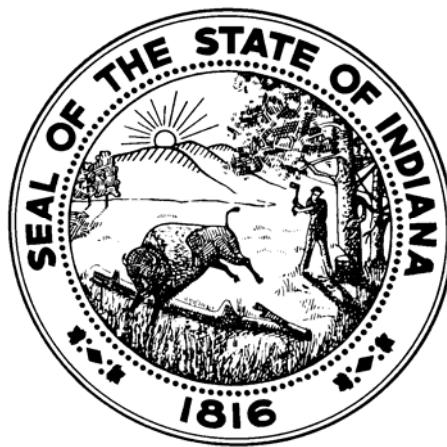


**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2005

WATER UTILITY
CITY OF MICHIGAN CITY
LAPOORTE COUNTY, INDIANA



FILED
09/11/2006

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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 Utility Board of Directors	Larry J. Jordan III	01-01-05 to 12-31-06
President of the Board of Public Works and Safety	Anthony A. 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
Office Manager	Ronald Plamowski	01-01-05 to 12-31-06
Superintendent	Randall E. Russell	01-01-05 to 12-31-06



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INDEPENDENT AUDITOR'S REPORT

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

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

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

As discussed in Note I, the financial statements of the Water Utility, City of Michigan City, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Michigan City as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

STATE BOARD OF ACCOUNTS

June 15, 2006

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF NET ASSETS
December 31, 2005

Assets

Current assets:	
Cash and cash equivalents	\$ 1,084,209
Accounts receivable (net of allowance)	504,068
Inventories	284,891
Loan receivable	<u>181,551</u>
Total current assets	<u>2,054,719</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Bond and interest cash and investments	406,926
Improvement cash and investments	2,238,436
Customer deposits cash and investments	520,633
Pension asset	<u>411,783</u>
Total restricted assets	<u>3,577,778</u>
Deferred charges	<u>301,287</u>
Capital assets:	
Land, improvements to land and construction in progress	245,304
Other capital assets (net of accumulated depreciation)	<u>37,222,419</u>
Total capital assets	<u>37,467,723</u>
Total noncurrent assets	<u>41,346,788</u>
Total assets	<u>43,401,507</u>

Liabilities

Current liabilities:	
Accounts payable	93,446
Accrued payable and withholding payable	40,738
Taxes payable	18,151
Unearned revenue	52,571
Current liabilities payable from restricted assets:	
Customer deposits	515,554
Revenue bonds payable	660,000
Loan payable	60,000
Accrued interest payable	<u>165,980</u>
Total current liabilities	<u>1,606,440</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized deferred amount on refunding)	8,187,422
Loan payable	6,239,916
Advance for construction	<u>297,831</u>
Total noncurrent liabilities	<u>14,725,169</u>
Total liabilities	<u>16,331,609</u>

Net Assets

Invested in capital assets, net of related debt	22,320,385
Restricted for:	
Debt service	927,559
Other purposes	411,783
Unrestricted	<u>3,410,171</u>
Total net assets	<u>\$ 27,069,898</u>

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

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

Operating revenues:	
Metered water revenue:	
Residential and commercial	\$ 3,772,752
Industrial and governmental	1,408,355
Fire protection revenue	661,520
Sales for resale	425,527
Other water revenue	<u>237,228</u>
Total operating revenues	<u>6,505,382</u>
Operating expenses:	
Source of supply and expense:	
Salaries and wages	228,609
Fuel for power production	218,437
Materials and supplies	18,285
Contractual services	43,646
Other	14,183
Treatment expense:	
Salaries and wages	227,748
Purchased power	105,511
Chemicals	52,564
Materials and supplies	23,767
Contractual services	121,354
Other	86,147
Transmission and distribution expense:	
Salaries and wages	507,017
Purchased power	43,255
Materials and supplies	62,556
Contractual services	41,431
Transportation expense	62,629
Other	15,966
Customer account expense:	
Salaries and wages	280,652
Materials and supplies	74,979
Contractual services	16,897
Bad debt expense	9,600
Other	3,458
Administrative and general expense:	
Salaries and wages	189,060
Employee pensions and benefits	526,851
Purchased power	12,113
Materials and supplies	20,173
Contractual services	44,117
Transportation expense	12,123
Insurance	69,325
Taxes	191,503
Depreciation	906,000
Other	<u>69,668</u>
Total operating expenses	<u>4,299,624</u>
Operating income	<u>2,205,758</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	128,977
Miscellaneous revenue	48,082
Interest expense	<u>(559,409)</u>
Total nonoperating expenses	<u>(382,350)</u>
Income before contributions and transfers	1,823,408
Capital contributions	<u>2,011,756</u>
Change in net assets	3,835,164
Total net assets - beginning	<u>23,234,734</u>
Total net assets - ending	<u>\$ 27,069,898</u>

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

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
As Of And For The Year Ended December 31, 2005

Cash flows from operating activities:	
Receipts from customers and users	\$ 6,511,767
Payments to suppliers and contractors	(2,092,864)
Payments to employees	<u>(1,416,820)</u>
Net cash provided by operating activities	<u>3,002,083</u>
Cash flows from capital and related financing activities:	
Capital contributions	2,011,756
Acquisition and construction of capital assets	(2,807,700)
Principal paid on capital debt	(575,000)
Interest paid on capital debt	(410,727)
Refunds of customer advances for construction	<u>(24,466)</u>
Net cash used by capital and related financing activities	<u>(1,806,137)</u>
Cash flows from investing activities:	
Proceeds from loan payments	68,898
Interest received	<u>128,977</u>
Net cash provided by investing activities	<u>197,875</u>
Net increase in cash and cash equivalents	1,393,821
Cash and cash equivalents, January 1	
(Including \$267,236, \$1,684,142, and \$502,899 for the servicing of debt, capital improvements, and customer deposits, respectively, reported in restricted accounts.	<u>2,856,383</u>
Cash and cash equivalents, December 31	
(Including \$406,926, \$2,238,436, and \$520,633 for the servicing of debt, capital improvements, and customer deposits, respectively, reported in restricted accounts.	<u>\$ 4,250,204</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 2,205,758</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	906,000
Bad debt expense	9,600
(Increase) decrease in assets:	
Accounts receivable	(18,506)
Inventories	(76,704)
Increase (decrease) in liabilities:	
Accounts payable	(66,400)
Accrued wages payable	16,266
Taxes payable	1,178
Unearned revenue	10,959
Customer deposits	<u>13,932</u>
Total adjustments	<u>796,325</u>
Net cash provided by operating activities	<u>\$ 3,002,083</u>
Noncash investing, capital and financing activities:	
Acquisition of construction in progress through accounts payable	\$ 25,943
Deletion of obsolete capital assets	439,325
Increase in pension asset	48,082

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

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

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

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

4. Capital Assets

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

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

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

	Capitalization Threshold	Depreciation Method	Rate
Buildings	\$ 500	Composite rate	2%
Improvements other than buildings	500	Composite rate	2%
Machinery and equipment	500	Composite rate	2%

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

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of one-half (½) day per month. Unused sick leave may be accumulated to a maximum of 180 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, and personal leave.

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

Investment Policies

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

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Water Utility 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.

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the Water Utility 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.

Interest Rate Risk

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

B. Loan Receivable

On March 21, 2003, the Water Utility entered into a water service agreement with the Town of Long Beach (Town), whereby the Town agreed to purchase water from the Water Utility. Upgrades in the Town's distribution system were necessary in order to receive and distribute the needed water. The Water Utility agreed to advance the funds needed to finance the upgrades. On May 19, 2003, the Water Utility loaned the Town \$350,000 at 3% interest to be repaid in 60 monthly installments. At December 31, 2005, the outstanding loan receivable was \$181,551.

C. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 91,291	\$ -	\$ -	\$ 91,291
Construction in progress	662,455	2,486,322	2,994,764	154,013
Total capital assets, not being depreciated	753,746	2,486,322	2,994,764	245,304
Capital assets, being depreciated:				
Buildings	20,271,143	41,052	10,151	20,302,044
Improvements other than buildings	20,254,564	2,836,843	-	23,091,407
Machinery and equipment	4,759,582	464,190	429,174	4,794,598
Totals	45,285,289	3,342,085	439,325	48,188,049

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings	3,116,495	405,423	10,151	3,511,767
Improvements other than buildings	6,255,268	405,091		6,660,359
Machinery and equipment	<u>1,127,192</u>	<u>95,486</u>	<u>429,174</u>	<u>793,504</u>
Totals	<u>10,498,955</u>	<u>906,000</u>	<u>439,325</u>	<u>10,965,630</u>
Total capital assets, being depreciated, net	<u>34,786,334</u>	<u>2,436,085</u>	<u>-</u>	<u>37,222,419</u>
Total capital assets, net	<u>\$ 35,540,080</u>	<u>\$ 4,922,407</u>	<u>\$ 2,994,764</u>	<u>\$ 37,467,723</u>

In 2005, a total of \$306,199 in equipment that was over 50 years old and no longer used was written off.

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
On shore intake project phase II	\$ 1,561,000	\$ 49,980	\$ 1,511,020	\$ -
Michiana Shores water main extension	<u>1,081,751</u>	<u>104,033</u>	<u>977,718</u>	<u>-</u>
Totals	<u>\$ 2,642,751</u>	<u>\$ 154,013</u>	<u>\$ 2,488,738</u>	<u>\$ -</u>

E. Leases

Operating Leases

The Utility has entered into an operating lease having an initial or remaining noncancelable term exceeding one year for a folder inserter machine. Rental expenditures for this lease were \$3,767. The following is a schedule by years of future minimum rental payments as of December 31, 2005:

2006	\$ 3,767
2007	3,767
2008	3,767
2009	<u>2,197</u>
Total	<u>\$ 13,498</u>

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Long-Term Liabilities

1. Revenue Bonds

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

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
2004 Waterworks refunding revenue bond	3% to 3.75%	<u>\$ 9,175,000</u>

Revenue bonds debt service requirements to maturity are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 660,000	\$ 310,369
2007	690,000	290,269
2008	715,000	269,419
2009	735,000	247,362
2010	775,000	222,669
2011-2015	4,350,000	680,475
2016-2020	<u>1,250,000</u>	<u>43,031</u>
Totals	<u>\$ 9,175,000</u>	<u>\$ 2,063,594</u>

2. Loan Payable

The Utility has entered into a State Revolving Fund Loan. Annual debt service requirements to maturity for the loan are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 60,000	\$ 182,262
2007	55,000	180,595
2008	50,000	179,000
2009	50,000	177,550
2010	40,000	176,173
2011-2015	165,000	864,623
2016-2020	4,110,000	661,115
2021-2025	<u>1,769,916</u>	<u>51,689</u>
Totals	<u>\$ 6,299,916</u>	<u>\$ 2,473,007</u>

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Advance Refunding

In prior years, the Utility defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The following outstanding bonds, at December 31, 2005, were considered defeased:

	<u>Amount</u>
1995 Revenue bonds	<u>\$ 8,820,000</u>

4. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable:					
Water Utility	\$ 9,690,000	\$ -	\$ 515,000	\$ 9,175,000	\$ 660,000
Less deferred amount on refunding	<u>356,913</u>	<u>-</u>	<u>29,335</u>	<u>327,578</u>	<u>-</u>
Total revenue bonds payable	9,333,087	-	485,665	8,847,422	660,000
Loans payable	6,359,916	-	60,000	6,299,916	60,000
Advances for construction	<u>322,297</u>	<u>-</u>	<u>24,466</u>	<u>297,831</u>	<u>-</u>
Total long-term liabilities	<u>\$ 16,015,300</u>	<u>\$ -</u>	<u>\$ 570,131</u>	<u>\$ 15,445,169</u>	<u>\$ 720,000</u>

G. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Bond and interest cash and investments	\$ 406,926
Improvement cash and investments	2,238,436
Customer deposits cash and investments	520,633
Pension asset	<u>411,783</u>
Total restricted assets	<u>\$ 3,577,778</u>

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents

The Utility has chosen to participate in a risk financing fund of the City of Michigan City for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the City's Employee Health and Life Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for payroll expenditures. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

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.

C. Rate Structure

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 31, 2004. The Utility has 12,154 customers.

D. Pension Plan

Plan Description

The 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 Utility 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:

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

McKready and Keene, Inc.
7941 Castleway Drive
P.O. Box 50460
Indianapolis, Indiana 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 Utility and the Plan Administrator. Plan members are required to contribute 3% of the annual covered salary. The 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.

Actuarial Information for the Above Plan

	<u>Utility Pension</u>
Decrease in net pension obligation	\$ (48,082)
Net pension obligation, beginning of year	<u>(363,701)</u>
Net pension obligation, end of year	<u><u>\$ (411,783)</u></u>
Contribution rates:	
Utility	0%
Plan members	3%
Actuarial valuation date	01-01-06
Actuarial cost method	Frozen initial liability
Amortization method	Ten year level funding
Remaining amortization period	N/A
Asset valuation method	Market Value

N/A = Not available.

<u>Actuarial Assumptions</u>	<u>Utility Pension</u>
Investment rate of return	6%
Projected future salary increases	4%

WATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Utility Pension Plan	12-31-03	\$ (36,904)	N/A	\$ (320,826)
	12-31-04	(42,875)	N/A	(363,701)
	12-31-05	(48,082)	N/A	(411,783)

N/A = Not available.

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EXIT CONFERENCE

The contents of this report were discussed on June 27, 2006, with Larry J. Jordan III, President of the Utility Board of Directors; Randall E. Russell, Superintendent; Ronald Plamowski, Office Manager/Accountant; and John J. Schaefer, City Controller. Our audit disclosed no material items that warrant comment at this time.