

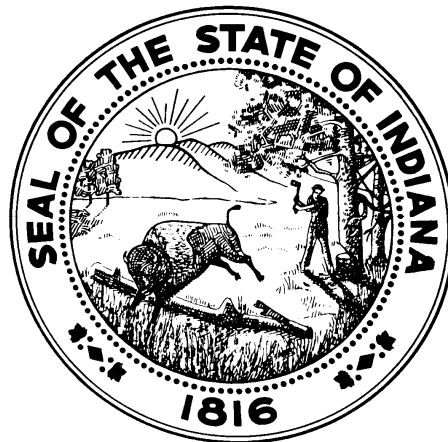
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2007

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA



FILED
12/31/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	John J. Schaefer	01-01-07 to 12-31-08
Mayor	Charles E. Oberlie	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	Anthony A. Metzcus	01-01-07 to 12-31-08
President of the Common Council	Willie Milsap Ronald Meer	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Water Utility	Randall E. Russell	01-01-07 to 12-31-08
Sanitary District Manager	Alan J. Walus	01-01-07 to 12-31-08
Port Authority Harbormaster	Timothy Frame	01-01-07 to 12-31-08



STATE OF INDIANA
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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, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2007, 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 December 11, 2008, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

STATE BOARD OF ACCOUNTS

December 11, 2008



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

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

We have audited the 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2007-1 and 2007-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management in a separate letter dated December 11, 2008.

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

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 11, 2008

CITY OF MICHIGAN CITY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

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	Totals	Port Authority
Primary government:								
Governmental activities:								
General government	\$ 18,882,382	\$ 2,052,228	\$ 23,189	\$ -	\$ (16,806,965)	\$ -	\$ (16,806,965)	\$ -
Public safety	15,694,267	71,252	-	94,097	(15,528,918)	-	(15,528,918)	-
Highways and streets	2,243,405	-	1,297,636	346,643	(599,126)	-	(599,126)	-
Sanitation	4,416,628	-	-	-	(4,416,628)	-	(4,416,628)	-
Health and welfare	930,535	1,132	-	-	(929,403)	-	(929,403)	-
Economic development	805,693	-	-	1,002,628	196,935	-	196,935	-
Culture and recreation	4,417,025	2,405,479	2,000	-	(2,009,546)	-	(2,009,546)	-
Urban redevelopment and housing	3,905,347	-	-	-	(3,905,347)	-	(3,905,347)	-
Principal and interest on indebtedness	411,527	-	-	-	(411,527)	-	(411,527)	-
Total governmental activities	51,706,809	4,530,091	1,322,825	1,443,368	(44,410,525)	-	(44,410,525)	-
Business-type activities:								
Water	7,520,723	8,584,145	-	-	-	1,063,422	1,063,422	-
Sanitary District	8,759,346	7,347,161	-	-	-	(1,412,185)	(1,412,185)	-
Total business-type activities	16,280,069	15,931,306	-	-	-	(348,763)	(348,763)	-
Total primary government	\$ 67,986,878	\$ 20,461,397	\$ 1,322,825	\$ 1,443,368	(44,410,525)	(348,763)	(44,759,288)	-
Component unit:								
Port Authority	\$ 3,394,818	\$ 2,683,132	\$ -	\$ -	-	-	-	(711,686)
General receipts:								
Property taxes					2,383,224	-	2,383,224	43,890
Intergovernmental					14,782,398	-	14,782,398	16,493
Other local sources					2,879,070	-	2,879,070	-
Net proceeds from borrowings					5,504,500	-	5,504,500	-
Proceeds from sale of capital assets					-	13,882	13,882	-
Grants and contributions not restricted to specific programs					5,371,242	-	5,371,242	-
Investment earnings					2,331,222	427,447	2,758,669	259,971
Bonds and loans					-	(4,340,503)	(4,340,503)	-
Interfund loans					(2,100,000)	2,100,000	-	-
Transfers - Internal activities					(2,134,375)	2,134,375	-	-
Total general receipts, interfund loans, and transfers					29,017,281	335,201	29,352,482	320,354
Change in net assets					(15,393,244)	(13,562)	(15,406,806)	(391,332)
Net assets - beginning					42,745,496	8,490,863	51,236,359	6,152,285
Net assets - ending					\$ 27,352,252	\$ 8,477,301	\$ 35,829,553	\$ 5,760,953
<u>Assets</u>								
Cash and investments					\$ 10,888,192	\$ 2,233,559	\$ 13,121,751	\$ 3,793,530
Restricted assets:								
Cash and investments					16,464,060	6,243,742	22,707,802	1,967,423
Total assets					\$ 27,352,252	\$ 8,477,301	\$ 35,829,553	\$ 5,760,953
<u>Net Assets</u>								
Restricted for:								
General government					\$ 201,949	\$ -	\$ 201,949	\$ -
Public safety					159,775	-	159,775	-
Highways and streets					872,379	-	872,379	-
Economic development					226,601	-	226,601	-
Urban redevelopment and housing					481,267	-	481,267	-
Debt service					319,926	2,460,922	2,780,848	897,549
Capital outlay					14,202,163	-	14,202,163	716,496
Other purposes					-	3,782,820	3,782,820	353,378
Unrestricted					10,888,192	2,233,559	13,121,751	3,793,530
Total net assets					\$ 27,352,252	\$ 8,477,301	\$ 35,829,553	\$ 5,760,953

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, 2007

	General	Riverboat	Northside Tax Increment Financing (TIF)	Southside Tax Increment Financing (TIF)	Other Governmental Funds	Totals
Receipts:						
Taxes	\$ 1,995,913	\$ -	\$ 8,422	\$ 218	\$ 387,414	\$ 2,391,967
Licenses and permits	961,919	-	-	-	7,052	968,971
Intergovernmental	3,144,999	9,920,953	-	-	5,185,032	18,250,984
Charges for services	452,825	-	-	-	2,281,951	2,734,776
Fines and forfeits	37,070	-	-	-	-	37,070
Interfund loans	13,000,000	-	-	-	1,770,000	14,770,000
Other	1,278,364	-	206,143	71,357	6,346,961	7,902,825
Total receipts	20,871,090	9,920,953	214,565	71,575	15,978,410	47,056,593
Disbursements:						
General government	7,291,407	4,760,502	-	-	1,160,714	13,212,623
Public safety	14,735,345	-	-	-	86,406	14,821,751
Highways and streets	-	-	-	-	1,957,294	1,957,294
Economic development	-	-	-	-	226,606	226,606
Culture and recreation	-	-	-	-	3,645,632	3,645,632
Urban redevelopment and housing	-	-	848,205	1,206,209	1,445,344	3,499,758
Interfund loans	-	3,870,000	-	-	9,000,000	12,870,000
Debt service:						
Principal	-	-	-	-	230,178	230,178
Interest	-	-	-	-	181,349	181,349
Capital outlay:						
General government	-	911,439	-	-	4,758,320	5,669,759
Public safety	-	863,841	-	-	8,675	872,516
Highways and streets	-	-	-	-	286,111	286,111
Sanitation	-	4,416,628	-	-	-	4,416,628
Economic development	-	-	-	-	579,087	579,087
Culture and recreation	-	650,115	-	-	121,278	771,393
Urban redevelopment and housing	-	-	-	405,589	-	405,589
Total disbursements	22,026,752	15,472,525	848,205	1,611,798	23,686,994	63,646,274
Excess (deficiency) of receipts over disbursements	(1,155,662)	(5,551,572)	(633,640)	(1,540,223)	(7,708,584)	(16,589,681)
Other financing sources (uses):						
Net proceeds from borrowings	1,000,000	-	-	4,504,500	-	5,504,500
Transfers in	2,878,400	-	-	-	631,881	3,510,281
Transfers out	(2,159)	(3,203,400)	-	-	(2,439,097)	(5,644,656)
Other receipts	503,848	74,413	2,500	614,745	1,093,599	2,289,105
Total other financing sources (uses)	4,380,089	(3,128,987)	2,500	5,119,245	(713,617)	5,659,230
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	3,224,427	(8,680,559)	(631,140)	3,579,022	(8,422,201)	(10,930,451)
Cash and investment fund balance - beginning	1,712,870	11,367,263	5,290,450	1,076,428	17,591,427	37,038,438
Cash and investment fund balance - ending	\$ 4,937,297	\$ 2,686,704	\$ 4,659,310	\$ 4,655,450	\$ 9,169,226	26,107,987
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.						1,244,265
Net assets of governmental activities						\$ 27,352,252

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,
(Continued)

	General	Riverboat	Northside Tax Increment Financing (TIF)	Southside Tax Increment Financing (TIF)	Other Governmental Funds	Totals
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 4,937,297	\$ 2,686,704	\$ -	\$ -	\$ 2,019,926	\$ 9,643,927
Restricted assets:						
Cash and investments	-	-	4,659,310	4,655,450	7,149,300	16,464,060
Total cash and investment assets - ending	<u>\$ 4,937,297</u>	<u>\$ 2,686,704</u>	<u>\$ 4,659,310</u>	<u>\$ 4,655,450</u>	<u>\$ 9,169,226</u>	<u>\$ 26,107,987</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ 201,949	\$ 201,949
Public safety	-	-	-	-	159,775	159,775
Highways and streets	-	-	-	-	872,379	872,379
Economic development	-	-	-	-	226,601	226,601
Urban redevelopment and housing	-	-	-	-	481,267	481,267
Debt service	-	-	-	-	319,926	319,926
Capital outlay	-	-	4,659,310	4,655,450	4,887,403	14,202,163
Unrestricted	<u>4,937,297</u>	<u>2,686,704</u>	<u>-</u>	<u>-</u>	<u>2,019,926</u>	<u>9,643,927</u>
Total cash and investment fund balance - ending	<u>\$ 4,937,297</u>	<u>\$ 2,686,704</u>	<u>\$ 4,659,310</u>	<u>\$ 4,655,450</u>	<u>\$ 9,169,226</u>	<u>\$ 26,107,987</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, 2007

	Water Utility	Sanitary District	Totals	Internal Service Funds
Operating receipts:				
Local tax distributions	\$ -	\$ 1,021,818	\$ 1,021,818	\$ -
Charges for services	6,218,987	6,274,860	12,493,847	5,208,213
Miscellaneous	2,365,158	50,483	2,415,641	467,742
Total operating receipts	8,584,145	7,347,161	15,931,306	5,675,955
Operating disbursements:				
Water - operations and maintenance	3,650,162	-	3,650,162	-
Collection system - operations and maintenance	-	1,464,401	1,464,401	-
Pumping - operations and maintenance	-	2,270,858	2,270,858	-
Storm water - operations and maintenance	-	425,279	425,279	-
Refuse - operations and maintenance	-	2,589,198	2,589,198	-
Administration and general	-	1,535,560	1,535,560	-
Insurance claims and premiums	61,032	-	61,032	-
Insurance claims and expense	-	-	-	6,136,407
Miscellaneous disbursements	3,809,529	-	3,809,529	2,341
Total operating disbursements	7,520,723	8,285,296	15,806,019	6,138,748
Excess (deficiency) of operating receipts over operating disbursements	1,063,422	(938,135)	125,287	(462,793)
Nonoperating receipts (disbursements):				
Net proceeds from borrowings - Interfund loan	-	2,100,000	2,100,000	-
Interest and investment receipts	328,546	98,901	427,447	-
Proceeds from sale of capital assets	-	13,882	13,882	-
Debt service of principal	(745,000)	(2,710,000)	(3,455,000)	-
Interest disbursements	(470,863)	(414,640)	(885,503)	-
Capital Outlay	-	(474,050)	(474,050)	-
Total nonoperating receipts (disbursements)	(887,317)	(1,385,907)	(2,273,224)	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	176,105	(2,324,042)	(2,147,937)	(462,793)
Capital contributions	-	-	-	-
Interfund loan	-	-	-	(4,000,000)
Transfers in	-	2,134,375	2,134,375	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	176,105	(189,667)	(13,562)	(4,462,793)
Cash and investment fund balance - beginning	5,045,210	3,445,653	8,490,863	5,707,058
Cash and investment fund balance - ending	\$ 5,221,315	\$ 3,255,986	\$ 8,477,301	\$ 1,244,265
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 1,457,061	\$ 776,498	\$ 2,233,559	\$ 1,244,265
Restricted assets:				
Cash and investments	3,764,254	2,479,488	6,243,742	-
Total cash and investment assets - December 31	\$ 5,221,315	\$ 3,255,986	\$ 8,477,301	\$ 1,244,265
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 410,702	\$ 2,050,220	\$ 2,460,922	\$ -
Other purposes	3,353,552	429,268	3,782,820	-
Unrestricted	1,457,061	776,498	2,233,559	1,244,265
Total cash and investment fund balance - December 31	\$ 5,221,315	\$ 3,255,986	\$ 8,477,301	\$ 1,244,265

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, 2007

	Pension Trust Funds	Private-Purpose Trust Funds	Permanent Trust Funds	Agency Funds
Additions:				
Contributions:				
Employer	\$ 3,524,311	\$ -	\$ -	\$ -
Plan members	26,052	-	-	-
State	137,622	-	-	-
Other	-	11,408	26,633	-
Total contributions	<u>3,687,985</u>	<u>11,408</u>	<u>26,633</u>	<u>-</u>
Investment earnings:				
Interest	-	1,402	67,022	-
Agency fund additions	-	-	-	2,272,993
Total additions	<u>3,687,985</u>	<u>12,810</u>	<u>93,655</u>	<u>2,272,993</u>
Deductions:				
Benefits	3,989,091	-	-	-
Administrative and general	20,341	7,373	41,438	-
Agency fund deductions	-	-	-	2,400,646
Total deductions	<u>4,009,432</u>	<u>7,373</u>	<u>41,438</u>	<u>2,400,646</u>
Excess (deficiency) of total additions over total deductions	(321,447)	5,437	52,217	(127,653)
Cash and investment fund balance - beginning	<u>1,819,695</u>	<u>45,352</u>	<u>1,390,020</u>	<u>892,314</u>
Cash and investment fund balance - ending	<u>\$ 1,498,248</u>	<u>\$ 50,789</u>	<u>\$ 1,442,237</u>	<u>\$ 764,661</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, sanitation, storm water management, and urban redevelopment.

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

Primary Government:	City of Michigan City Michigan City Department of Water Works 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:

Component Unit	Description/Inclusion Criteria	Funds Included In
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 they 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 Port Authority's board and a financial benefit/burden relationship exists between the City and the Michigan City Port Authority.

Joint Venture

The City is a participant with Lake, Porter, and LaPorte Counties and all municipalities in the three counties in a joint venture to operate the Northwestern Indiana Regional Planning Commission (NIRPC) which was created as a multi-purpose area-wide planning agency for such fields as economic development, transportation, environmental protection, and comprehensive planning. NIRPC's enabling legislation (Indiana Code 36-7) provides that participating counties must provide an annual appropriation at a minimum level of thirty cents per capita. Complete financial statements for NIRPC can be obtained from their administrative offices at 6100 Southport Road, Portage, IN 46368.

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor appoints all 7 board members of the Michigan City Housing Authority; of the 9 board members of the Michigan City Urban Enterprise Association, the Mayor appoints 5 and the Common Council appoints 4; the Mayor appoints 4 of the 12 board members of the Michigan City Economic Development Corporation; of the 9 board members of the Michigan City Enrichment Corporation, the Mayor appoints 5 and the Common Council appoints 3.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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, 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.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 fund is a special revenue fund. It accounts for the financial resources received from the State of Indiana as gaming income and admission taxes.

The northside tax increment financing (TIF) fund is a capital projects fund. It accounts for the financial resources received from the County for tax increment financing taxes.

The southside tax increment financing (TIF) fund is a capital projects fund. It accounts for the financial resources received from the County for tax increment financing taxes.

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, the storm water management district, pumping stations, collection systems, and sanitation services.

Additionally, the City reports the following fund types:

The internal service funds account for employee health insurance provided to 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 funds report a trust arrangement under which principal and income benefit certain family gravesites.

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

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.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City, the Water Utility, and the 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.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

- 1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 government-wide Statement of Activities and Net Assets – 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.

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.

Prior to the first required publication, 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.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Cash and Investment Balance Deficits

At December 31, 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2007
Golf Course	\$ 84,298
CZM Hanson Park	51,913
Pullman Forest Grant	13,366
Airport Improvement Project Grant 09	129
Airport Improvement Project Grant 10	19,896

The deficit in the Golf Course Fund was caused by a general decline in play which resulted in revenues not meeting projections. The City's 2009 budget contains provisions to eliminate this deficit.

The remaining fund deficits are due to grant disbursements not yet reimbursed by the federal and state grantor agencies.

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.

2. Investments

As of December 31, 2007, the City had the following investments:

Investment Type	Primary Government Market Value	Discrete Component Unit (Port Authority) Market Value
U.S. treasuries and securities	\$ 2,648,854	\$ 297,938
Corporate bonds	50,093	-
Mutual funds	322,885	-
Totals	<u>\$ 3,021,832</u>	<u>\$ 297,938</u>

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Statutory Authorization for Investments

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 City to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or 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 City's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments.

The following investments held by the City were exposed to custodial credit risks because they are uninsured and unregistered with securities held by the counterparty, or the counterparty's trust department or agent, either in the government's name or not in the government's name:

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary Government:

Investment Type	2007 In the Government's Name
U.S. treasuries and securities	\$ 2,648,854
Corporate bonds	50,093
Mutual funds	322,885
Total	<u>\$ 3,021,832</u>

Component Unit (Port Authority):

Investment Type	2007 In the Government's Name
U.S. treasuries and securities	<u>\$ 297,938</u>

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. The City does not have a formal investment policy for interest rate risk for investments.

Primary Government:

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
U.S. treasuries and securities	\$ 860,215	\$ 590,292	\$ 1,198,347
Corporate bonds	50,093	-	-
Mutual funds	322,885	-	-
Totals	<u>\$ 1,233,193</u>	<u>\$ 590,292</u>	<u>\$ 1,198,347</u>

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Discrete Component Unit (Port Authority):

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
U.S. treasuries and securities	\$ 297,938	\$ -	\$ -

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. The City does not have a formal investment policy for credit risk for investments.

Primary Government:

Standard and Poor's Rating	City's Investments		
	Mutual Funds	Corporate Bonds	Government Sponsored Enterprise
Unrated	\$ 322,885	\$ 50,093	\$ 2,648,854

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, 2007, were as follows:

Transfer From	Transfer To	2007
General Fund	Other governmental funds	\$ 2,159
Riverboat Fund	General Fund	2,878,400
	Other governmental funds	325,000
Other governmental funds	Other governmental funds	304,722
	Business-type funds	2,134,375
Total		\$ 5,644,656

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Interfund Loans

Due to delays in the collection of property tax revenues, the City made loans between funds for cash flow purposes. The loans are to be repaid when property tax revenue is received from the County. At December 31, 2007, the interfund loan balances were as follows:

Due From	Due To	2007
Other governmental funds	General Fund	\$ 9,000,000
Riverboat Fund	Business-type funds	2,100,000
	Other governmental funds	1,770,000
Internal service funds	General Fund	<u>4,000,000</u>
Total		<u>\$ 16,870,000</u>

D. Loan From Discrete Component Unit

The discrete component unit (Michigan City Port Authority) loaned the General Fund \$1,000,000 from the Cumulative Channel Maintenance Fund. This loan will also be repaid when property tax revenue is received from the County.

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 risk financing funds for risks associated with employee medical benefits to employees, retirees, and dependents. The risk financing funds are accounted for in the Health Internal Service and the Health Insurance Internal Service Funds, internal service funds, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$175,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon trends in actual claims experience, and are reported as quasi-external interfund transactions.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Job Related Illnesses or Injuries to Employees

During 1992, the City joined 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 (workers' compensation). The City pays an annual premium to the risk pool for its workers' compensation 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. Effective February 1, 2008, the City established a risk financing fund for risks associated with workers' compensation; see Note IV. B. (Workers' Compensation Self-Insurance) below for additional information.

B. Subsequent Events

Pre-1977 Pension Funds

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

Workers' Compensation Self-Insurance

Beginning February 1, 2008, the City (excluding the Water Utility, Sanitary District, and Port Authority) established a risk financing fund for risks associated with job related illnesses or injuries to employees (workers' compensation). This risk financing fund is accounted for in the Employee Benefit Trust 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 \$400,000 per occurrence. A premium is charged to each fund based upon an allocation related to the number of employees in each department.

Property Tax Rates

Property tax rates and levies for 2007 pay 2008 were not established by February 15, 2008, as required by statute due to the delay in the completion of trending of the assessment of properties in La Porte County. This will result in delays in billing, collection, and distribution of tax revenues by the County for the City in 2008. The County mailed provisional tax bills in the amount of approximately one-half of the taxes due in 2007. These provisional bills were based on 2006 assessed values and payment was due on October 24, 2008. It is anticipated that true final tax bills for 2008 will not be issued until sometime in 2009.

To offset the delay in tax collections, the City will authorize interfund loans.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Circuit Breaker Tax Credit

In 2008, the Indiana General Assembly passed House Enrolled Act 1001 (HEA 1001) which provides a property tax credit (the Circuit Breaker Tax Credit) when the taxes on any property exceed a certain percentage of the property's assessed value. The credit is phased in over two years. For taxes payable in 2009 and 2010, the applicable percentages are as follows:

	<u>2009</u>	<u>2010</u>
Homestead (owner-occupied) residential property	1.5%	1%
Other residential property	2.5%	2%
Commercial and industrial property	3.5%	3%

The Circuit Breaker Tax Credit will result in a reduction of property tax collections for each political subdivision in which the Circuit Breaker Tax Credit is applied. A political subdivision may not increase its property tax levy or borrow funds to offset the effects of the Circuit Breaker Tax Credit.

Based on data provided by the Indiana Legislative Services Agency (LSA), the City of Michigan City anticipates that property tax revenues will be reduced by approximately \$1.2 million in 2009 and \$3.3 million in 2010.

Major Construction

In October 2008, the Water Utility Board of Directors awarded the Phase III On-Shore Intake Replacement Project to Woodruff & Sons in the amount of approximately \$1.2 million.

C. Conduit Debt Obligation

From time to time, the City has issued Industrial 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 debt in the accompanying supplementary information – Schedule of Long-Term Debt.

On June 5, 2007, the City issued \$10,000,000 in Industrial Revenue Bonds to provide financial assistance to Palatek, Inc.

As of December 31, 2007, there were five series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable for the bonds was not available; however, their original issue amounts totaled \$31,000,000.

D. Other 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 with at least 20 years of service. The benefit is available to retirees until they reach age 65. Currently, 16 retirees meet these eligibility requirements. The City and retirees provide two-thirds and one-third, respectively, of these postemployment benefits

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

based on COBRA rates calculated by the City's third-party administrator. 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 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 (excluding the Water Utility) and the discrete component unit (Port Authority) contribute to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 635,864	\$ 1,558,000	\$ 1,707,000
Interest on net pension obligation	(3,521)	290,500	227,000
Adjustment to annual required contribution	<u>4,012</u>	<u>(361,100)</u>	<u>(282,100)</u>
Annual pension cost	636,355	1,487,400	1,651,900
Contributions made	<u>618,001</u>	<u>1,472,854</u>	<u>1,489,080</u>
Increase (decrease) in net pension obligation	18,354	14,546	162,820
Net pension obligation, beginning of year	<u>(48,563)</u>	<u>4,842,001</u>	<u>3,782,974</u>
Net pension obligation, end of year	<u>\$ (30,209)</u>	<u>\$ 4,856,547</u>	<u>\$ 3,945,794</u>
Contribution rates:			
City	8%	672%	736%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-07	01-01-07	01-01-07
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital
Amortization period	30 years	30 years	30 years

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 561,263	97%	\$ (159,809)
	06-30-06	675,643	84%	(48,563)
	06-30-07	636,355	97%	(30,209)
1925 Police Officers' Pension Plan	12-31-05	1,803,600	73%	4,809,440
	12-31-06	1,586,200	98%	4,842,001
	12-31-07	1,487,400	99%	4,856,547
1937 Firefighters' Pension Plan	12-31-05	1,572,300	89%	3,521,262
	12-31-06	1,652,500	84%	3,782,974
	12-31-07	1,651,900	90%	3,945,794

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2007, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	65	78
Current active employees	-	1

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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:

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, 2007, 2006, and 2005, were \$1,594,003, \$1,520,881, and \$1,405,941, respectively, equal to the required contributions for each year.

3. Defined Contribution Pension Plan

Water Utility Employees' Pension

Plan Description

The City (Water Utility) has a defined contribution pension plan administered by McCreedy 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 Department of Water Works 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:

CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

McCready & Keene, Inc.
7941 Castleway Dr.
P.O. Box 50460
Indianapolis, IN 46250-0460
Phone (317) 849-4333

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Department of Water Works Board of Directors and the Plan Administrator. Plan members are required to contribute 3% of the annual covered salary. The Department of Water Works is required to contribute at an actuarially determined rate. Because the plan is currently overfunded, the current rate is 0% of annual covered payroll. Employer and employee contributions to the plan were \$0 and \$49,160, 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 7,513,688	\$ 10,997,902	\$ (3,484,214)	68%	\$ 8,063,595	(43%)
07-01-06	9,122,818	11,367,137	(2,244,319)	80%	8,208,414	(27%)
07-01-07	10,327,589	12,517,413	(2,189,824)	83%	8,539,132	(26%)

Water Utility Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-06	\$ 7,897,062	\$ 3,353,155	\$ 4,543,907	236%	\$ 1,489,584	305%
01-01-07	8,341,097	3,640,098	4,700,999	229%	1,651,726	285%
01-01-08	8,923,668	5,910,351	3,013,317	151%	1,664,817	181%

CITY OF MICHIGAN CITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
01-01-05	1,480,160	23,995,600	(22,515,440)	6%	628,700	(3,581%)
01-01-06	921,821	21,900,200	(20,978,379)	4%	313,700	(6,687%)
01-01-07	832,016	20,591,100	(19,759,084)	4%	232,000	(8,517%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
01-01-05	1,334,831	22,054,700	(20,719,869)	6%	216,500	(9,570%)
01-01-06	1,167,133	22,954,300	(21,787,167)	5%	224,100	(9,722%)
01-01-07	987,679	22,717,800	(21,730,121)	4%	232,000	(9,366%)

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

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-02	\$ 2,856,600	*	*
	12-31-03	2,917,600	*	*
	12-31-04	3,031,600	*	*
	12-31-05	1,858,400	*	*
	12-31-06	1,651,500	34%	60%
	12-31-07	1,558,000	9%	86%
1937 Firefighters' Pension Plan	12-31-02	2,573,600	*	*
	12-31-03	2,698,000	*	*
	12-31-04	2,822,300	*	*
	12-31-05	1,614,700	*	*
	12-31-06	1,700,300	24%	57%
	12-31-07	1,707,000	6%	81%

*Information not available

CITY OF MICHIGAN CITY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
For The Year Ended December 31, 2007

	General Fund				Riverboat Gaming Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final			Original	Final		
Revenues:								
Taxes:								
Property	\$ 13,206,772	\$ 13,206,772	\$ 1,995,913	\$ (11,210,859)	\$ -	\$ -	\$ -	\$ -
Other taxes	2,330,000	2,330,000	2,301,858	(28,142)	10,560,000	10,560,000	9,920,953	(639,047)
Licenses and permits	461,400	461,400	961,919	500,519	-	-	-	-
Intergovernmental	739,110	739,110	843,141	104,031	-	-	-	-
Charges for services	411,200	411,200	452,825	41,625	-	-	-	-
Fines and forfeits	46,000	46,000	37,070	(8,930)	-	-	-	-
Other	1,333,000	1,333,000	1,278,364	(54,636)	-	-	74,413	74,413
Total revenues	18,527,482	18,527,482	7,871,090	(10,656,392)	10,560,000	10,560,000	9,995,366	(564,634)
Expenditures:								
Current:								
General government:								
Controller	335,810	341,065	313,772	27,293	-	-	-	-
Clerk	182,227	187,028	168,065	18,963	-	-	-	-
Mayor	211,525	215,209	204,308	10,901	-	-	-	-
Common Council	141,847	141,847	136,910	4,937	-	-	-	-
Board of Public Works & Safety	1,604,100	2,311,967	1,987,835	324,132	5,156,600	5,574,161	4,708,605	865,556
Planning & Inspection	586,134	601,614	563,055	38,559	-	-	-	-
Personnel	81,146	82,553	73,822	8,731	-	-	-	-
Central Maintenance	1,550,538	1,561,655	1,513,328	48,327	-	42,436	30,272	12,164
City Hall	285,667	302,016	259,318	42,698	-	-	-	-
Historic Review Board	6,946	6,946	2,449	4,497	-	-	-	-
City Attorney	261,276	266,207	241,391	24,816	-	-	-	-
Public Transit	1,083,725	1,281,822	1,131,077	150,745	-	-	-	-
City Engineer	133,301	136,969	111,387	25,582	-	-	-	-
Human Rights Commission	176,139	179,451	134,701	44,750	-	-	-	-
Central Services	352,824	361,816	309,203	52,613	-	-	-	-
Tree Board	10,930	10,930	5,554	5,376	-	-	-	-
Vector Control	103,763	140,465	135,231	5,234	61,360	24,760	21,625	3,135
Total general government	7,107,898	8,129,560	7,291,406	838,154	5,217,960	5,641,357	4,760,502	880,855
Public safety:								
Police Commission	33,362	36,771	28,563	8,208	-	-	-	-
Fire Commission	26,820	26,820	18,889	7,931	-	-	-	-
Emergency Management Agency	72,957	72,957	67,973	4,984	-	-	-	-
Fire Department	7,415,209	7,642,477	6,926,626	715,851	189,918	39,918	-	39,918
Police Department	8,110,674	8,336,469	7,578,659	757,810	189,918	39,918	-	39,918
Animal Control	120,033	120,033	114,636	5,397	-	-	-	-
Total public safety	15,779,055	16,235,527	14,735,346	1,500,181	379,836	79,836	-	79,836
Capital Outlay:								
General Government:								
Board of Public Works & Safety	-	-	-	-	-	238,137	213,029	25,108
Planning & Inspection	-	-	-	-	23,000	23,000	22,993	7
Central Maintenance	-	-	-	-	488,200	488,200	488,144	56
City Hall	-	-	-	-	80,000	199,019	16,748	182,271
Central Services	-	-	-	-	165,100	165,581	145,149	20,432
Vector Control	-	-	-	-	25,000	25,375	25,375	-
Public Safety:								
Emergency Management Agency	-	-	-	-	18,000	18,000	18,000	-
Fire Department	-	-	-	-	360,000	350,000	330,029	19,971
Police Department	-	-	-	-	525,000	550,362	515,812	34,550
Culture and Recreation:								
Parks & Recreation Department	-	-	-	-	428,000	786,909	650,115	136,794
Sanitation:								
Sanitary District	-	-	-	-	-	5,436,567	4,416,629	1,019,938
Total capital outlay	-	-	-	-	2,112,300	8,281,150	6,842,023	1,439,127
Total expenditures	22,886,953	24,365,087	22,026,752	2,338,335	7,710,096	14,002,343	11,602,525	2,399,818
Other financing sources (uses):								
Operating transfers in	2,878,400	2,878,400	2,878,400	-	-	-	-	-
Operating transfers out	-	-	(2,159)	(2,159)	(3,203,400)	(3,238,400)	(3,203,400)	35,000
Temporary loans	-	-	14,000,000	14,000,000	-	-	(3,870,000)	(3,870,000)
Other receipts	-	-	503,848	503,848	-	-	-	-
Total other financing sources (uses)	2,878,400	2,878,400	17,380,089	14,501,689	(3,203,400)	(3,238,400)	(7,073,400)	(3,835,000)
Net change in fund balances	(1,481,071)	(2,959,205)	3,224,427	6,183,632	(353,496)	(6,680,743)	(8,680,559)	(1,999,816)
Fund balances - beginning	1,481,071	1,712,870	1,712,870	-	1,887,796	11,367,263	11,367,263	-
Fund balances - December 31	\$ -	\$ (1,246,335)	\$ 4,937,297	\$ 6,183,632	\$ 1,534,300	\$ 4,686,520	\$ 2,686,704	\$ (1,999,816)

CITY OF MICHIGAN CITY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Note I. Budgets and Budgetary Accounting

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

- A. 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.
- B. 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.
- C. No later than September 30th of each year, the budget for the next year is approved by the Common Council through the passage of an ordinance.
- D. 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 Indiana 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 15th 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.
- E. 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.
- F. 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:

Major funds:

General

Riverboat Gaming (special revenue fund)

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

Nonmajor funds:

Special revenue funds:

- Motor Vehicle Highway
- Local Road and Street
- Cemetery Operating
- Aviation
- Park Nonreverting Operating
- Law Enforcement Continuing Education
- Parks and Recreation
- Golf Course
- Barker Civic Center
- Zoo Education Nonreverting
- Senior Center Nonreverting
- Park Concessions
- Patriot Park Nonreverting
- Aviation Fuel
- DEA Forfeiture

Capital projects funds:

- Cumulative Capital Improvement
- Cumulative Capital Development
- County Economic Development Income Tax (CEDIT)
- Blue Chip Development
- Major Moves

Pension trust funds:

- Police Pension
- Fire Pension

Component Unit – Port Authority:

- Cumulative Channel Maintenance

- G. 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.
- H. 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 \$11,042,040 in 2007.

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
For The Year Ended December 31, 2007

	Motor Vehicle Highway	Local Road and Street	Cemetery Operating	Aviation	Park Nonreverting Operating	Building Demolition	Law Enforcement Continuing Education	Parks and Recreation
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ 21,573	\$ -	\$ -	\$ -	\$ 268,054
Licenses and permits	-	-	-	-	-	-	7,052	-
Intergovernmental	1,212,700	346,643	-	8,106	-	-	-	100,728
Charges for services	-	-	385,777	-	144,124	-	11,941	578,346
Interfund loans	-	-	-	120,000	-	-	-	1,500,000
Other	-	-	92,263	16,320	5,165	-	-	45,537
Total receipts	1,212,700	346,643	478,040	165,999	149,289	-	18,993	2,492,665
Disbursements:								
General government	-	-	455,391	179,467	-	-	-	-
Public safety	-	-	-	-	-	-	37,600	-
Highways and streets	1,574,881	382,413	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	149,735	-	-	2,345,663
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Total disbursements	1,574,881	382,413	455,391	179,467	149,735	-	37,600	2,345,663
Excess (deficiency) of receipts over disbursements	(362,181)	(35,770)	22,649	(13,468)	(446)	-	(18,607)	147,002
Other financing sources (uses):								
Transfers in	300,000	-	25,000	60,000	-	-	-	17,500
Transfers out	-	-	-	-	-	-	-	-
Other receipts	21,732	38,819	128	65	5,741	-	9,080	34,725
Total other financing sources (uses)	321,732	38,819	25,128	60,065	5,741	-	9,080	52,225
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(40,449)	3,049	47,777	46,597	5,295	-	(9,527)	199,227
Cash and investment fund balance - beginning	751,115	158,664	47,424	23,530	114,353	2,075	86,614	380,429
Cash and investment fund balance - ending	\$ 710,666	\$ 161,713	\$ 95,201	\$ 70,127	\$ 119,648	\$ 2,075	\$ 77,087	\$ 579,656
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ -	\$ -	\$ 95,201	\$ 70,127	\$ 119,648	\$ 2,075	\$ -	\$ 579,656
Restricted assets:								
Cash and investments	710,666	161,713	-	-	-	-	77,087	-
Total cash and investment assets - ending	\$ 710,666	\$ 161,713	\$ 95,201	\$ 70,127	\$ 119,648	\$ 2,075	\$ 77,087	\$ 579,656
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	77,087	-
Highways and streets	710,666	161,713	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Unrestricted	-	-	95,201	70,127	119,648	2,075	-	579,656
Total cash and investment fund balance - ending	\$ 710,666	\$ 161,713	\$ 95,201	\$ 70,127	\$ 119,648	\$ 2,075	\$ 77,087	\$ 579,656

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
For The Year Ended December 31, 2007
(Continued)

	Fire Donation	Park Donation	Levy Excess	Police Donation	Golf Course	Tree	Youth Council	Millennium Park Brick
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	764,044	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Other	1,000	5,314	-	15,474	5,272	-	-	2,677
Total receipts	1,000	5,314	-	15,474	769,316	-	-	2,677
Disbursements:								
General government	-	-	-	-	-	18,327	-	-
Public safety	805	-	-	13,694	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	5,086	-	-	809,418	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Total disbursements	805	5,086	-	13,694	809,418	18,327	-	-
Excess (deficiency) of receipts over disbursements	195	228	-	1,780	(40,102)	(18,327)	-	2,677
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Other receipts	-	-	-	995	4,899	-	-	-
Total other financing sources (uses)	-	-	-	995	4,899	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	195	228	-	2,775	(35,203)	(18,327)	-	2,677
Cash and investment fund balance - beginning	3,623	12,090	326,706	7,511	(49,095)	45,705	212	72,157
Cash and investment fund balance - ending	<u>\$ 3,818</u>	<u>\$ 12,318</u>	<u>\$ 326,706</u>	<u>\$ 10,286</u>	<u>\$ (84,298)</u>	<u>\$ 27,378</u>	<u>\$ 212</u>	<u>\$ 74,834</u>
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ 3,818	\$ 12,318	\$ 326,706	\$ 10,286	\$ (84,298)	\$ 27,378	\$ 212	\$ -
Restricted assets:								
Cash and investments	-	-	-	-	-	-	-	74,834
Total cash and investment assets - ending	<u>\$ 3,818</u>	<u>\$ 12,318</u>	<u>\$ 326,706</u>	<u>\$ 10,286</u>	<u>\$ (84,298)</u>	<u>\$ 27,378</u>	<u>\$ 212</u>	<u>\$ 74,834</u>
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,834
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Unrestricted	3,818	12,318	326,706	10,286	(84,298)	27,378	212	-
Total cash and investment fund balance - ending	<u>\$ 3,818</u>	<u>\$ 12,318</u>	<u>\$ 326,706</u>	<u>\$ 10,286</u>	<u>\$ (84,298)</u>	<u>\$ 27,378</u>	<u>\$ 212</u>	<u>\$ 74,834</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
For The Year Ended December 31, 2007
(Continued)

	Mayor Special Event	Demolition Recovery	Animal Control	Barker Civic Center	Controlled Substance Excise	Zoo Education Nonreverting	Senior Center Nonreverting	Park Concessions
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ 24,053	\$ 88	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	9,038	-	-	-	-
Charges for services	-	-	-	-	-	10,563	-	119,128
Interfund loans	-	-	-	150,000	-	-	-	-
Other	55,950	56	-	10,909	-	9,343	20,628	3,035
Total receipts	55,950	56	-	194,000	88	19,906	20,628	122,163
Disbursements:								
General government	39,176	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	165,948	-	7,663	13,154	87,827
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Total disbursements	39,176	-	-	165,948	-	7,663	13,154	87,827
Excess (deficiency) of receipts over disbursements	16,774	56	-	28,052	88	12,243	7,474	34,336
Other financing sources (uses):								
Transfers in	-	-	2,159	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(10,000)	(7,500)
Other receipts	-	15,150	-	-	-	-	-	950
Total other financing sources (uses)	-	15,150	2,159	-	-	-	(10,000)	(6,550)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	16,774	15,206	2,159	28,052	88	12,243	(2,526)	27,786
Cash and investment fund balance - beginning	1,700	-	3,118	32,571	1,689	51,612	56,153	41,459
Cash and investment fund balance - ending	<u>\$ 18,474</u>	<u>\$ 15,206</u>	<u>\$ 5,277</u>	<u>\$ 60,623</u>	<u>\$ 1,777</u>	<u>\$ 63,855</u>	<u>\$ 53,627</u>	<u>\$ 69,245</u>
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ 18,474	\$ 15,206	\$ 5,277	\$ 60,623	\$ 1,777	\$ 63,855	\$ 53,627	\$ 69,245
Restricted assets:								
Cash and investments	-	-	-	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 18,474</u>	<u>\$ 15,206</u>	<u>\$ 5,277</u>	<u>\$ 60,623</u>	<u>\$ 1,777</u>	<u>\$ 63,855</u>	<u>\$ 53,627</u>	<u>\$ 69,245</u>
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Unrestricted	18,474	15,206	5,277	60,623	1,777	63,855	53,627	69,245
Total cash and investment fund balance - ending	<u>\$ 18,474</u>	<u>\$ 15,206</u>	<u>\$ 5,277</u>	<u>\$ 60,623</u>	<u>\$ 1,777</u>	<u>\$ 63,855</u>	<u>\$ 53,627</u>	<u>\$ 69,245</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
For The Year Ended December 31, 2007
(Continued)

	Zoo Donation	Patriot Park Nonreverting	Aviation Fuel	DEA Forfeiture	Local Law Enforcement Block Grant 2005	Local Law Enforcement Block Grant 2004	Trail Creek Archaeological Grant	EPA Benz Property Clean-up
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	31,980	200,000
Charges for services	-	4,600	178,619	21,801	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Other	135	-	-	2,969	635	-	-	-
Total receipts	135	4,600	178,619	24,770	635	-	31,980	200,000
Disbursements:								
General government	-	-	131,100	-	-	-	-	-
Public safety	-	-	-	34,288	-	19	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	16,666	11,447	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Capital outlay:								
General government	100,836	-	-	-	-	-	-	-
Public safety	-	-	-	-	8,675	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Total disbursements	117,502	11,447	131,100	34,288	8,675	19	-	-
Excess (deficiency) of receipts over disbursements	(117,367)	(6,847)	47,519	(9,518)	(8,040)	(19)	31,980	200,000
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	(60,000)	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	(60,000)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(117,367)	(6,847)	(12,481)	(9,518)	(8,040)	(19)	31,980	200,000
Cash and investment fund balance - beginning	164,107	11,654	58,153	80,334	19,912	19	-	-
Cash and investment fund balance - ending	<u>\$ 46,740</u>	<u>\$ 4,807</u>	<u>\$ 45,672</u>	<u>\$ 70,816</u>	<u>\$ 11,872</u>	<u>\$ -</u>	<u>\$ 31,980</u>	<u>\$ 200,000</u>
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ 46,740	\$ 4,807	\$ 45,672	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:								
Cash and investments	-	-	-	70,816	11,872	-	31,980	200,000
Total cash and investment assets - ending	<u>\$ 46,740</u>	<u>\$ 4,807</u>	<u>\$ 45,672</u>	<u>\$ 70,816</u>	<u>\$ 11,872</u>	<u>\$ -</u>	<u>\$ 31,980</u>	<u>\$ 200,000</u>
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,980	\$ -
Public safety	-	-	-	70,816	11,872	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	200,000
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Unrestricted	46,740	4,807	45,672	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 46,740</u>	<u>\$ 4,807</u>	<u>\$ 45,672</u>	<u>\$ 70,816</u>	<u>\$ 11,872</u>	<u>\$ -</u>	<u>\$ 31,980</u>	<u>\$ 200,000</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
 For The Year Ended December 31, 2007
 (Continued)

	Redevelopment Operating Operating	Redevelopment Operating and Reserve	Redevelopment Reserve	Cumulative Development Block Grant 2004	Cumulative Development Block Grant 2005	Cumulative Development Block Grant 2006	Brownsfield Redevelopment	Cemetery Operating Reserve
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	474,789	213,972	-	-
Charges for services	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Other	14,893	4,495	18,588	-	-	-	-	336
Total receipts	14,893	4,495	18,588	-	474,789	213,972	-	336
Disbursements:								
General government	-	-	-	-	-	-	-	386
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	33,757	-
Culture and recreation	-	-	-	-	-	-	-	-
Urban redevelopment and housing	619,274	1,500	-	20	474,789	213,972	-	-
Interfund loans	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	-	-	-	-	40,178	-
Interest	-	-	-	-	-	-	4,767	-
Capital outlay:								
General government	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Total disbursements	619,274	1,500	-	20	474,789	213,972	78,702	386
Excess (deficiency) of receipts over disbursements	(604,381)	2,995	18,588	(20)	-	-	(78,702)	(50)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	(18,588)	-	-	-	-	-
Other receipts	916,370	-	-	-	-	-	44,945	-
Total other financing sources (uses)	916,370	-	(18,588)	-	-	-	44,945	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	311,989	2,995	-	(20)	-	-	(33,757)	(50)
Cash and investment fund balance - beginning	238,072	92,259	386,000	33	-	-	60,358	6,789
Cash and investment fund balance - ending	\$ 550,061	\$ 95,254	\$ 386,000	\$ 13	\$ -	\$ -	\$ 26,601	\$ 6,739
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ 550,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,739
Restricted assets:								
Cash and investments	-	95,254	386,000	13	-	-	26,601	-
Total cash and investment assets - ending	\$ 550,061	\$ 95,254	\$ 386,000	\$ 13	\$ -	\$ -	\$ 26,601	\$ 6,739
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	26,601	-
Urban redevelopment and housing	-	95,254	386,000	13	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Unrestricted	550,061	-	-	-	-	-	-	6,739
Total cash and investment fund balance - ending	\$ 550,061	\$ 95,254	\$ 386,000	\$ 13	\$ -	\$ -	\$ 26,601	\$ 6,739

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
For The Year Ended December 31, 2007
(Continued)

	Cemetery Merchandise and Commissions	Cemetery Merchandise and Commissions Reserve	Redevelopment Bond (Sinking)	Cumulative Capital Improvement	Cumulative Capital Development	Fire Equipment	County Economic Development Income Tax	Sidewalk Maintenance and Improvement
Receipts:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 73,646	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	115,557	27,675	-	2,180,924	-
Charges for services	57,620	5,388	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Other	-	-	334,643	-	-	-	-	504
Total receipts	57,620	5,388	334,643	115,557	101,321	-	2,180,924	504
Disbursements:								
General government	66,787	553	-	-	25,319	-	-	504
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	44,762	-	-	6,172	-
Culture and recreation	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Debt service:								
Principal	-	-	190,000	-	-	-	-	-
Interest	-	-	133,082	-	-	-	43,500	-
Capital outlay:								
General government	-	-	-	-	383,535	-	-	-
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	25,751	-	-	515,463	-
Culture and recreation	-	-	-	-	-	-	-	-
Total disbursements	66,787	553	323,082	70,513	408,854	-	565,135	504
Excess (deficiency) of receipts over disbursements	(9,167)	4,835	11,561	45,044	(307,533)	-	1,615,789	-
Other financing sources (uses):								
Transfers in	69,660	55,514	18,588	-	-	-	-	-
Transfers out	(55,514)	(69,660)	-	-	-	-	(2,134,375)	-
Other receipts	-	-	-	-	-	-	-	-
Total other financing sources (uses)	14,146	(14,146)	18,588	-	-	-	(2,134,375)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	4,979	(9,311)	30,149	45,044	(307,533)	-	(518,586)	-
Cash and investment fund balance - beginning	925	98,542	289,777	80,351	676,262	36,587	1,227,173	-
Cash and investment fund balance - ending	\$ 5,904	\$ 89,231	\$ 319,926	\$ 125,395	\$ 368,729	\$ 36,587	\$ 708,587	\$ -
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:								
Cash and investments	5,904	89,231	319,926	125,395	368,729	36,587	708,587	-
Total cash and investment assets - ending	\$ 5,904	\$ 89,231	\$ 319,926	\$ 125,395	\$ 368,729	\$ 36,587	\$ 708,587	\$ -
<u>Cash and Investment Fund Balance - Ending</u>								
Restricted for:								
General government	\$ 5,904	\$ 89,231	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-
Debt service	-	-	319,926	-	-	-	-	-
Capital outlay	-	-	-	125,395	368,729	36,587	708,587	-
Unrestricted	-	-	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 5,904	\$ 89,231	\$ 319,926	\$ 125,395	\$ 368,729	\$ 36,587	\$ 708,587	\$ -

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
 For The Year Ended December 31, 2007
 (Continued)

	Park and Recreation Improvements	Blue Chip Development	Coolspring Avenue Reconstruction	Singing Sands Bike Trail Project	Major Moves	CZM Karwick Road	CZM 8th and Dickenson
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	2,000	-	64,371	-	-	61,887	-
Charges for services	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Other	357,437	4,935,255	-	-	341,612	-	-
Total receipts	359,437	4,935,255	64,371	-	341,612	61,887	-
Disbursements:							
General government	-	-	143,348	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	95,072	-
Culture and recreation	33,025	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Interfund loans	-	2,000,000	-	-	7,000,000	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	4,260,450	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	286,111	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	102,096	-	-	19,182	-	-	-
Total disbursements	135,121	6,260,450	143,348	19,182	7,286,111	95,072	-
Excess (deficiency) of receipts over disbursements	224,316	(1,325,195)	(78,977)	(19,182)	(6,944,499)	(33,185)	-
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	224,316	(1,325,195)	(78,977)	(19,182)	(6,944,499)	(33,185)	-
Cash and investment fund balance - beginning	79,379	3,415,188	193,398	97,602	6,988,724	70,195	100,000
Cash and investment fund balance - ending	\$ 303,695	\$ 2,089,993	\$ 114,421	\$ 78,420	\$ 44,225	\$ 37,010	\$ 100,000
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	303,695	2,089,993	114,421	78,420	44,225	37,010	100,000
Total cash and investment assets - ending	\$ 303,695	\$ 2,089,993	\$ 114,421	\$ 78,420	\$ 44,225	\$ 37,010	\$ 100,000
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	303,695	2,089,993	114,421	78,420	44,225	37,010	100,000
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 303,695	\$ 2,089,993	\$ 114,421	\$ 78,420	\$ 44,225	\$ 37,010	\$ 100,000

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
For The Year Ended December 31, 2007
(Continued)

	CZM Hanson Park	CZM Ohio Street	Pullman Forest Grant	Airport Improvement Project Grant 03	Airport Improvement Project Grant 05	Airport Improvement Project Grant 08	Airport Improvement Project Grant 09
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	20,000	-	-	-	-	18,109	2,456
Charges for services	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total receipts	20,000	-	-	-	-	18,109	2,456
Disbursements:							
General government	-	-	13,366	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	19,330	-	-	2,668	-	4,949	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	37,873	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Total disbursements	57,203	-	13,366	2,668	-	4,949	-
Excess (deficiency) of receipts over disbursements	(37,203)	-	(13,366)	(2,668)	-	13,160	2,456
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(37,203)	-	(13,366)	(2,668)	-	13,160	2,456
Cash and investment fund balance - beginning	(14,710)	75,000	-	19,460	64,601	-	(2,585)
Cash and investment fund balance - ending	<u>\$ (51,913)</u>	<u>\$ 75,000</u>	<u>\$ (13,366)</u>	<u>\$ 16,792</u>	<u>\$ 64,601</u>	<u>\$ 13,160</u>	<u>\$ (129)</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ (51,913)	\$ -	\$ (13,366)	\$ -	\$ -	\$ -	\$ (129)
Restricted assets:							
Cash and investments	-	75,000	-	16,792	64,601	13,160	-
Total cash and investment assets - ending	<u>\$ (51,913)</u>	<u>\$ 75,000</u>	<u>\$ (13,366)</u>	<u>\$ 16,792</u>	<u>\$ 64,601</u>	<u>\$ 13,160</u>	<u>\$ (129)</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	75,000	-	16,792	64,601	13,160	-
Unrestricted	(51,913)	-	(13,366)	-	-	-	(129)
Total cash and investment fund balance - ending	<u>\$ (51,913)</u>	<u>\$ 75,000</u>	<u>\$ (13,366)</u>	<u>\$ 16,792</u>	<u>\$ 64,601</u>	<u>\$ 13,160</u>	<u>\$ (129)</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
For The Year Ended December 31, 2007
(Continued)

	Airport Improvement Project Grant 10	Transportation Capital	Cemetery Permanent Maintenance	Cemetery Extension	Blue Chip Donation	Northeast Tax Increment Financing (TIF)	Totals
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 387,414
Licenses and permits	-	-	-	-	-	-	7,052
Intergovernmental	-	94,097	-	-	-	-	5,185,032
Charges for services	-	-	-	-	-	-	2,281,951
Interfund loans	-	-	-	-	-	-	1,770,000
Other	-	-	15,543	29,858	-	1,115	6,346,961
Total receipts	-	94,097	15,543	29,858	-	1,115	15,978,410
Disbursements:							
General government	-	-	-	-	86,990	-	1,160,714
Public safety	-	-	-	-	-	-	86,406
Highways and streets	-	-	-	-	-	-	1,957,294
Economic development	19,896	-	-	-	-	-	226,606
Culture and recreation	-	-	-	-	-	-	3,645,632
Urban redevelopment and housing	-	-	-	-	-	135,789	1,445,344
Interfund loans	-	-	-	-	-	-	9,000,000
Debt service:							
Principal	-	-	-	-	-	-	230,178
Interest	-	-	-	-	-	-	181,349
Capital outlay:							
General government	-	-	11,519	1,980	-	-	4,758,320
Public safety	-	-	-	-	-	-	8,675
Highways and streets	-	-	-	-	-	-	286,111
Economic development	-	-	-	-	-	-	579,087
Culture and recreation	-	-	-	-	-	-	121,278
Total disbursements	19,896	-	11,519	1,980	86,990	135,789	23,686,994
Excess (deficiency) of receipts over disbursements	(19,896)	94,097	4,024	27,878	(86,990)	(134,674)	(7,708,584)
Other financing sources (uses):							
Transfers in	-	-	39,398	44,062	-	-	631,881
Transfers out	-	-	(44,062)	(39,398)	-	-	(2,439,097)
Other receipts	-	-	-	-	-	-	1,093,599
Total other financing sources (uses)	-	-	(4,664)	4,664	-	-	(713,617)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(19,896)	94,097	(640)	32,542	(86,990)	(134,674)	(8,422,201)
Cash and investment fund balance - beginning	-	(69,871)	31,795	532,265	175,386	136,878	17,591,427
Cash and investment fund balance - ending	<u>\$ (19,896)</u>	<u>\$ 24,226</u>	<u>\$ 31,155</u>	<u>\$ 564,807</u>	<u>\$ 88,396</u>	<u>\$ 2,204</u>	<u>\$ 9,169,226</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ (19,896)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,019,926
Restricted assets:							
Cash and investments	-	24,226	31,155	564,807	88,396	2,204	7,149,300
Total cash and investment assets - ending	<u>\$ (19,896)</u>	<u>\$ 24,226</u>	<u>\$ 31,155</u>	<u>\$ 564,807</u>	<u>\$ 88,396</u>	<u>\$ 2,204</u>	<u>\$ 9,169,226</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,949
Public safety	-	-	-	-	-	-	159,775
Highways and streets	-	-	-	-	-	-	872,379
Economic development	-	-	-	-	-	-	226,601
Urban redevelopment and housing	-	-	-	-	-	-	481,267
Debt service	-	-	-	-	-	-	319,926
Capital outlay	-	24,226	31,155	564,807	88,396	2,204	4,887,403
Unrestricted	(19,896)	-	-	-	-	-	2,019,926
Total cash and investment fund balance - ending	<u>\$ (19,896)</u>	<u>\$ 24,226</u>	<u>\$ 31,155</u>	<u>\$ 564,807</u>	<u>\$ 88,396</u>	<u>\$ 2,204</u>	<u>\$ 9,169,226</u>

CITY OF MICHIGAN CITY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS
 As of and for the Year Ended December 31, 2007

	Health Internal Service	Health Insurance Internal Service	Totals
Operating receipts:			
Charges for services	\$ -	\$ 5,208,213	\$ 5,208,213
Miscellaneous	41,025	426,717	467,742
Total operating receipts	41,025	5,634,930	5,675,955
Operating disbursements:			
Insurance claims and expense	-	6,136,407	6,136,407
Miscellaneous	152	2,189	2,341
Total operating disbursements	152	6,138,596	6,138,748
Excess (deficiency) of operating receipts over operating disbursements	40,873	(503,666)	(462,793)
Interfund loans	-	(4,000,000)	(4,000,000)
Excess (deficiency) of receipts over disbursements and interfund loans made	40,873	(4,503,666)	(4,462,793)
Cash and investment fund balance - beginning	7,780	5,699,278	5,707,058
Cash and investment fund balance - ending	\$ 48,653	\$ 1,195,612	\$ 1,244,265
<u>Cash and Investment Assets - December 31</u>			
Cash and investment assets - December 31	\$ 48,653	\$ 1,195,612	\$ 1,244,265
<u>Cash and Investment Fund Balance - December 31</u>			
Unrestricted	\$ 48,653	\$ 1,195,612	\$ 1,244,265

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, 2007

	Police Pension	Fire Pension	Totals
Additions:			
Contributions:			
Employer	\$ 1,809,547	\$ 1,714,764	\$ 3,524,311
Plan members	15,929	10,123	26,052
State	<u>63,306</u>	<u>74,316</u>	<u>137,622</u>
Total additions	<u>1,888,782</u>	<u>1,799,203</u>	<u>3,687,985</u>
Deductions:			
Benefits	2,039,263	1,949,828	3,989,091
Administrative and general	<u>10,522</u>	<u>9,819</u>	<u>20,341</u>
Total deductions	<u>2,049,785</u>	<u>1,959,647</u>	<u>4,009,432</u>
Excess (deficiency) of total additions over total deductions	(161,003)	(160,444)	(321,447)
Cash and investment fund balance - beginning	<u>832,016</u>	<u>987,679</u>	<u>1,819,695</u>
Cash and investment fund balance - ending	<u><u>\$ 671,013</u></u>	<u><u>\$ 827,235</u></u>	<u><u>\$ 1,498,248</u></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, 2007

	Cemetery Blanket/Wreath Savings	Cemetery Flower Fund Savings	Cemetery Dabbert Vault Savings	Cemetery Lutz Vault Savings	Totals
Additions:					
Contributions:					
Other	\$ 11,408	\$ -	\$ -	\$ -	\$ 11,408
Investment earnings:					
Interest	31	1,120	78	173	1,402
Total additions	11,439	1,120	78	173	12,810
Deductions:					
Administrative and general	7,260	91	22	-	7,373
Excess (deficiency) of total additions over total deductions	4,179	1,029	56	173	5,437
Cash and investment fund balance - beginning	12,699	26,330	2,298	4,025	45,352
Cash and investment fund balance - ending	<u>\$ 16,878</u>	<u>\$ 27,359</u>	<u>\$ 2,354</u>	<u>\$ 4,198</u>	<u>\$ 50,789</u>

CITY OF MICHIGAN CITY
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PERMANENT TRUST FUNDS
 For The Year Ended December 31, 2007

	Greenwood Permanent Maintenance	Swan Lake Permanent Maintenance	Totals
Additions:			
Contributions:			
Other	\$ 11,978	\$ 14,655	\$ 26,633
Investment earnings:			
Interest	47,946	19,076	67,022
Total additions	59,924	33,731	93,655
Deductions:			
Administrative and general	28,710	12,728	41,438
Excess (deficiency) of total additions over total deductions	31,214	21,003	52,217
Cash and investment fund balance - beginning	996,366	393,654	1,390,020
Cash and investment fund balance - ending	\$ 1,027,580	\$ 414,657	\$ 1,442,237

CITY OF MICHIGAN CITY
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2007

	<u>Payroll</u>	<u>Radio Tower</u>	<u>Tax Escrow Account</u>	<u>Intergovernmental Wagering Tax</u>	<u>Totals</u>
Additions:					
Agency fund additions	\$ 219,101	\$ 2,760	\$ -	\$ 2,051,132	\$ 2,272,993
Deductions:					
Agency fund deductions	<u>346,789</u>	<u>2,721</u>	<u>-</u>	<u>2,051,136</u>	<u>2,400,646</u>
Excess (deficiency) of total additions over total deductions	(127,688)	39	-	(4)	(127,653)
Cash and investment fund balance - beginning	<u>891,031</u>	<u>729</u>	<u>486</u>	<u>68</u>	<u>892,314</u>
Cash and investment fund balance - ending	<u>\$ 763,343</u>	<u>\$ 768</u>	<u>\$ 486</u>	<u>\$ 64</u>	<u>\$ 764,661</u>

CITY OF MICHIGAN CITY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE - CASH AND INVESTMENT BASIS
DISCRETE COMPONENT UNIT
For The Year Ended December 31, 2007

	Port Authority
Operating receipts:	
Local tax distributions	\$ 60,383
Watercraft user fees	27,197
Slip rentals	1,547,362
Ramp fees	35,982
Rack rentals	184,342
Fuel	461,290
Commissions	37,560
Winter storage	207,167
Boat maintenance fees	74,253
Boat show	65,516
Other contractuals	13,188
Miscellaneous	29,275
	<hr/>
Total operating receipts	2,743,515
	<hr/>
Operating disbursements:	
Salaries, wages, and fringe benefits	600,669
Operation and maintenance	535,903
Other supplies	170,369
Contractual services	154,442
Utilities	145,568
Administration and general	473,527
Principal on debt	213,585
Interest on debt	100,755
	<hr/>
Total operating disbursements	3,394,818
	<hr/>
Excess (deficiency) of receipts over (under) disbursements	(651,303)
Nonoperating receipts (disbursements)	
Interest income	259,971
	<hr/>
Excess (deficiency of receipt and nonoperating receipts over (under) disbursements and nonoperating disbursements	(391,332)
Cash and investment fund balance - beginning	6,152,285
	<hr/>
Cash and investment fund balance - ending	\$ 5,760,953
	<hr/>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 5,760,953
	<hr/>
<u>Cash and Investment Fund Balance - December 31</u>	
Unrestricted fund balance - December 31	\$ 5,760,953
	<hr/>

CITY OF MICHIGAN CITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2007

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	\$ 6,456,989
Construction in progress	2,606,093
Total capital assets, not being depreciated	<u>9,063,082</u>
Capital assets, being depreciated (net of depreciation)	
Buildings	12,421,284
Improvements other than buildings	5,309,115
Machinery and equipment	7,632,371
Infrastructure	<u>42,695,440</u>
Total capital assets, being depreciated, net	<u>68,058,210</u>
Total governmental activities, capital assets net	<u>\$ 77,121,292</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 91,291
Construction in progress	78,018
Total capital assets, not being depreciated	<u>169,309</u>
Capital assets, being depreciated (net of depreciation)	
Buildings	15,974,606
Improvements other than buildings	22,951,777
Machinery and equipment	<u>4,659,379</u>
Total capital assets, being depreciated, net	<u>43,585,762</u>
Total Water Utility capital assets net	<u>43,755,071</u>
Sanitary District:	
Capital assets, not being depreciated:	
Land	735,366
Construction in progress	117,021
Total capital assets, not being depreciated, net	<u>852,387</u>
Capital assets, being depreciated (net of depreciation)	
Land Improvements	438,866
Buildings	12,981,534
Building Improvements	2,173,855
Infrastructure	29,907,420
Machinery and equipment	3,713,205
Transportation equipment	<u>504,262</u>
Total capital assets, being depreciated, net	<u>49,719,142</u>
Total Sanitary District capital assets	<u>50,571,529</u>
Total business-type activities capital assets net	<u>\$ 94,326,600</u>
<u>Discretely Presented Component Unit</u>	
Port Authority:	
Capital assets, not being depreciated:	
Land	\$ 2,353,501
Capital assets, being depreciated (net of depreciation)	
Land improvements	275,374
Infrastructure	1,948,886
Buildings	4,311,345
Machinery and equipment	<u>203,981</u>
Total capital assets, being depreciated, net	<u>6,739,586</u>
Total discretely presented component unit capital assets net	<u>\$ 9,093,087</u>

CITY OF MICHIGAN CITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable:		
Brownsfield Redevelopment Loan - Nonforgivable	\$ 128,324	\$ 33,056
Brownsfield Redevelopment Loan - Forgivable	57,560	-
Loan from Port Authority	1,000,000	1,000,000
Bonds payable:		
General obligation bonds:		
Park and Recreation Bonds of 1997	1,740,000	250,000
Revenue bonds:		
Lease Rental Bonds of 1999	3,020,000	145,000
Northeast TIF Bonds	1,695,364	92,075
Southside TIF Bonds	4,550,000	120,000
Total governmental activities debt	<u>\$ 12,191,248</u>	<u>\$ 1,640,131</u>
Business-type Activities:		
Water Utility		
Loan payable:		
SRF Loan	\$ 6,184,916	\$ 50,000
Revenue bonds:		
2004 Waterworks Refunding Revenue Bonds	7,825,000	715,000
Total Water Utility	<u>14,009,916</u>	<u>765,000</u>
Sanitary District		
Loans payable:		
SRF Loan - Indian Springs	40,583	-
SRF Loan - Whippoorwill	2,007	-
General obligation bonds:		
1995 Sanitary District Improvement Bonds	2,145,000	2,145,000
Revenue bonds:		
2005 Refunding Revenue Bonds	6,335,000	705,000
Total Sanitary District	<u>8,522,590</u>	<u>2,850,000</u>
Total business-type activities debt	<u>\$ 22,532,506</u>	<u>\$ 3,615,000</u>
Component Unit:		
Port Authority		
Revenue bonds:		
1998 Marina Revenue Bonds	<u>\$ 2,710,000</u>	<u>\$ 200,000</u>

CITY OF MICHIGAN CITY
OTHER REPORTS

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

Michigan City Water Utility
Michigan City Sanitary District

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS

LACK OF INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

The Deputy Controller is the system administrator over the computerized financial accounting recordkeeping system. Essentially, this includes the ability to establish any controls, which would prohibit unauthorized processing and recording of the financial transactions of the City and all of its departments (excluding the Water Utility). This also would include the ability to override any established controls. We found no evidence that there is any oversight by management to monitor the recording of financial transactions.

The Deputy Controller is also responsible for reconciling the bank accounts to the financial records, preparing, and entering adjusting journal entries, and preparing the financial statements for the City and all departments (excluding the Water Utility). Universal access to the computer system also allows the Deputy Controller the ability to issue and post receipts and process accounts payable vouchers (claims) for payment at her discretion. We found no evidence that adjusting journal entries, bank reconciliements or the annual financial statements are reviewed by the City Controller (fiscal officer of the City) so that any errors or irregularities would be detected.

We noted the following instances of errors that went undetected due to the lack of management oversight:

For the year ended December 31, 2007, the financial transactions excluded a transfer out of the Major Moves Fund in the amount of \$7,000,000. This transfer was recorded as a "paper transaction," meaning that the City did not issue a check and corresponding receipt to provide an audit trail. The funds receiving the transfer were properly posted, but the corresponding disbursement from the Major Moves Fund was not posted. This resulted in the cash balance of the Major Moves Fund being overstated by \$7,000,000. The error was not detected by the Deputy Controller or anyone from management. It was not detected from the bank reconciliements performed by the Deputy Controller because she reconciles to the "bank cash balances" maintained by the system as opposed to the fund cash balances. ("Bank Cash" is a computer software tool used to mirror the cash activity of the bank accounts. It will usually agree to the fund cash, except for those instances when transactions are not processed through the bank as in this case.) Since money was not moved from the "bank cash," the reconciled bank balance agreed to this balance.

The Deputy Controller was on leave for a few months during 2007. While on leave, no other employee was performing her duties, as no other employee has been trained for this position. When the Deputy Controller returned, she neglected to perform an entry which transfers cash from the funds which record the payroll expense (General Fund, Motor Vehicle Highway, Parks and Recreation, . . .) to the Payroll Deductions Fund (the fund from which the withholdings are remitted). She discovered the error in December, but did not perform the adjusting journal entry correctly. Instead of posting the cash accounts of the funds, she posted the adjustment to the fund balances of the funds; thus, cash balances of the funds which expense the payroll were overstated, and the cash balance of the Payroll Deductions Fund was understated. The total dollar amount of this error was \$481,000. (The posted disbursements were correct; it was the disbursements reported in the financial statements that were understated to adjust for the overstated cash balances.)

The financial statements also included a fund designated as "Funds on Deposit" and had an ending cash and investment balance of negative \$2,000,000. This "fund" should not have been included in the financial statements, as it is not a fund, but is used as an investment

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

tracking tool for money invested that cannot be designated as invested from just one fund. It accounts for money invested from the cash balances of all of the funds. Oversight by management would have detected this error.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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

RECEIPT ISSUANCE

The City uses computerized software to issue and post receipts to the financial records. There are some control deficiencies regarding this process which are considered significant deficiencies.

This software allows the user to "back date" receipts. By allowing the user to manipulate the dating of receipts, management cannot be assured that receipts are being issued timely. This could result in receipts being issued in a subsequent fiscal year but reported in the current year; thus, inflating the revenues of the current year.

The user issues receipts designated as in a "pending" status. A receipt is considered "pending" by the system until the user uses the software function to actually post the receipt to the records. It is the Controller's policy not to post the receipts until it is verified to the deposit amount. This allows for corrections and/or alterations to be made to receipts without providing an adequate audit trail because the original receipt/ transaction is not available for review. For significant departments of the City that collect cash, handwritten receipts, cash registers, or other computer software are used to record collections, which can be used to substantiate collections for these departments, but these alternative sources are not available for all collection areas.

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCES

The following funds were overdrawn as of December 31, 2007, by the amounts indicated:

<u>Fund</u>	<u>Amount</u>
Golf Course	\$ 84,298
CZM Hanson Park	51,913
Pullman Forest Grant	13,366
Airport Improvement Project Grant 09	129
Airport Improvement Project Grant 10	19,896

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)

GRANT FUNDS AND ACTIVITY

The following is a list of funds and the cash balances of these funds as of December 31, 2007, which account for federal grant projects that were closed by the grantor agency in 2007 or in prior years.

<u>Fund</u>	<u>Amount</u>
Trail Creek Archaeological Grant	\$ 31,980
Airport Improvement Project Grant 03	16,792
Airport Improvement Project Grant 05	64,601
Airport Improvement Project Grant 08	13,160
Airport Improvement Project Grant 09	(129)

All of the above grants are reimbursement basis grants, which means that the City must first spend the money, then the federal agency will reimburse the City; thus, unless the City transfers local matching funds to these grant funds, the funds will maintain a zero or negative cash balance during the project period. For the Trail Creek Archaeological Grant, we observed that items submitted for reimbursement were paid from the Blue Chip Donation Fund. For the Airport Improvement Project (AIP) Grant funds, it could not be determined from which funds the amounts claimed for reimbursement were paid, as all but two were closed prior to January 1, 2007. For example, the AIP Grant 03 project was closed by the U.S. Department of Transportation on April 15, 1997. In 2007, there was one disbursement made in the amount of \$2,668.34 from this fund to pay property taxes. The disbursement should have been paid from the Aviation Tax Escrow Fund.

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

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

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

AUTOMATED TIME CLOCK

The City and Sanitary District use an electronic time clock to document hours worked. The time clock system interfaces with the City's computer software used to calculate salaries and wages paid to employees. With this system, time cards for each employee can be printed out on a weekly and/or biweekly basis. The time cards show the date, the time punched in and out, the hours worked by date, as well as a cumulative total of the scheduled hours. The time cards also allow for any exceptions to be noted. For hourly employees, the system will note exception issues such as "tardy" or "left early," based upon the times punched in and out. There is also a "Supervisor Edits" section at the bottom of the time card. Only the payroll clerks and the personnel director have the authorization to make "supervisor edits." Such edits include notations as to why an edit was made, such as if the employee forgot to punch in or out, to record leave time, or holidays. The "supervisor edits" allows for this correction. For all employees who punched the time clock, any leave used as recorded on the Employee Service Record was also noted on the time card.

The payroll clerks print the time cards weekly to provide to department heads for review. The review consists of determining if an employee forgot to punch in or out, was late, used vacation or other leave time that must be documented. Generally, the department head will write the explanations on the printed time cards, and give the information to the payroll clerks for entry into the system. At the end of the biweekly payroll period, the payroll clerks will print the finalized time cards, which now have the corrections entered as "supervisor edits", and they will destroy the previously printed cards. The adjustments entered may be because the department head gave approval for an employee to work through lunch to make up for coming in late or leaving early. The finalized time card will have a notation indicating "supervisor approval," but without the original time card, we could not verify that the department head gave approval. It should be noted that when such edits are made, only the hours worked are adjusted. Adjustments cannot be made to the time punched in or out, unless to record a punch in or out that was forgotten.

Next, the hours worked are not accurately computed by the system based upon the punches in and out. For many of the time cards we inspected, the hours worked, agree to the schedule, and are not based upon the actual times punched in or out, unless leave time is taken and documented on the time card. For example, for a salaried employee who punched in at 8:00 a.m., and left around 2:00 p.m., working only 6 hours, the hours reported on the time card as worked were 8 hours. No leave time was posted to the time card. For another salaried employee, who punched in at 1:00 p.m., and punched out at 5:00 p.m., the hours worked were reported as 3 1/2 without leave being taken. This employee actually worked 4 hours. The employee was given credit for having worked a full 8 hour day based upon the accumulated totals.

There are some salaried employees who do not punch in and out on a daily basis. In these instances, the software for the time clock program will automatically show punches in and out as the schedule time.

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

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

EMPLOYEE TIME WORKED NOT DOCUMENTED

City employees that are required to maintain time records do not use the time clock nor are any other type of official records of hours worked maintained. These include the positions of the City Controller, the Corporation Counsel, and the City Attorney. Section 2 of the 2007 Salary Ordinance states: "The fringe benefit program provided by the City includes vacation pay, participation in the Public Employees Retirement Fund (PERF), and sick leave as defined in the City Employee Handbook for non-contract, full-time employees in the following departments: Mayor, Controller, Clerk, Engineer, Personnel, City Hall Maintenance, Attorney, Planning and Inspection, Cemetery, Police, Fire, Aviation, Human Rights, Emergency Management, Central Services, Tree Board, Vector Control, Animal Control, Street, Municipal Coach, Central Maintenance, and Barker Civic Center. Also included in the fringe benefit program are: the City Engineer, who shall maintain a minimum of eight (8) hours per week as well as serving on or attending the meetings of the Board of Public Works and Safety and Plan Commission; the Corporation Counsel and the City Attorney, who shall maintain eight (8) hours per week each, represent City departments in grievances, participate in all contract negotiations, represent and attend the meeting of the Board of Public Works and Safety, and prosecute ordinance violations; and the City Controller, who shall maintain a minimum of eight (8) hours per week as well as serving on the Board of Public Works and Safety and attending semi-monthly meetings of the Common Council as needed."

Since official time records are not maintained by the City for these employees, it could not be determined if these individuals are meeting the work requirements established by the Salary Ordinance.

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

Additionally, the Policy and Procedure Manual for the Civil City of Michigan City, Indiana (the Employee Handbook) states: "Accrued sick leave in excess of 36 days may be sold back to the City. An employee may sell back a maximum of twelve days earned during the year without reducing the "bank."

The City Engineer, the Corporation Counsel, and the City Controller did not use any sick leave during the year and had accumulated balances in excess of 36 days, subsequently, they sold back the maximum number of days to the City. According to the Employee Service Records maintained on the City Engineer, City Controller, Corporation Counsel, and City Attorney, only the City Controller used any type of leave during the year.

An elected official's compensation goes with the office. This means that the elected official receives his (or her) salary as long as the office to which the official was elected performs the duties and responsibilities of this office. Whether the elected official personally does the work, whether the elected official personally maintains office hours, or whether the elected official shows up at the office has no bearing on the official's right to be compensated. Keep in mind this relates only to elected officials. The ghost employee statute, IC 35-44-2-4, prohibits payment to other city or town employees if they did not properly perform city or town duties assigned and maintain hours as directed by the proper governing body.

In those few instances where elected officials choose to be included in an employee benefit policy (and were included in the authorizing ordinance), the officials must maintain proper attendance records (the same as all other city and town employees) which shall clearly disclose days worked, days missed, type of leave taken, etc. This decision certainly cannot be made just prior to the close of the official's term. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Title 29, Chapter 8, Section 211 of the United States Code states: "Every employer subject to this chapter of any order issued under this chapter shall make, keep, and preserve such records of the persons employed by him and of wages, hours, and other conditions and practices of employment maintained by him, and shall preserve such records for such periods of time, and shall make such reports there from to the Administrator as he shall prescribe by regulation or order as necessary or appropriate for the enforcement of the provisions of this chapter or the regulations or orders thereunder. The employer of an employee who performs substitute work described in section 207 (p) (3) of this title may not be required under this subsection to keep a record of hours of the substitute work."

LEAVE TIME USAGE OR NONUSAGE

The Policy and Procedure Manual for the Civil City of Michigan City, Indiana (Employee Handbook) states: "Accurately recording time worked is the responsibility of every nonexempt employee. Federal and state laws require the City to keep an accurate record of time worked in order to calculate employee pay and benefits. Time worked is all the time actually spent on the job performing assigned duties. All non-exempt employees must clock in and out to record their daily hours worked where time clocks are installed, or fill out a daily time sheet. . . . Each employee is responsible for accurate clocking of his/her time card. Exempt employees are not required to record hours worked, however attendance records must be submitted recording holidays, vacation days, sick days, and other forms of leave."

The City considers all salaried employees to be exempt; however, all but four keep records of time worked by punching the time clock or filing a time sheet.

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

Time cards show that salaried employees who work less than the eight hours required per day are not taking leave time. For example, salaried employees may work four or five hours, but are credited as having worked a full eight hours. The sick and vacation leave balances are not affected. One employee was observed working only one hour on a particular day, but received credit for working a full eight hours.

Regarding leave time the Employee Handbook Policy 303 regarding vacation states: "Vacation with pay is available to eligible, regular full-time and regular part-time employees. . . . Paid vacation time may be used in minimum increments of one-half day." Policy 307 regarding sick leave states: "Employees may use up to 2 sick leave days per year for family illness or personal business." Policy 212 regarding attendance and punctuality states: "Employees who are not on an approved leave of absence and are absent from work without sufficient sick leave will be considered to be excessively absent and subject to corrective action, up to and including termination of employment."

Furthermore, the City allows for employees to earn compensatory time off; however, records are not maintained of the compensatory time earned, used or balances. It was noted on one of the payroll clerk's time cards that compensatory time off was used. We did see on that same time card where time was worked in excess of the scheduled time, which would result in the earning of compensatory time; however, nothing was provided to indicate the employee's supervisor had approved the compensatory time as required by the Employee Handbook.

The Employee Handbook Policy 407 regarding Overtime/Compensatory Time states in part: "Compensatory time will be earned as follows: (1) one compensatory hour (quarterly minimum) for each hour worked until the total hours worked in the week equals forty (40) and (2) one and one-half compensatory hours for each hour worked beyond forty (40) hours in the week. Compensatory time must be used in the pay period that it is earned, unless it is earned in the last two work days of the pay period, in which case the time will be taken in the next pay period. Compensatory time must be approved by the department head, taken in full (not spread out over two or more leaves) and must not result in overtime or compensatory time for another employee.

Finally, hourly employees were observed working through lunch to make up for arriving late or leaving early. This is also contrary to Policy 213 of the Employee Handbook, which states in part: "Meal periods should be scheduled during the middle of the day and may not be used to cover a late arrival or an early departure."

Title 29 CFR 516.2(a) states in part: "Every employer shall maintain and preserve payroll or other records containing the following information and data with respect to each employee to whom section 6 or both sections 6 and 7(a) of the Act apply: . . . (7) Hours worked each workday and total hours worked each workweek (for purposes of this section, a "workday" is any fixed period of 24 consecutive hours and a "workweek" is any fixed and regularly recurring period of 7 consecutive workdays) . . ."

Title 29 CFR 553.50 states in part: "For each employee subject to the compensatory time and compensatory time off provisions of section 7(o) of the Act, a public agency which is a State, a political subdivision of a State or an interstate governmental agency shall maintain and preserve records containing the basic information and data required by § 516.2 of this title and, in addition:

- (a) The number of hours of compensatory time earned pursuant to section 7(o) each workweek, or other applicable work period, by each employee at the rate of one and one-half hour for each overtime hour worked;

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

(b) The number of hours of such compensatory time used each workweek, or other applicable work period, by each employee;

(c) The number of hours of compensatory time compensated in cash, the total amount paid and the date of such payment;"

The ghost employee statute, IC 35-44-2-4, prohibits payment to other city or town employees if they did not properly perform city or town duties assigned and maintain hours as directed by the proper governing body. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

CLAIM DEFICIENCIES

Fifty City claims, sixty-four credit card claims, and fifteen Port Authority claims were tested for various compliance and control attributes. While we observed one or two that did not have the fund and/or account noted on the claim, or a claim not paid in a timely manner, the following lists the more frequent or material deficiencies observed.

A claim was payable to the Park Department for payroll and bookkeeping services for the Golf Course which was not itemized. The amount of the claim was \$19,072. The claim simply indicated it was for February 2007. It was paid on February 1, 2007; thus, it was paid in advance of the rendering of such services. Additionally, the claim was paid from contractual services; however, a contract could not be provided to support the expenditure.

A claim for the Meer Road South Storm Sewer Extension was split, with \$107,025.86 being paid from the Riverboat Fund and \$196,896.04 being paid from the Major Moves fund. Based upon documentation attached to the claim from the contractor it is unclear as to how the split was determined. Based upon the contractor's progress report, only \$78,000 was spent on anything related to road construction work, and this was for the removal of pavement.

A claim paid by the Port Authority to the Fire Department for Fire Equipment in the amount of \$13,267.35 was paid based upon a quote. The actual vendor invoice was not attached to the claim. Also, there was not any evidence of receipt of the equipment.

Additional claims paid by the Port Authority to two separate contractors in the amounts of \$19,580 and \$10,143.25 were to be based upon certain items in the contract being completed; however, there were no indications that the projects had been inspected, or certification that the payments were correctly due and payable based upon the percentage of completion.

Another claim paid from the Blue Chip Development Fund in the amount of \$656,507.50 for water system improvements was paid based upon a printed email. The documentation attached to the claim was a printed email which stated that the Water Utility had the invoice from the contractor. The check was made payable to the Water Utility. In addition to the fact that this claim was not properly supported, a department head did not sign the claim indicating it was reviewed and determined to be an allowable expenditure of the fund and account.

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

A number of credit card claims and a few other City claims did not have the signatures of the department head, indicating they had reviewed the claim prior to payment and found the expenditure allowable. These included another claim paid from the Blue Chip Development Fund for supplies in the amount of \$35,000 for the Karwick Park Project, and two claims paid from the General Fund to settle some litigation issues in the amounts of \$14,201.15, and \$10,000.

A number of credit card claims paid did not have either vendor invoices or receipts attached. In fact, a claim was found that had the wrong invoice attached. The charge was made to the credit card in February; however, the attached invoice was dated March and was from a different vendor.

Charges were made to the City credit card for hotel and airfare for employees, however we cannot verify that these charges were for City business. For example, a charge was made for a hotel room for an employee for Friday and Saturday nights, September 21 and 22, 2007. There was also a charge for the same employee for the following Friday and Saturday nights. We cannot verify any seminar, conference, or City business to support this charge.

Finally, fifty-four per cent of claims tested for the City, and eighty per cent of claims tested for the Port Authority did not indicate that goods or services were received prior to payment.

Indiana Code 5-11-10-1.6 (c) states: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

CONTRACTS

The City has contracts with two vendors for services. The following was noted as noncompliance with the contracts:

1. Invoices for both vendors included payment for hours exceeding the maximum hours per week as stated in the contracts.
2. Mileage was calculated, invoiced, and paid at a higher per mile rate than was set in the contract for one of the vendors.
3. Based upon the invoices for one of the vendors, it is stated that the Mayor would receive weekly timesheets; however, timesheets were not found for half of the payments tested.

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)

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

UNAUTHORIZED TRAVEL EXPENSE

On May 25, 2008, the City reimbursed the Deputy City Controller for travel expenses incurred to attend computer training in Arlington, Virginia. The conference was held from April 29 through May 1, 2008. The reimbursement included a hotel stay and meals through May 3. It was determined that this additional reimbursement was for personal business. The total of the additional expense was \$228.97.

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

We requested Yvonne Hoffmaster, Deputy City Controller, reimburse the City \$228.97 in unauthorized travel expense. Yvonne Hoffmaster, Deputy City Controller repaid the City \$228.97 on November 13, 2008.

COMPUTER SOFTWARE AND AUDIT TRAIL (AVIATION)

The Department of Aviation has been using PeachTree software for their accounts receivable since 2002. This system is a commercially packaged software and does not have the proper audit controls for use by the city or any of its departments.

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT ISSUANCE (AVIATION)

The Department makes deposits directly into the City's bank account and remits the bank's receipt of deposit to the controller's office; however, the department does not prepare a report of collections to accompany the bank's receipt of deposit. Nor does the Aviation Department remit copies of receipts issued to substantiate the deposit. The controller's office does not issue a receipt to the department when a bank receipt of deposit is remitted to them. A receipt is prepared, but not when collections are remitted.

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)

COMPUTER CONTROLS AND LACK OF RECEIPTS (PORT AUTHORITY)

The Port Authority purchased a new computer system during the 2007 audit year. The following deficiencies were noted with the new computer system:

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

1. System generated reports and documents, such as Billing Invoices/Receipts and Open Balance reports, have not been submitted for approval by the State Board of Accounts.
2. Each customer is billed for services using the computer system's invoicing program. When a payment is received, the computer assigns each payment a number and that payment number, date, check number, and amount are recorded on the invoice. Two copies of this updated invoice are printed; one is issued to the customer as their receipt, the other is placed with the daily deposit documentation. "True" receipts are not issued to customers.
3. When a customer overpays on an invoice, the excess payment amount can be "transferred" and applied to another invoice. When this is done, the original payment on the first invoice is decreased by the amount of the transfer rather than showing the amount applied to the other invoice. Therefore, without printing and keeping the invoice showing the original amount, there is no audit trail for the payment.

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 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)

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

INTERNAL CONTROLS (PORT AUTHORITY)

Approved duplicate receipt books are used at the Trail Creek Ramp; however, these books are not used in sequence, and an inventory of the receipt books issued is not prepared. Each ramp attendant or forklift driver carries his own receipt book. Duplicate copies of the receipts are remitted to the office with the fees collected. A listing of the receipt numbers remitted is not tracked by the office to ensure all receipts have been remitted.

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

NONREVERTING FUNDS (PARKS AND RECREATION)

The Park Department has a Zoo Education Nonreverting Fund and a Senior Center Nonreverting Fund. In 2006 and 2007, the Zoo Education Nonreverting Fund received fees of \$19,384.60 and \$19,904.88, respectively. Disbursements for this fund for 2006 and 2007 were \$5,983.46 and \$7,662.50, respectively. As of December 31, 2007, the cash balance of the fund was \$63,854.60. This could be an

CITY OF MICHIGAN CITY
AUDIT RESULTS AND COMMENTS
(Continued)

indication that fees charged for the programs are excessive. In 2007, the Senior Center Nonreverting Fund also shows receipts exceeding disbursements by over \$7,000 before transferring \$10,000 to the Parks and Recreation Fund. As of December 31, 2007, the cash balance of the Senior Center Nonreverting Fund was \$53,626.52.

Indiana Code 36-10-3-22 states in part: "(a) Park and recreation facilities and programs shall be made available to the public free of charge as far as possible. However, if it is necessary in order to provide a particular activity, the board may charge a reasonable fee. (b) The unit's fiscal body may establish by ordinance, upon request of the board: (1) a special nonreverting operating fund for park purposes from which expenditures may be made as provided by ordinance . . ."

SALES TAX (PARKS AND RECREATION)

Sales tax was not remitted for the rental of shelters or the amphitheatre at the Park Department, even though the contract for these rentals states "sales tax included." Also, the Park Department has been computing taxable revenue incorrectly. Total revenues should be divided by one plus the current tax rate to arrive at the taxable revenue.

The Indiana Department of Revenue has also ruled that the following are subject to retail sales tax under IC 6-2.5:

1. Shelter House rentals,
2. Golf cart rentals, and
3. Hydrant rental fees paid by water utility customers.

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division. (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 46204-2769

Telephone: (317) 232-2513
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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, 2007. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of

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)

control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 11, 2008

CITY OF MICHIGAN CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Pass-Through Indiana Department of Natural Resources			
Coastal Zone Management Administration Awards	11.419		
Trail Creek, Karwick Nature Preserve			\$ 31,980
Karwick Road			61,887
Hanson Park			<u>20,000</u>
Total for federal grantor agency			<u>113,867</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct grant			
Community Development Block Grants/Entitlement Grants	14.218		
2005 B-05-MC-180022			474,789
2006 B-06-MC-180022			<u>225,082</u>
Total for federal grantor agency			<u>699,871</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct grant			
Airport Improvement Program	20.106		
08 Project			18,108
09 Project			<u>2,456</u>
Total for program			<u>20,564</u>
Federal Transit - Formula Grants	20.507		
Urbanized Area Formula Grant			
2006			98,522
2007			<u>375,777</u>
Urbanized Area Capital Grant			
2006			82,525
2007			<u>11,572</u>
Total for program			<u>568,396</u>
Pass-Through Indiana Criminal Justice Institute			
State and Community Highway Safety	20.600		
BCC PT-08-04-01-14			<u>10,000</u>
Total for federal grantor agency			<u>598,960</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management			
Environmental Policy and Innovation Grants	66.611		
Brownfields Redevelopment			<u>44,945</u>
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		
Benz Property Cleanup			<u>200,000</u>
Total for federal grantor agency			<u>244,945</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-Through Indiana Department of Education			
Safe and Drug Free Schools and Communities - State Grants	84.186		<u>13,287</u>
Total for federal grantor agency			<u>13,287</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct grant			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		
Snow Removal			<u>64,052</u>
Pass-Through Indiana Department of Homeland Security			
Emergency Management Performance Grants	97.042		
2006			<u>23,189</u>
Total for federal grantor agency			<u>87,241</u>
Total federal awards expended			<u>\$ 1,758,171</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.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of cities with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

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, 2007:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants/Entitlement Grants	14.218	<u>\$ 104,665</u>

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

Significant deficiencies identified that are not considered to be material weaknesses? yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified? no

Significant deficiencies identified that are not considered to be material weaknesses? none reported

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? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants Entitlement Grants
20.507	Federal Transit – Formula Grants

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

FEDERAL FINDING 2007-1, LACK OF INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

The Deputy Controller is the system administrator over the computerized financial accounting recordkeeping system. Essentially, this includes the ability to establish any controls, which would prohibit unauthorized processing and recording of the financial transactions of the City and all of its departments (excluding the Water Utility). This also would include the ability to override any established controls. We found no evidence that there is any oversight by management to monitor the recording of financial transactions.

The Deputy Controller is also responsible for reconciling the bank accounts to the financial records, preparing and entering adjusting journal entries, and preparing the financial statements for the City and all departments (excluding the Water Utility). Universal access to the computer system also

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

allows the Deputy Controller the ability to issue and post receipts and process accounts payable vouchers (claims) for payment at her discretion. We found no evidence that adjusting journal entries, bank reconciliations or the annual financial statements are reviewed by the City Controller (fiscal officer of the City) so that any errors or irregularities would be detected.

We noted the following instances of errors that went undetected due to the lack of management oversight:

For the year ended December 31, 2007, the financial transactions excluded a transfer out of the Major Moves Fund in the amount of \$7,000,000. This transfer was recorded as a "paper transaction," meaning that the City did not issue a check and corresponding receipt to provide an audit trail. The funds receiving the transfer were properly posted, but the corresponding disbursement from the Major Moves Fund was not posted. This resulted in the cash balance of the Major Moves Fund being overstated by \$7,000,000. The error was not detected by the Deputy Controller or anyone from management. It was not detected from the bank reconciliations performed by the Deputy Controller because she reconciles to the "bank cash balances" maintained by the system as opposed to the fund cash balances. ("Bank Cash" is a computer software tool used to mirror the cash activity of the bank accounts. It will usually agree to the fund cash, except for those instances when transactions are not processed through the bank as in this case.) Since money was not moved from the "bank cash," the reconciled bank balance agreed to this balance.

The Deputy Controller was on leave for a few months during 2007. While on leave, no other employee was performing her duties, as no other employee has been trained for this position. When the Deputy Controller returned, she neglected to perform an entry which transfers cash from the funds which record the payroll expense (General Fund, Motor Vehicle Highway, Parks and Recreation, . . .) to the Payroll Deductions Fund (the fund from which the withholdings are remitted). She discovered the error in December, but did not perform the adjusting journal entry correctly. Instead of posting the cash accounts of the funds, she posted the adjustment to the fund balances of the funds; thus, cash balances of the funds which expense the payroll were overstated, and the cash balance of the Payroll Deductions Fund was understated. The total dollar amount of this error was \$481,000. (The posted disbursements were correct, it was the disbursements reported in the financial statements that were understated to adjust for the overstated cash balances.)

The financial statements also included a fund designated as "Funds on Deposit" and had an ending cash and investment balance of negative \$2,000,000. This "fund" should not have been included in the financial statements, as it is not a fund, but is used as an investment tracking tool for money invested that cannot be designated as invested from just one fund. It accounts for money invested from the cash balances of all of the funds. Oversight by management would have detected this error.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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 managements objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

We recommended that another employee be trained to perform the Deputy Controller's duties, so that when she is absent from work, another person can perform her duties. Additionally, because of her duties and the control she has over the financial accounting system, a member of management needs to review the bank reconcilements, adjusting journal entries, financial records, and financial reports.

FEDERAL FINDING 2007-2, RECEIPT ISSUANCE

The City uses computerized software to issue and post receipts to the financial records. There are some control deficiencies regarding this process which are considered significant deficiencies.

This software allows the user to "back date" receipts. By allowing the user to manipulate the dating of receipts, management cannot be assured that receipts are being issued timely. This could result in receipts being issued in a subsequent fiscal year but reported in the current year; thus, inflating the revenues of the current year.

The user issues receipts designated as in a "pending" status. A receipt is considered "pending" by the system until the user uses the software function to actually post the receipt to the records. It is the Controller's policy not to post the receipts until it is verified to the deposit amount. This allows for corrections and/or alterations to be made to receipts without providing an adequate audit trail because the original receipt/ transaction is not available for review. For significant departments of the City that collect cash, handwritten receipts, cash registers, or other computer software are used to record collections, which can be used to substantiate collections for these departments, but these alternative sources are not available for all collection areas.

The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

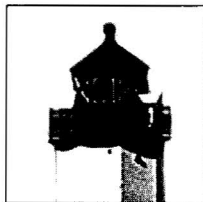
CITY OF MICHIGAN CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that officials modify the controls to allow the software to simultaneously issue and post the receipt. If errors are subsequently discovered, the original receipt will need to be voided, and a new receipt issued.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.



MICHIGAN CITY

the place is here, the time is now!

September 15, 2008

STATUS OF PRIOR AUDIT FINDINGS

Finding No. 2006-2, Schedule of Expenditures of Federal Awards

Original SBA Audit Report Number: B30084

Auditee Contact Name: John J. Schaefer

Title of Contact Person: City Controller

Telephone Number: (219) 873-1404

Status of Finding: The City employee that administers the Community Development Block Grant is now posting all transactions to the proper program year.



John J. Schaefer, Controller



MICHIGAN CITY

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

December 17, 2007

CORRECTIVE ACTION PLAN

FEDERAL FINDING NO. 2007-1, LACK OF INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

Your finding reports that there is not sufficient segregation of duties within the Controller's office. In addition, your comment states that there is a lack of management oversight and cross-training of employees. With a staff of three full-time employees, it is not possible to separate duties to the extent we would desire. However, we will review all of the functions of the Controller's office to determine whether those functions might be better distributed among the employees. In addition, we will institute procedures to formally document that the Controller has reviewed adjusting entries, bank reconciliations, and reports produced by the Controller's office. We recognize the need to cross-train employees in several areas and we intend to address that issue.

FEDERAL FINDING NO. 2007-2, RECEIPT ISSUANCE

Your comment discusses two deficiencies in the computer-generated receipt process. The ability to "back date" receipts is a problem with the software and we will continue our efforts to have our software consultant address this issue. The second deficiency in the receipt process, the "pending" status of receipts, has been corrected with the enabling of controls within the software.


John J. Schaefer, Controller

CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on December 11, 2008, with John J. Schaefer, Controller; Yvonne Hoffmaster, Deputy City Controller; Joseph Doyle, Common Council member; Robert McKee, Common Council member; and Charles E. Oberlie, Mayor. The official response has been made a part of this report and may be found on pages 81 through 84.



MICHIGAN CITY

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

December 17, 2008

Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204

This is the official response of the City of Michigan City to the comments contained in your audit report for the year 2007. We appreciate the opportunity to address these issues.

LACK OF INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

Your comment reports that there is not sufficient segregation of duties within the Controller's office. In addition, your comment states that there is a lack of management oversight and cross-training of employees. With a staff of three full-time employees, it is not possible to separate duties to the extent we would desire. However, we will review all of the functions of the Controller's office to determine whether those functions might be better distributed among the employees. In addition, we will institute procedures to formally document that the Controller has reviewed adjusting entries, bank reconciliations, and reports produced by the Controller's office. We recognize the need to cross-train employees in several areas and we intend to address that issue.

RECEIPT ISSUANCE

Your comment discusses two deficiencies in the computer-generated receipt process. The ability to "back date" receipts is a problem with the software and we will continue our efforts to have our software consultant address this issue. The second deficiency in the receipt process, the "pending" status of receipts, has been corrected with the enabling of controls within the software.

OVERDRAWN CASH BALANCES

Your comment states that five City funds were overdrawn at December 31, 2007. The Golf Course Fund is overdrawn due to a decrease in play; the City's 2009 budget includes funds to eliminate that deficit. The other funds mentioned in your comment account for grant-funded projects for which we are awaiting reimbursement.

GRANT FUNDS AND ACTIVITY

Your comment reports that the City's records contain active funds (with cash balances) that account for grant-funded projects which were closed by the grantor agencies. We have reviewed these funds and have corrected the posting errors that caused this situation.

AUTOMATED TIME CLOCK

Your comment states that there are several deficiencies with the time-keeping and reporting system used by the City. In order to resolve these matters, we will retain the original time reports that show supervisor approval for edits, and we will research the problem of improper time calculations with the vendor.

EMPLOYEE TIME WORKED NOT DOCUMENTED

Your comment addresses several issues with documentation of time worked by certain employees who are not required to work 40 hours per week. We will implement procedures to ensure that the hours worked by those employees are documented to your satisfaction. As to your discussion of leave taken/not taken by those employees, we plan to address that situation in 2009.

LEAVE TIME USAGE OR NON-USAGE

Your comment discusses leave time for salaried employees of the City. We address those issues as follows:

- Salaried employees who work less than the eight hours required per day are not taking leave time. We respectfully disagree with your assessment that these employees did not work a full day simply because they did not use the time clock. In many cases, these employees are required to work outside of normal work hours (evening meetings, emergency call-outs, etc.) or they are required to work away from their normal workplace. It is unreasonable to expect these employees to report to work and then travel to another location or to return from another location to their workplace just to punch the clock. We will convey your concerns to all salaried employees and ask that they more fully document their time.
- Records are not maintained for compensatory time and there is no evidence that supervisors approved the earning and use of compensatory time. We will work with the Personnel Director to develop a method of accounting for compensatory time.
- Hourly employees were observed working through lunch to make up for arriving late or leaving early. We believe that department heads should have the flexibility to modify work schedules as needed. We will review Policy 213 of the Employee Handbook and make any necessary adjustments to provide that flexibility.
- We resent your reference to the ghost employment statute.

CLAIM DEFICIENCIES

Your comment notes deficiencies in the claims payment process in several areas. Many of your concerns will be addressed by providing more specific descriptions on the claims. You have noted one instance of a claim paid to the Water Department which was based on a printed e-mail. There is a Memorandum of Understanding between the Water Department and the Board of Public Works and Safety that provides

for payment directly to the Water Department for the project upon request by the Water Department. Other of your concerns relate to the lack of signatures approving payment; we will require that department heads sign all claims.

CONTRACTS

Your comment notes noncompliance with contracts with two vendors. One of these contracts will be terminated in January, 2009. The other contract will be modified in 2009.

UNAUTHORIZED TRAVEL EXPENSE

Your comment reports that the Deputy City Controller incurred excessive travel expenses related to a conference she attended. The Deputy City Controller has stated that she was forced to stay an extra day because she was unable to reserve a flight on the day after the conference. Because she did not keep any documentation to that effect, she reimbursed the City for the expenses in question.

COMPUTER SOFTWARE AND AUDIT TRAIL (AVIATION)

Your comment states that commercial software is used to account for accounts receivable at the airport. We will investigate the possibility of acquiring the accounts receivable module of the City's financial software for use at the airport. We had been unable to offer that solution in the past because of the lack of availability of a high-speed internet line (T-1) near the airport. Recently that has become available and the airport is now connected to City Hall.

RECEIPT ISSUANCE (AVIATION)

Your comment notes that the Aviation Department does not provide a report of collections to the Controller's office to substantiate bank deposits made by Aviation personnel. As noted above, the airport has only recently been connected to the City's financial system. We will instruct airport personnel to issue receipts through the system thus resolving this issue.

COMPUTER CONTROLS AND LACK OF RECEIPTS (PORT AUTHORITY)

Your comment notes that the Port Authority installed new software during 2007. It should be noted that the new software is a vast improvement over the system previously used. However, some concerns remain, as follows:

- Reports have not been submitted to the State Board of Accounts for approval. The Port Authority has now submitted the forms for your review.
- "True" receipts are not issued to customers; rather copies of the customers' invoiced showing payment made are provided to the customers. We are reviewing the collection procedures at the Port Authority and plan to issue receipts through the City's accounting system.
- When a customer overpays on an invoice, the excess payment amount can be "transferred" and applied to another invoice without proper audit trail. We are investigating the use of credit memos to provide the audit trail required.

NON-REVERTING FUNDS (PARKS AND RECREATION)

Your comment states that excessive cash balances exist in the Zoo Education Non-Reverting Fund and the Senior Center Non-Reverting Fund. Both of these funds were established to pay expenses that are capital in nature. Thus, revenues to these funds may be accumulated for future use.

SALES TAX (PARKS AND RECREATION)

Your comment notes that certain fees charged by the Park Department are subject to sales tax. In addition, you note that the Park Department has not properly calculated sales tax. Park Department officials have been made aware of these issues and will begin to properly calculate and remit sales tax.

Again, we appreciate the opportunity to respond to your comments.

Sincerely,

A handwritten signature in black ink, appearing to read "John J. Schaefer", written in a cursive style.

John J. Schaefer
Controller