviation Nonreverting	Law Enforcement Block Grants	Community Events Promotion
Receipts:							
Taxes	\$ -	\$ 118,583	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	3,528	-	-	-	-
Intergovernmental	-	9,375	-	189,820	-	10,459	-
Charges for services	-	11,915	25,386	-	145,435	-	-
Other	-	-	-	173,770	-	583	36,445
<b>Total receipts</b>	<b>-</b>	<b>139,873</b>	<b>28,914</b>	<b>363,590</b>	<b>145,435</b>	<b>11,042</b>	<b>36,445</b>
Disbursements:							
General government	-	-	-	-	151,618	-	-
Public safety	-	-	21,615	-	-	41,516	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	154,266	-	-	-	-	34,240
Urban redevelopment and housing	-	-	-	711,977	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>-</b>	<b>154,266</b>	<b>21,615</b>	<b>711,977</b>	<b>151,618</b>	<b>41,516</b>	<b>34,240</b>
Excess (deficiency) of revenue over disbursements	-	(14,393)	7,299	(348,387)	(6,183)	(30,474)	2,205
Other financing sources (uses)							
Transfers in	-	-	-	325,000	-	-	-
Transfers out	-	-	-	(325,000)	-	-	-
<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	-	(14,393)	7,299	(348,387)	(6,183)	(30,474)	2,205
Cash and investment fund balance - beginning	11,855	39,438	60,247	779,180	70,912	31,826	89
Cash and investment fund balance - ending	<u>\$ 11,855</u>	<u>\$ 25,045</u>	<u>\$ 67,546</u>	<u>\$ 430,793</u>	<u>\$ 64,729</u>	<u>\$ 1,352</u>	<u>\$ 2,294</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 11,855	\$ 25,045	\$ -	\$ 430,793	\$ 64,729	\$ -	\$ 2,294
Restricted assets:							
Cash and investments	-	-	67,546	-	-	1,352	-
<b>Total cash and investment assets - December 31</b>	<u>\$ 11,855</u>	<u>\$ 25,045</u>	<u>\$ 67,546</u>	<u>\$ 430,793</u>	<u>\$ 64,729</u>	<u>\$ 1,352</u>	<u>\$ 2,294</u>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Other purposes	\$ -	\$ -	\$ 67,546	\$ -	\$ -	\$ 1,352	\$ -
Unrestricted	11,855	25,045	-	430,793	64,729	-	2,294
<b>Total cash and investment fund balance - December 31</b>	<u>\$ 11,855</u>	<u>\$ 25,045</u>	<u>\$ 67,546</u>	<u>\$ 430,793</u>	<u>\$ 64,729</u>	<u>\$ 1,352</u>	<u>\$ 2,294</u>

CITY OF MICHIGAN CITY  
 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, 2005  
 (Continued)

	Zoo Education Nonreverting	Hometown Forestry Grant	Controlled Substance Excise	DEA Forfeiture	Brownsfield Assessment Grant	Patriot Park Nonreverting	Fire Equipment Grant
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	37,888	-	36,316
Charges for services	50	-	-	19,168	-	-	-
Other	24,691	-	-	1,696	-	13,250	-
<b>Total receipts</b>	<b>24,741</b>	<b>-</b>	<b>-</b>	<b>20,864</b>	<b>37,888</b>	<b>13,250</b>	<b>36,316</b>
Disbursements:							
General government	-	-	-	-	125,968	-	-
Public safety	-	-	-	5,602	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	10,077	2,615	-	-	-	13,369	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	30,532	-	-
Interest	-	-	-	-	5,424	-	-
<b>Total disbursements</b>	<b>10,077</b>	<b>2,615</b>	<b>-</b>	<b>5,602</b>	<b>161,924</b>	<b>13,369</b>	<b>-</b>
Excess (deficiency) of revenue over disbursements	14,664	(2,615)	-	15,262	(124,036)	(119)	36,316
Other financing sources (uses)							
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	14,664	(2,615)	-	15,262	(124,036)	(119)	36,316
Cash and investment fund balance - beginning	23,547	(6,576)	1,498	68,813	222,450	5,062	271
Cash and investment fund balance - ending	<u>\$ 38,211</u>	<u>\$ (9,191)</u>	<u>\$ 1,498</u>	<u>\$ 84,075</u>	<u>\$ 98,414</u>	<u>\$ 4,943</u>	<u>\$ 36,587</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ 38,211	\$ (9,191)	\$ 1,498	\$ -	\$ -	\$ 4,943	\$ -
Restricted assets:							
Cash and investments	-	-	-	84,075	98,414	-	36,587
<b>Total cash and investment assets - December 31</b>	<b>\$ 38,211</b>	<b>\$ (9,191)</b>	<b>\$ 1,498</b>	<b>\$ 84,075</b>	<b>\$ 98,414</b>	<b>\$ 4,943</b>	<b>\$ 36,587</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Other purposes	\$ -	\$ (9,191)	\$ -	\$ 84,075	\$ 98,414	\$ -	\$ 36,587
Unrestricted	38,211	-	1,498	-	-	4,943	-
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 38,211</b>	<b>\$ (9,191)</b>	<b>\$ 1,498</b>	<b>\$ 84,075</b>	<b>\$ 98,414</b>	<b>\$ 4,943</b>	<b>\$ 36,587</b>

CITY OF MICHIGAN CITY  
 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, 2005  
 (Continued)

	Millenium Park Bricks	Park Gift and Donations	Zoo Gift and Donations	Police Donations	Fire Donations	Indiana Tobacco Prevention Grant	Health Commission Gift and Donations
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	3,000	-	-	-
Other	945	13,376	100,000	5,745	50	-	-
<b>Total receipts</b>	<b>945</b>	<b>13,376</b>	<b>100,000</b>	<b>8,745</b>	<b>50</b>	<b>-</b>	<b>-</b>
Disbursements:							
General government	-	-	-	-	-	1,667	-
Public safety	-	-	-	6,615	496	-	-
Highways and streets	-	-	-	-	-	-	133
Culture and recreation	-	11,963	41,679	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Total disbursements</b>	<b>-</b>	<b>11,963</b>	<b>41,679</b>	<b>6,615</b>	<b>496</b>	<b>1,667</b>	<b>133</b>
Excess (deficiency) of revenue over disbursements	945	1,413	58,321	2,130	(446)	(1,667)	(133)
Other financing sources (uses)							
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	945	1,413	58,321	2,130	(446)	(1,667)	(133)
Cash and investment fund balance - beginning	69,181	10,186	67,840	6,417	3,919	1,667	171
Cash and investment fund balance - ending	<u>\$ 70,126</u>	<u>\$ 11,599</u>	<u>\$ 126,161</u>	<u>\$ 8,547</u>	<u>\$ 3,473</u>	<u>\$ -</u>	<u>\$ 38</u>
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ 11,599	\$ 126,161	\$ 8,547	\$ 3,473	\$ -	\$ 38
Restricted assets:							
Cash and investments	70,126	-	-	-	-	-	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 70,126</b>	<b>\$ 11,599</b>	<b>\$ 126,161</b>	<b>\$ 8,547</b>	<b>\$ 3,473</b>	<b>\$ -</b>	<b>\$ 38</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Other purposes	\$ 70,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	11,599	126,161	8,547	3,473	-	38
<b>Total cash and investment fund balance - December 31</b>	<b>\$ 70,126</b>	<b>\$ 11,599</b>	<b>\$ 126,161</b>	<b>\$ 8,547</b>	<b>\$ 3,473</b>	<b>\$ -</b>	<b>\$ 38</b>

CITY OF MICHIGAN CITY  
 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, 2005  
 (Continued)

	CZM Projects	Cemetery	Cemetery Merchandise	Trail Creek Archaeological Grant	Singing Sands Bike Trail Project	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,574,850
Licenses and permits	-	-	-	-	-	3,528
Intergovernmental	-	-	-	-	-	1,782,151
Charges for services	-	309,585	18,028	-	-	2,082,030
Other	-	25,152	4,169	-	-	478,575
Total receipts	-	334,737	22,197	-	-	5,921,134
Disbursements:						
General government	-	423,069	70,631	450	-	929,739
Public safety	-	-	-	-	-	75,844
Highways and streets	-	-	-	-	-	1,376,412
Culture and recreation	-	-	-	-	14,885	3,802,155
Urban redevelopment and housing	-	-	-	-	-	711,977
Debt service:						
Principal	-	-	-	-	-	30,532
Interest	-	-	-	-	-	5,424
Total disbursements	-	423,069	70,631	450	14,885	6,932,083
Excess (deficiency) of revenue over disbursements	-	(88,332)	(48,434)	(450)	(14,885)	(1,010,949)
Other financing sources (uses)						
Transfers in	200,000	56,181	-	5,000	133,964	727,645
Transfers out	-	-	-	-	-	(332,500)
Total other financing sources (uses)	200,000	56,181	-	5,000	133,964	395,145
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	200,000	(32,151)	(48,434)	4,550	119,079	(615,804)
Cash and investment fund balance - beginning	291,000	85,294	162,747	-	-	3,460,069
Cash and investment fund balance - ending	\$ 491,000	\$ 53,143	\$ 114,313	\$ 4,550	\$ 119,079	\$ 2,844,265
<u>Cash and Investment Assets - December 31</u>						
Cash and investments	\$ -	\$ 53,143	\$ -	\$ -	\$ -	\$ 1,186,971
Restricted assets:						
Cash and investments	491,000	-	114,313	4,550	119,079	1,657,294
Total cash and investment assets - December 31	\$ 491,000	\$ 53,143	\$ 114,313	\$ 4,550	\$ 119,079	\$ 2,844,265
<u>Cash and Investment Fund Balance - December 31</u>						
Restricted for:						
Other purposes	\$ 491,000	\$ -	\$ 114,313	\$ 4,550	\$ 119,079	\$ 1,648,103
Unrestricted	-	53,143	-	-	-	1,196,162
Total cash and investment fund balance - December 31	\$ 491,000	\$ 53,143	\$ 114,313	\$ 4,550	\$ 119,079	\$ 2,844,265

CITY OF MICHIGAN CITY  
 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, 2005

	Southside TIF District	Northeast TIF District	Redevelopment Authority	Totals
Receipts:				
Taxes	\$ 638,781	\$ 108,953	\$ -	\$ 747,734
Other	5,624	1,207	14,516	21,347
<b>Total receipts</b>	<b>644,405</b>	<b>110,160</b>	<b>14,516</b>	<b>769,081</b>
Disbursements:				
General government	-	-	1,500	1,500
Debt service:				
Principal	-	73,349	125,000	198,349
Interest	175	56,809	196,988	253,972
<b>Total disbursements</b>	<b>175</b>	<b>130,158</b>	<b>323,488</b>	<b>453,821</b>
Excess (deficiency) of revenue over (under) disbursements	644,230	(19,998)	(308,972)	315,260
Other financing sources (uses)				
Transfers in	-	193,563	163,600	357,163
Transfers out	(163,600)	-	-	(163,600)
<b>Total other financing sources (uses)</b>	<b>(163,600)</b>	<b>193,563</b>	<b>163,600</b>	<b>193,563</b>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	480,630	173,565	(145,372)	508,823
Cash and investment fund balance - beginning	717,023	-	717,908	1,434,931
Cash and investment fund balance - ending	<u>\$ 1,197,653</u>	<u>\$ 173,565</u>	<u>\$ 572,536</u>	<u>\$ 1,943,754</u>
<b><u>Cash and Investment Assets - December 31</u></b>				
Restricted assets:				
Cash and investments	<u>\$ 1,197,653</u>	<u>\$ 173,565</u>	<u>\$ 572,536</u>	<u>\$ 1,943,754</u>
<b><u>Cash and Investment Fund Balance - December 31</u></b>				
Restricted for:				
Debt service	<u>\$ 1,197,653</u>	<u>\$ 173,565</u>	<u>\$ 572,536</u>	<u>\$ 1,943,754</u>

CITY OF MICHIGAN CITY  
 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, 2005

	Cumulative Capital Improvement	Cumulative Capital Development	Park and Recreation Capital Improvement	Municipal Coach Capital Improvement	Airport Improvement Grant Runway Rehabilitation	Aviation Grant	Senior Center Nonreverting
Receipts:							
Taxes	\$ -	\$ 406,272	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	101,703	31,473	-	67,231	-	-	-
Charges for services	-	-	10,997	-	-	-	18,471
Other	-	16,430	-	-	-	-	-
<b>Total receipts</b>	<b>101,703</b>	<b>454,175</b>	<b>10,997</b>	<b>67,231</b>	<b>-</b>	<b>-</b>	<b>18,471</b>
Disbursements:							
Culture and recreation	-	-	1,917	-	-	-	10,897
Capital outlay	108,300	1,238,826	-	407,360	-	-	-
<b>Total disbursements</b>	<b>108,300</b>	<b>1,238,826</b>	<b>1,917</b>	<b>407,360</b>	<b>-</b>	<b>-</b>	<b>10,897</b>
Excess (deficiency) of revenue over (under) disbursements	(6,597)	(784,651)	9,080	(340,129)	-	-	7,574
Other financing sources (uses)							
Transfers in	-	-	-	-	-	-	-
<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 (under) disbursements and other financing uses	(6,597)	(784,651)	9,080	(340,129)	-	-	7,574
Cash and investment fund balance - beginning	102,123	1,451,881	9,424	68,116	68,804	19,460	38,889
Cash and investment fund balance - ending	\$ 95,526	\$ 667,230	\$ 18,504	\$ (272,013)	\$ 68,804	\$ 19,460	\$ 46,463
<b>Cash and Investment Assets - December 31</b>							
Cash and investments	\$ -	\$ -	\$ -	\$ (272,013)	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	95,526	667,230	18,504	-	68,804	19,460	46,463
<b>Total cash and investment assets - December 31</b>	<b>\$ 95,526</b>	<b>\$ 667,230</b>	<b>\$ 18,504</b>	<b>\$ (272,013)</b>	<b>\$ 68,804</b>	<b>\$ 19,460</b>	<b>\$ 46,463</b>
<b>Cash and Investment Fund Balance - December 31</b>							
Restricted for:							
Capital projects	\$ 95,526	\$ 667,230	\$ 18,504	\$ -	\$ 68,804	\$ 19,460	\$ 46,463
Unrestricted	-	-	-	(272,013)	-	-	-
<b>Total cash and investment assets - December 31</b>	<b>\$ 95,526</b>	<b>\$ 667,230</b>	<b>\$ 18,504</b>	<b>\$ (272,013)</b>	<b>\$ 68,804</b>	<b>\$ 19,460</b>	<b>\$ 46,463</b>

CITY OF MICHIGAN CITY  
 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, 2005  
 (Continued)

	Airport Improvement Grant	Blue Chip Donation	Police Equipment Bulletproof Vest	Cemetery Extension	Coolspring Avenue Reconstruction Project	Geberet Project	Totals
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 406,272
Intergovernmental	411,735	-	10,250	-	-	-	622,392
Charges for services	-	-	-	67,544	-	-	97,012
Other	2,591	-	2,337	2,287	-	-	23,645
Total receipts	<u>414,326</u>	<u>-</u>	<u>12,587</u>	<u>69,831</u>	<u>-</u>	<u>-</u>	<u>1,149,321</u>
Disbursements:							
Culture and recreation	-	-	-	-	-	-	12,814
Capital outlay	469,158	16,226	1,500	72,386	323	484,892	2,798,971
Total disbursements	<u>469,158</u>	<u>16,226</u>	<u>1,500</u>	<u>72,386</u>	<u>323</u>	<u>484,892</u>	<u>2,811,785</u>
Excess (deficiency) of revenue over disbursements	<u>(54,832)</u>	<u>(16,226)</u>	<u>11,087</u>	<u>(2,555)</u>	<u>(323)</u>	<u>(484,892)</u>	<u>(1,662,464)</u>
Other financing sources (uses)							
Transfers in	11,743	-	-	-	148,000	252,000	411,743
Total other financing sources (uses)	<u>11,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,000</u>	<u>252,000</u>	<u>411,743</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(43,089)</u>	<u>(16,226)</u>	<u>11,087</u>	<u>(2,555)</u>	<u>147,677</u>	<u>(232,892)</u>	<u>(1,250,721)</u>
Cash and investment fund balance - beginning	<u>118,318</u>	<u>210,008</u>	<u>(8,250)</u>	<u>147,845</u>	<u>-</u>	<u>-</u>	<u>2,226,618</u>
Cash and investment fund balance - ending	<u>\$ 75,229</u>	<u>\$ 193,782</u>	<u>\$ 2,837</u>	<u>\$ 145,290</u>	<u>\$ 147,677</u>	<u>\$ (232,892)</u>	<u>\$ 975,897</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (232,892)	\$ (504,905)
Restricted assets:							
Cash and investments	75,229	193,782	2,837	145,290	147,677	-	1,480,802
Total cash and investment assets - December 31	<u>\$ 75,229</u>	<u>\$ 193,782</u>	<u>\$ 2,837</u>	<u>\$ 145,290</u>	<u>\$ 147,677</u>	<u>\$ (232,892)</u>	<u>\$ 975,897</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Capital projects	\$ 75,229	\$ 193,782	\$ 2,837	\$ 145,290	\$ 147,677	\$ -	\$ 1,480,802
Unrestricted	-	-	-	-	-	(232,892)	(504,905)
Total cash and investment assets - December 31	<u>\$ 75,229</u>	<u>\$ 193,782</u>	<u>\$ 2,837</u>	<u>\$ 145,290</u>	<u>\$ 147,677</u>	<u>\$ (232,892)</u>	<u>\$ 975,897</u>

CITY OF MICHIGAN CITY  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND  
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS - PERMANENT TRUST FUNDS  
 For The Year Ended December 31, 2005

	Greenwood Maintenance Trust Fund	Swan Lake Maintenance Trust Fund	Totals
Receipts:			
Charges for services	\$ 21,429	\$ 15,785	\$ 37,214
Other	<u>27,305</u>	<u>8,848</u>	<u>36,153</u>
Total receipts	<u>48,734</u>	<u>24,633</u>	<u>73,367</u>
Disbursements:			
General government	<u>3,662</u>	<u>1,518</u>	<u>5,180</u>
Excess of revenue over disbursements	<u>45,072</u>	<u>23,115</u>	<u>68,187</u>
Other financing uses			
Transfers out	<u>(42,084)</u>	<u>(14,097)</u>	<u>(56,181)</u>
Excess of receipts and other financing sources over disbursements and other financing uses	2,988	9,018	12,006
Cash and investment fund balance - beginning	<u>974,461</u>	<u>370,433</u>	<u>1,344,894</u>
Cash and investment fund balance - ending	<u>\$ 977,449</u>	<u>\$ 379,451</u>	<u>\$ 1,356,900</u>
<u>Cash and Investment Assets - December 31</u>			
Restricted assets:			
Cash and investments	<u>\$ 977,449</u>	<u>\$ 379,451</u>	<u>\$ 1,356,900</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Other purposes	<u>\$ 977,449</u>	<u>\$ 379,451</u>	<u>\$ 1,356,900</u>

CITY OF MICHIGAN CITY  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PENSION TRUST FUNDS  
 For The Year Ended December 31, 2005

	<u>Police Pension</u>	<u>Firefighters Pension</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 192,387	\$ 292,123	\$ 484,510
Plan members	27,469	12,993	40,462
State	1,079,067	1,079,634	2,158,701
Other	<u>705</u>	<u>-</u>	<u>705</u>
Total additions	<u>1,299,628</u>	<u>1,384,750</u>	<u>2,684,378</u>
Deductions:			
Benefits	1,812,720	1,530,838	3,343,558
Administrative and general	2,400	2,400	4,800
Other	<u>-</u>	<u>879</u>	<u>879</u>
Total deductions	<u>1,815,120</u>	<u>1,534,117</u>	<u>3,349,237</u>
Deficiency of total additions under total deductions	(515,492)	(149,367)	(664,859)
Cash and investment fund balance - beginning	<u>1,437,313</u>	<u>1,316,500</u>	<u>2,753,813</u>
Cash and investment fund balance - ending	<u>\$ 921,821</u>	<u>\$ 1,167,133</u>	<u>\$ 2,088,954</u>

CITY OF MICHIGAN CITY  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PRIVATE-PURPOSE TRUST FUNDS  
 For The Year Ended December 31, 2005

	Flower Fund	Dabbert Vault	Lutz Vault	Cemetery Blanket and Wreath Fund	Total
Additions:					
Contributions:					
Other	\$ -	\$ -	\$ -	\$ 13,987	\$ 13,987
Investment earnings:					
Interest	1,107	296	482	-	1,885
Total additions	1,107	296	482	13,987	15,872
Deductions:					
Administrative and general	330	377	295	8,553	9,555
Excess (deficiency) of total additions over (under) total deductions	777	(81)	187	5,434	6,317
Cash and investment fund balance - beginning	25,043	2,330	3,733	30,495	61,601
Cash and investment fund balance - ending	<u>\$ 25,820</u>	<u>\$ 2,249</u>	<u>\$ 3,920</u>	<u>\$ 35,929</u>	<u>\$ 67,918</u>

CITY OF MICHIGAN CITY  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For The Year Ended December 31, 2005

	<u>Excess Levy</u>	<u>Payroll Deduction</u>	<u>Radio Tower</u>	<u>Aviation Tax Escrow Account</u>	<u>Intergovernmental Wagering Tax</u>	<u>Total</u>
Additions:						
Agency fund additions	\$ 1,045,116	\$ 63,244	\$ 2,710	\$ -	\$ 2,272,129	\$3,383,199
Deductions:						
Agency fund deductions	264,884	57,462	2,710	-	2,272,142	2,597,198
Excess (deficiency) of total additions over (under) total deductions	780,232	5,782	-	-	(13)	786,001
Cash and investment fund balance - beginning	-	710,508	736	2,287	76	713,607
Cash and investment fund balance - ending	<u>\$ 780,232</u>	<u>\$ 716,290</u>	<u>\$ 736</u>	<u>\$ 2,287</u>	<u>\$ 63</u>	<u>\$1,499,608</u>

CITY OF MICHIGAN CITY  
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>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 6,158,775
Construction in progress	<u>1,888,828</u>
Total capital assets, not being depreciated	<u>8,047,603</u>
Capital assets, being depreciated (net of depreciation)	
Buildings	10,662,379
Improvements other than buildings	4,206,977
Machinery and equipment	7,101,952
Infrastructure	<u>38,618,708</u>
Total capital assets, being depreciated, net	<u>60,590,016</u>
Total governmental activities, capital assets net	<u>\$ 68,637,619</u>
 <u>Primary Government</u>	
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 91,291
Construction in progress	<u>154,013</u>
Total capital assets, not being depreciated	<u>245,304</u>
Capital assets, being depreciated (net of depreciation)	
Buildings	16,790,277
Improvements other than buildings	16,431,048
Machinery and equipment	<u>4,001,094</u>
Total capital assets, being depreciated, net	<u>37,222,419</u>
Total Water Utility capital assets net	<u>37,467,723</u>
 Sanitary District:	
Capital assets, not being depreciated:	
Land	720,231
Construction in progress	<u>13,471,657</u>
Total capital assets, not being depreciated	<u>14,191,888</u>
Capital assets, being depreciated (net of depreciation)	
Buildings and improvements	69,341,238
Machinery and equipment	<u>556,022</u>
Total capital assets, being depreciated, net	<u>69,897,260</u>
Total Sanitary District capital assets net	<u>84,089,148</u>
Total business-type activities capital assets	<u>\$ 121,556,871</u>
 <u>Discretely Presented Component Unit</u>	
Port Authority:	
Capital assets, not being depreciated:	
Land	\$ 2,038,751
Capital assets, being depreciated (net of depreciation)	
Land improvements	362,384
Infrastructure	2,049,508
Buildings	4,543,365
Machinery and equipment	<u>226,478</u>
Total capital assets, being depreciated, net	<u>7,181,735</u>
Total discretely presented component unit capital assets net	<u>\$ 9,220,486</u>

CITY OF MICHIGAN CITY  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 For The Year Ended December 31, 2005

	Ending Balance	Due Within One Year
Governmental activities:		
Notes and loans payable	\$ 192,158	\$ 31,448
Bonds payable:		
General obligation bonds:		
1997 Parkand Recreation improvement bonds	1,975,000	-
Revenue bonds:		
1999 Redevelopment Authority lease rental revenue	3,290,000	130,000
TIF revenue bonds*	173,565	119,888
Total governmental activities long-term debt	\$ 5,630,723	\$ 281,336
Business-type activities:		
Water Utility		
Revenue bonds:		
2004 Waterworks refunding revenue	\$ 9,175,000	\$ 660,000
Loans payable	6,299,916	60,000
Total Water Utility	15,474,916	720,000
Sanitary District		
General obligation bonds:		
1995 Sanitary District improvement bonds	6,080,000	1,910,000
Revenue bonds:		
2005 Refunding revenue bonds	7,685,000	665,000
Loans payable	964,990	23,580
Total Sanitary District	14,729,990	2,598,580
Total business-type activities:	\$ 30,204,906	\$ 3,318,580
Component unit:		
Port Authority:		
Revenue bonds:		
1998 marina revenue, fifth issue	\$ 3,060,000	\$ 170,000

**\*TIF Revenue Bonds Payable**

The government issued \$1,824,893.70 of Economic Development Taxable Revenue Bonds (Bonds), Series 1999 (Capital Appreciation Bonds), to provide funds for a portion of the cost of land acquisition in the Northeast Roeske Avenue Economic Development Area and pay incidental expenses in connection with an economic development project and costs associated with issuance of the bonds. The bonds do not constitute a corporate obligation of the government, with an economic development project and costs associated with issuance of the bonds. The bonds do not constitute a corporate obligation of the government, but constitute a limited obligation of the government, payable solely from the tax increment financing (TIF) revenues. The government is not obligated to pay the debt service on the bonds from any source other than the TIF revenues. Neither the full faith and credit nor the taxing power of the government is pledged to the payment of the bonds. Accrued interest at 10.5% will compound semiannually on each February 1 and August 1, commencing February 1, 2000. The government received \$173,565 of TIF revenues as of December 31, 2005. Thus, the government is obligated to pay the debt service of the bonds up to \$173,565. Therefore, a TIF Revenue Bonds Payable was reported for the principal and interest payments due within one year of \$119,888 and the remaining balance of \$53,677 a long-term.

CITY OF MICHIGAN CITY  
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The following lists the funds which had overdrawn cash and fund balances and the amounts by which they were overdrawn:

<u>Fund Name</u>	<u>Amount</u>
Special revenue:	
Golf	\$ 57,942
Hometown Forestry Grant	9,191
Capital projects:	
Municipal Coach Capital Improvement	272,013
Geberet Project	232,892

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)

INVESTMENT MATURITY LIMITATIONS

The City has purchased certain investments totaling \$3,471,722 which have a stated maturity in excess of two years.

Indiana Code 5-13-9-5.6 states: "Investments made under IC 5-13-9 must have a stated final maturity of not more than two years after the date of purchase or entry into a repurchase agreement."

CONDITION OF COMPUTERIZED RECORDS

The officials implemented new accounting software in July 2003. The following internal control issues were noted.

- (1) The computer system allows the back dating of receipts. For example, within the December 2005 receipts, a range of receipts were dated back to November 2005.
- (2) The account detail ledger does not identify the check number; thus, it was difficult to identify a check as posted or to pull the corresponding claim to the disbursement posted.
- (3) The ledgers and receipts from the City's new software have not been approved by the State Board of Accounts.

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)

CITY OF MICHIGAN CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

RECEIPTS - AIRPORT

Not all collections paid by check were receipted, and in numerous instances, deposits were later than the next business day. Of those tested, delinquent deposits ranged from 7 to 21 days late.

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."

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 Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CASH BOND RECEIPTS – POLICE DEPARTMENT

During our review of the internal controls concerning cash bond receipts taken at the Police Department we noted the following deficiencies:

- (1) The Michigan City police do not receive a memo or a receipt from the LaPorte County Clerk's office to prove that the cash bond was delivered to the Clerk's office.
- (2) The Michigan City police cash bond receipts are not an approved receipt form.
- (3) 38% of the voids did not have the original receipt attached, nor did they have any explanation about why the receipt was voided.
- (4) Two of the receipts were missing entirely (no original or duplicate was found in the receipt book).
- (5) Two receipts were neither voided or completed.
- (6) Receipts were not always completed with enough information to verify to clerk's records.

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. (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. (Manual for Cities and Towns, Chapter 7)

CITY OF MICHIGAN CITY  
AUDIT RESULTS AND COMMENTS  
(Continued)

INTERNAL CONTROLS - PARK DEPARTMENT

The park department's computer software for the golf courses does not reflect the cash and check amounts for verifying if deposits are intact.

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."

FUNDS NOT ESTABLISHED IN CITY RECORDS - CEMETERY

The cemetery department has a savings account for Christmas blanket and wreaths which had a balance of \$35,929, as of December 31, 2005. This savings account was not reflected in the City's ledger.

Indiana Code 5-11-1-3 states: "Separate accounts shall be kept for every appropriation of fund of the state or any municipality. Separate accounts shall also be kept for each department, undertaking, enterprise, institution, and public service industry."

CEMETERY CONTRACTS

Prior to April 15, 2004, the Cemetery allowed customers to finance the purchase of graves in accordance with a signed contract which stated that annual interest of 10% would be added to outstanding balances. The contracts also have a default clause that allows the cemetery to resell any lot for which a payment has not been made for 30 days. There are still numerous accounts on the books for which no payments have been made within the guidelines of their policy.

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)

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

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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 MICHIGAN CITY, LAPORTE COUNTY, INDIANA

### Compliance

We have audited the compliance of the City of Michigan City (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, 2005. 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; 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.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2005-2.

### 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2005-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

July 10, 2006

CITY OF MICHIGAN CITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2005

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 HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant			
Community Development Block Grants/Entitlement Grants	14.218	B-04-MC-18-0022	\$ 180,111
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Local Law Enforcement Block Grant Program	16.592	2003 LB-BX-1489 2004 LB-BX-0898	33,993 <u>4,950</u>
Total for program			<u>38,943</u>
Bulletproof Vest Partnership Program	16.607	OBM11210235	<u>1,500</u>
Total for federal grantor agency			<u>40,443</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Federal Transit Cluster			
Direct Grant			
Federal Transit Formula Grants	20.507	IN-90-X480-01	420,288
Pass-Through Indiana Department of Transportation Federal Transit Capital Investment Grants	20.500	IN-90-X487-01	<u>284,667</u>
Total for cluster			<u>704,955</u>
Direct Grant			
Airport Improvement Program	20.106	AIP 3-18-0055-09	<u>417,866</u>
Total for federal grantor agency			<u>1,122,821</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant			
Brownfield Pilots Cooperative Agreements	66.811	BP-9757 1501-0	<u>125,968</u>
<u>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
Direct Grant			
Emergency Management Performance Grant	83.554	EMW2002-FG20173	<u>50,166</u>
Total Federal Awards Expended			<u>\$ 1,519,509</u>

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

CITY OF MICHIGAN CITY  
 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 Michigan City (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, 2005:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Brownfield Pilots Cooperative Agreements	66.811	\$ 102,652
Community Development Block Grants/Entitlement Grants	14.218	\$ 149,800

CITY OF MICHIGAN CITY  
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
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

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
----------------	------------------------------------

Federal Transit Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

FINDING 2005-1, CONDITION OF COMPUTERIZED RECORDS

The officials implemented new accounting software in July 2003. The following internal control issues were noted.

- (1) The computer system allows the back dating of receipts. For example, within the December 2005 receipts, a range of receipts were dated back to November 2005.
- (2) The account detail ledger does not identify the check number; thus, it was difficult to identify a check as posted or to pull the corresponding claim to the disbursement posted.
- (3) The ledgers and receipts from the City's new software have not been approved by the State Board of Accounts.

CITY OF MICHIGAN CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(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. (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)

Section III – Federal Award Findings and Questioned Costs

FINDING 2005-2, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Agency: U.S. Department of Housing and Urban Development  
Federal Program: Community Development Block Grants  
CFDA Number: 14.218

The City prepared a Schedule of Expenditures of Federal Awards for 2005 that was inaccurate. Our review of records determined that the City expended \$180,111 for the Community Development Block Grant, however, they were not listed on the City's prepared schedule.

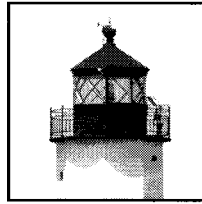
Circular A-133 §\_\_\_\_.300 states in part:

"the auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §\_\_\_\_.300."

Failure to adhere to this requirement could cause the City's reported Schedule of Federal Expenditures to be inaccurate and the City may become ineligible to receive Federal awards in the future.

We recommended that officials maintain a complete and accurate accounting of all grant programs.



# MICHIGAN CITY

*the place is here, the time is now!*

Office of City Controller – John J. Schaefer, CPA – Phone: 219.873.1404 – Fax: 219.873.1542 – e-mail: jschaefer@emichigancity.com

June 15, 2006

## SUMMARY OF AUDIT FINDINGS

Finding No. 2004-2, Schedule of Expenditures of Federal Awards

Original SBA Audit Report Number: B25965

Auditee Contact Person: John J. Schaefer

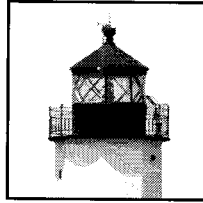
Title of Contact Person: City Controller

Telephone Number: (219) 873-1404

Status of Finding: Although at December 31, 2004, our Schedule of Expenditures of Federal Awards was materially incorrect, we are making every effort to gather all grant information from the various City departments that administer our federal funding.

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CHUCK OBERLIE – MAYOR



# MICHIGAN CITY

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August 1, 2006

## CORRECTIVE ACTION PLAN

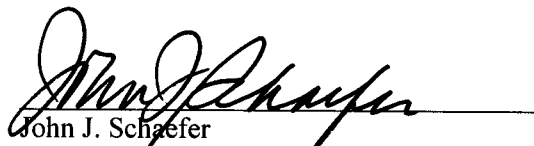
### Finding 2005-1, Condition of Computerized Records

Three internal control issues were noted:

1. The system allows the back dating of receipts. We will review our procedures and the security features of the software to determine a resolution to this matter.
2. The account detail ledger does not identify the check number. The design of the system does not allow for the check number to appear on the account detail ledger. There are, however, alternate reference numbers on that ledger that may be used when auditors select their sample of transactions to test. We will work with our auditors to insure that they can satisfactorily trace a transaction through the system
3. The ledgers and receipts (forms) have not been approved by the State Board of Accounts. The system is capable of generating hundreds of reports, most of which are not reviewed during an audit. We have chosen to delay submitting forms for approval until the State Board of Accounts auditors were on site and could provide us with a list of forms that were actually used in their audit. They have furnished that list and we are submitting those forms for approval.

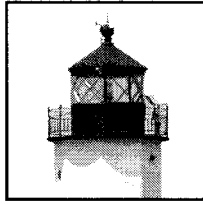
### Finding 2005-2, Schedule of Expenditures of Federal Awards

Our Schedule of Expenditures of Federal Awards was not complete – one grant was not included. This omission was simply an oversight. We will make every effort to be sure that future schedules are complete.

  
John J. Schaefer  
City Controller

CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on July 27, 2006, with Charles E. Oberlie, Mayor; John J. Schaefer, Controller; Yvonne Hoffmaster, Deputy Controller; and Ronald Meer, President of the Common Council. The official response has been made a part of this report and may be found on pages 61 and 62.



# MICHIGAN CITY

*the place is here, the time is now!*

Office of City Controller – John J. Schaefer, CPA – Phone: 219.873.1404 – Fax: 219.873.1542 – e-mail: jschaefer@emichigancity.com

August 1, 2006

Mr. Bruce Hartman  
State Examiner  
Indiana State Board of Accounts  
302 W. Washington Street  
Indianapolis, IN 46204

Dear Mr. Hartman:

I offer the following as the official response of the City of Michigan City to the audit comments contained in the audit report of the City for the year 2005.

Overdrawn Cash Balances – The comment notes that four City funds had overdrawn cash balances at December 31, 2005. One of these funds (Golf) is overdrawn due to revenues not meeting expectations. The Park Department has implemented measures to eliminate the deficit by the end of 2006. The other three funds account for grant projects and are overdrawn because the City had not yet received reimbursement for expenditures paid. Once the reimbursements are received, the funds will not be overdrawn.

Investment Maturity Limitations – The City owns investments with stated maturities in excess of two years. These investments are obligations of the United States government and are readily marketable. There is no requirement that the City hold these investments until their stated maturities.

Condition of Computerized Records - Three internal control issues were noted:

1. The system allows the back dating of receipts. We will review our procedures and the security features of the software to determine a resolution to this matter.
2. The account detail ledger does not identify the check number. The design of the system does not allow for the check number to appear on the account detail ledger. There are, however, alternate reference numbers on that ledger that may be used when auditors select their sample of transactions to test. We will work with our auditors to insure that they can satisfactorily trace a transaction through the system

-61-  
CHUCK OBERLIE – MAYOR

3. The ledgers and receipts (forms) have not been approved by the State Board of Accounts. The system is capable of generating hundreds of reports, most of which are not reviewed during an audit. We have chosen to delay submitting forms for approval until the State Board of Accounts auditors were on site and could provide us with a list of forms that were actually used in their audit. They have furnished that list and we are submitting those forms for approval.

As usual, your auditors were professional, reasonable, and helpful. I appreciate their assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "John J. Schaefer".

John J. Schaefer  
City Controller