

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

EXAMINATION REPORT  
OF  
SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
LAPORTE COUNTY, INDIANA  
JANUARY 1, 2007 TO DECEMBER 31, 2007



**FILED**  
12/31/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Doretha M. Sanders	01-01-07 to 12-31-08
Manager	Alan J. Walus	01-01-07 to 12-31-08
Controller	John J. Schaefer	01-01-07 to 12-31-08
President of the Board of Sanitary District Commissioners	Boyd Phelps	01-01-07 to 12-31-08
Mayor	Charles E. Oberlie	01-01-04 to 12-31-11



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Sanitary District (District), a department of the City of Michigan City, for the period of January 1, 2007 to December 31, 2007. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Sanitary District, City of Michigan City, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City of Michigan City that is attributable to the transactions of the District. They do not purport to, and do not, present fairly the financial position of the City of Michigan City as of December 31, 2007, and the changes in its financial position and its cash flows, where applicable, for the year then ended based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

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

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

STATE BOARD OF ACCOUNTS

December 11, 2008

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 776,498
Accounts receivable (net of allowance)	840,778
Taxes receivable (net of allowance)	2,212,928
Intergovernmental receivable	25,559
Prepaid items	<u>74,122</u>
 Total current assets	 <u>3,929,885</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Bond and interest cash and investments	2,050,220
Improvement cash and investments	274,541
Excess levy cash and investments	154,727
Taxes receivable (net of allowance)	467,722
Intergovernmental receivable	<u>5,402</u>
 Total restricted assets	 <u>2,952,612</u>
 Deferred charges	 <u>146,293</u>
Capital assets:	
Land and construction in progress	852,387
Other capital assets (net of accumulated depreciation)	<u>49,748,808</u>
 Total capital assets	 <u>50,601,195</u>
 Total noncurrent assets	 <u>53,700,100</u>
 Total assets	 <u>57,629,985</u>

Liabilities

Current liabilities:	
Accounts payable	177,340
Accrued wages payable	172,634
Accrued taxes payable	15,486
Interfund payables:	
Temporary loan	2,100,000
Current liabilities payable from restricted assets:	
General obligation bonds payable	2,122,460
Revenue bonds payable	705,000
Accrued interest payable	<u>89,704</u>
 Total current liabilities	 <u>5,382,624</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized discounts or premiums)	5,494,916
Compensated absences	<u>69,487</u>
 Total noncurrent liabilities	 <u>5,564,403</u>
 Total liabilities	 <u>10,947,027</u>

Net Assets

Invested in capital assets, net of related debt	42,470,112
Restricted for debt service	1,960,516
Restricted for improvements	274,541
Restricted for excess levy	154,727
Unrestricted	<u>1,823,062</u>
 Total net assets	 <u>\$ 46,682,958</u>

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

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2007

Operating revenues:	
Residential sales	\$ 4,184,636
Commercial and industrial sales	607,567
Governmental sales	1,366,134
Local tax distributions for storm water and refuse	3,469,254
Tap and permit fees	20,927
Penalties	106,828
Other	<u>40,801</u>
Total operating revenues	<u>9,796,147</u>
Operating expenses:	
Sewer operations and maintenance:	
Salaries	685,611
Employee pensions and benefits	307,043
Purchased power	34,187
Fuel	42,880
Materials and supplies	37,345
Contractual services	188,087
Repair and maintenance	74,401
Other	32,523
Disposal charge	4,000
Plant operations and maintenance:	
Salaries	895,627
Employee pensions and benefits	392,061
Purchased power	495,848
Fuel	24,962
Materials and supplies	33,657
Repair and maintenance	134,395
Chemicals	74,924
Contractual services	25,420
Professional services	8,184
Other	45,708
Disposal charge	84,859
Storm water operations and maintenance:	
Repair and maintenance	14,999
Contractual services	369,351
Refuse operations and maintenance:	
Salaries	1,000,605
Employee pensions and benefits	518,905
Purchased power	28,206
Fuel	116,934
Materials and supplies	15,715
Contractual services	130,850
Insurance	109,897
Landfill charges	471,633
Repair and maintenance	88,690
Other	15,847
Administrative and general:	
Salaries	368,895
Employee pensions and benefits	152,896
Supplies	88,796
Contractual services	407,189
Insurance	244,825
Professional services	284,012
Other	24,299
Bad debt expense	2,565
Depreciation and amortization	<u>2,179,278</u>
Total operating expenses	<u>10,256,109</u>
Operating income (loss)	<u>(459,962)</u>
Nonoperating revenues (expenses):	
Interest revenue	98,901
Gain on sale of asset	7,526
Loss on sale of asset	(30,015)
Amortization of bond issuance cost	(41,039)
Interest expense	<u>(446,626)</u>
Total nonoperating revenue (expenses)	<u>(411,253)</u>
Income (loss) before contributions and transfers	(871,215)
Capital contributions	915,477
Transfers in	<u>2,134,375</u>
Change in net assets	2,178,637
Total net assets - beginning	<u>44,504,321</u>
Total net assets - ending	<u>\$ 46,682,958</u>

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

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2007

Cash flows from operating activities:	
Receipts from customers and users	\$ 7,347,161
Payments to suppliers	(3,973,360)
Payments to employees	<u>(4,311,936)</u>
Net cash provided (used) by operating activities	<u>(938,135)</u>
Cash flows from noncapital financing activities:	
Temporary loan from city	2,100,000
Transfer from city	<u>2,134,375</u>
Net cash provided (used) by noncapital financing activities	<u>4,234,375</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(474,050)
Principal paid on capital debt	(2,710,000)
Interest paid on capital debt	(414,640)
Proceeds from sale of capital assets	<u>13,882</u>
Net cash provided (used) by capital and related financing activities	<u>(3,584,808)</u>
Cash flows from investing activities:	
Interest received	<u>98,901</u>
Net decrease in cash and cash equivalents	(189,667)
Cash and cash equivalents, January 1: (Including \$1,532,518, \$852,230, and \$154,727 for the servicing of debt, improvements, and excess levy, respectively, reported in restricted accounts)	
	<u>3,445,653</u>
Cash and cash equivalents, December 31: (Including \$2,050,220, \$274,541, and \$154,727 for the servicing of debt, improvements, and excess levy, respectively, reported in restricted accounts)	
	<u>\$ 3,255,986</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	<u>\$ (459,962)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,179,278
Bad debt expense	2,565
(Increase) decrease in assets:	
Accounts receivable	(1,550)
Taxes receivable (net of allowance)	(2,517,674)
Intergovernmental receivables (net of allowance)	70,238
Prepaid items	(3,172)
Increase (decrease) in liabilities:	
Accounts payable	(224,368)
Accrued wages payable	36,634
Accrued taxes payable	6,803
Compensated absences payable	<u>(26,927)</u>
Total adjustments	<u>(478,173)</u>
Net cash provided (used) by operating activities	<u>\$ (938,135)</u>
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	\$ 915,477
Transfer of completed CIP projects	2,835,937
Bad debt expense posted directly to accounts receivable	2,565
Obsolete accounts receivable	136,565
Bond discount included in interest paid on capital debt	40,549

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

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

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

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

2. Prepaid Items

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

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

3. Restricted Assets

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

4. Capital Assets

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

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

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

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

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

5. Compensated Absences

a. Sick Leave – District employees earn sick leave at the rate of 12 days per year. Unused sick leave may be accumulated to a maximum of 36 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave – District employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

Sick leave is accrued when incurred.

No liability is reported for vacation.

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

6. Long-Term Obligations

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

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 720,231	\$ 15,135	\$ -	\$ 735,366
Construction in progress	2,952,958	-	2,835,937	117,021
				-
Total capital assets, not being depreciated	<u>3,673,189</u>	<u>15,135</u>	<u>2,835,937</u>	<u>852,387</u>
Capital assets, being depreciated:				
Land improvements	720,950	-	-	720,950
Buildings	20,527,426	272,533	51,000	20,748,959
Building improvements	2,350,114	-	-	2,350,114
Infrastructure	57,507,759	3,483,964	31,925	60,959,798
Machinery and equipment	5,215,012	597,456	33,469	5,778,999
Transportation equipment	1,544,866	24,866	-	1,569,732
Totals	<u>87,866,127</u>	<u>4,378,819</u>	<u>116,394</u>	<u>92,128,552</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated: (continued)				
Less accumulated depreciation for:				
Land improvements	258,361	23,723	-	282,084
Buildings	7,378,120	412,764	23,460	7,767,424
Building improvements	58,753	117,505	-	176,258
Infrastructure	29,870,382	1,181,996	-	31,052,378
Machinery and equipment	1,723,747	337,020	24,638	2,036,129
Transportation equipment	959,201	106,270	-	1,065,471
Totals	<u>40,248,564</u>	<u>2,179,278</u>	<u>48,098</u>	<u>42,379,744</u>
Total capital assets, being depreciated, net	<u>47,617,563</u>	<u>2,199,541</u>	<u>68,296</u>	<u>49,748,808</u>
Total capital assets, net	<u>\$ 51,290,752</u>	<u>\$ 2,214,676</u>	<u>\$ 2,904,233</u>	<u>\$ 50,601,195</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2007</u>	<u>Committed</u>	<u>Required Future Funding</u>
Lafayette/Barker	<u>\$ 5,660,000</u>	<u>\$ 117,021</u>	<u>\$ 42,979</u>	<u>\$ 5,500,000</u>

D. Short-Term Liabilities

The District may use short-term notes and loans to finance expenditures due prior to the time when tax proceeds were distributed.

Short-term debt activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Temporary loan	<u>\$ -</u>	<u>\$ 2,100,000</u>	<u>\$ -</u>	<u>\$ 2,100,000</u>

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

E. Long-Term Liabilities

1. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
1995 Improvement bonds	5%	<u>\$ 2,145,000</u>

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

Year Ended		
December 31	Principal	Interest
2008	<u>\$ 2,145,000</u>	<u>\$ 80,875</u>

2. Revenue Bonds

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

Purpose	Interest Rates	Amount
2005 Refunding revenue bonds	3% to 3.85%	<u>\$ 6,335,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended		
December 31	Principal	Interest
2008	\$ 705,000	\$ 210,040
2009	725,000	188,740
2010	750,000	166,655
2011	775,000	142,884
2012	800,000	116,749
2013-2015	<u>2,580,000</u>	<u>172,502</u>
Totals	<u>\$ 6,335,000</u>	<u>\$ 997,570</u>

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

3. State Revolving Loans

The District has entered into a State Revolving Loan for the extension of sanitary sewer service to the Indian Springs Area. The loan is payable solely from special capital charges collected from Indian Springs residents. The \$990,000 loan will not bear interest and is to be repaid quarterly beginning April 1, 2005, and ending January 1, 2047. The term of the loan may be extended beyond 42 years if there are deficiencies in the special capital charges collected as a result of delinquent user charge fees that are not recovered in the due course of business. The District had drawdown the full \$990,000 as of December 31, 2005. As of December 31, 2007, \$91,794 has been collected and remitted to the State to date leaving a balance of \$898,206. Annual debt service requirements to maturity are based upon the monthly collections received from the Indian Springs area residents. As of December 31, 2007, any cash on hand owed to the state was deemed immaterial. District management has determined that any shortfall in the future from the user charges to pay the loan would not become an obligation of the District. Therefore, no liability for the principal portion of the loan is shown in the financial statements.

The District has entered into a State Revolving Loan for the extension of sanitary sewer service to the Whippoorwill Area. The loan is payable solely from special capital charges collected from Whippoorwill residents. The \$90,000 bears an interest rate of 2.40% and is to be repaid quarterly beginning April 1, 2006, and ending April 1, 2038. The term of the loan may be extended beyond 32 years if there are deficiencies in the special capital charges collected as a result of delinquent user charge fees that are not recovered in the due course of business. As of December 31, 2006, the District had drawdown \$78,427 and the project is considered complete. As of December 31, 2007, \$3,062 has been collected and remitted to the State to date, leaving a balance of \$75,365. Annual debt service requirements to maturity are based upon the monthly collections received from the Whippoorwill area residents. As of December 31, 2007, any cash on hand owed to the state was deemed immaterial. District management has determined that any shortfall in the future from the user charges to pay the loan would not become an obligation of the Sanitary District. Therefore, no liability for the principal portion of the loan is shown in the financial statements.

4. Advance Refunding

In prior years, the District defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2007, \$1,530,000 of the 1994 revenue bonds outstanding were considered defeased.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 4,170,000	\$ -	\$ 2,025,000	\$ 2,145,000	\$ 2,145,000
Less discount	(45,078)	-	(22,538)	(22,540)	-
Revenue bonds	7,020,000	-	685,000	6,335,000	705,000
Add premium	25,925	-	3,050	22,875	-
Less deferred amount on refunding	(179,020)	-	(21,061)	(157,959)	-
Total bonds payable	11,144,922	-	2,687,462	8,457,460	2,850,000
Compensated absences	96,414	-	26,927	69,487	-
Total long-term liabilities	<u>\$ 11,241,336</u>	<u>\$ -</u>	<u>\$ 2,714,389</u>	<u>\$ 8,526,947</u>	<u>\$ 2,850,000</u>

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees, Retirees, and Dependents

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

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

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

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

Job Related Illnesses or Injuries to Employees

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

B. Subsequent Events

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.

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:

	2009	2010
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.

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

C. Postemployment Benefits

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

D. Rate Structure

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

E. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 635,864
Interest on net pension obligation	(3,521)
Adjustment to annual required contribution	4,012
Annual pension cost	636,355
Contributions made	618,001
Increase (decrease) in net pension obligation	18,354
Net pension obligation, beginning of year	(48,563)
Net pension obligation, end of year	\$ (30,209)
Contribution rates:	
District	8%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-2005	\$ 561,263	97%	\$ (159,809)
	06-30-2006	675,643	84%	(48,563)
	06-30-2007	636,355	97%	(30,209)

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

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 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%)

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS ADJUSTING ENTRIES

The District posted an adjusting entry adding two projects, totaling \$2,835,936.42 to capital assets from contributed capital. These two projects were included in construction work in progress. Therefore, they should have been transferred from construction work in progress to completed capital assets. The adjusting entry had the effect of overstating capital assets and contributions. The District subsequently posted an adjusting entry to correct the error.

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)

The District maintains some records on an accrual basis of accounting (double entry accounting). Under the accrual basis of accounting, two accounts within the same fund are to be posted with a single posting. Many adjusting journal entries prepared by the District were not prepared to effect two accounts within the same fund, but two accounts of two different funds. Since the District uses an accrual based software program to post entries to the general ledger, the software establishes an interfund balance within each fund for these out of balance entries. Then, when the fund is closed, these interfund balances are posted to fund balance. Fund balance should only be affected through the closing of revenues and expenses at year end.

Governmental Accounting, Auditing and Financial Reporting (GAAFR) defines a fund as: "A fiscal and accounting entity with a self balancing set of accounts in which cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations." A further discussion of the types of funds GAAFR requires will be found in Chapter 2, Section B, Page 7-1. (Accounting and Uniform Compliance Guidelines Manuals for Cities and Towns, Chapter 3)

OTHER ACCOUNTS RECEIVABLE

The District had other accounts receivable balances totaling \$86,258 at December 31, 2007. These balances consist of items paid from District funds that were to be reimbursed by the City of Michigan City. The District could not provide a detail listing of the other accounts receivable balance.

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)

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on December 11, 2008, with John J. Schaefer, Controller; and Alan J. Walus, Manager. The officials concurred with our examination findings.