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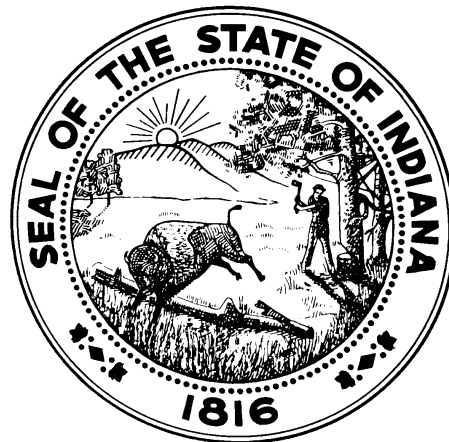
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT

OF

WATER UTILITY
CITY OF MICHIGAN CITY
LA PORTE 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>
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 Utility Board of Directors	Larry J. Jordan III	01-01-07 to 12-31-08
President of the Board of Public Works and Safety	Anthony A. Metzcus	01-01-07 to 12-31-08
Office Manager	Ronald Plamowski	01-01-07 to 12-31-08
Superintendent	Randall E. Russell	01-01-07 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Water Utility (Utility), 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 Utility'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 I, the financial statements of the Utility, City of Michigan City, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City of Michigan City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Michigan City as of December 31, 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 respective financial position of the business-type activities for the Utility, as of December 31, 2007, and the respective changes in financial position and cash flows thereof 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 Utility has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 28, 2008

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF NET ASSETS
December 31, 2007

Assets

Current assets:	
Cash and cash equivalents	\$ 1,457,061
Accounts receivable (net of allowance)	560,405
Inventories	292,081
Loan receivable	<u>31,211</u>
Total current assets	<u>2,340,758</u>
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Bond and interest cash and investments	410,702
Improvement cash and investments	2,837,693
Customer deposits cash and investments	515,858
Pension asset	<u>144,812</u>
Total restricted assets:	<u>3,909,065</u>
Deferred charges	<u>253,223</u>
Capital assets:	
Land and construction in progress	169,309
Other capital assets (net of accumulated depreciation)	<u>43,585,762</u>
Total capital assets	<u>43,755,071</u>
Total noncurrent assets	<u>47,917,359</u>
Total assets	<u>50,258,117</u>

Liabilities

Current liabilities:	
Accounts payable	99,610
Accrued wages and withholding payable	46,104
Taxes payable	19,272
Unearned revenue	25,535
Current liabilities payable from restricted assets:	
Customer deposits	503,203
Revenue bonds payable	715,000
Loan payable	50,000
Accrued interest payable	<u>151,369</u>
Total current liabilities	<u>1,610,093</u>
Noncurrent liabilities:	
Revenue bonds payable (net of unamortized deferred amount on refunding)	6,841,093
Loan payable	6,134,916
Advances for construction	<u>131,427</u>
Total noncurrent liabilities	<u>13,107,436</u>
Total liabilities	<u>14,717,529</u>

Net Assets

Invested in capital assets, net of related debt	30,267,285
Restricted for:	
Debt service	410,702
Improvements	2,837,693
Other purposes	660,670
Unrestricted	<u>1,364,238</u>
Total net assets	<u>\$ 35,540,588</u>

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

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007

Operating revenues:	
Metered water revenue:	
Residential and commercial	\$ 3,626,021
Industrial and governmental	1,356,818
Fire protection revenue	679,376
Sales for resale	371,329
Other water revenue	<u>279,278</u>
Total operating revenues	<u>6,312,822</u>
Operating expenses:	
Source of supply and expense:	
Salaries and wages	242,382
Fuel for power production	231,099
Materials and supplies	16,507
Contractual services	26,359
Other	14,202
Treatment expense:	
Salaries and wages	242,673
Purchased power	93,895
Chemicals	60,749
Materials and supplies	23,573
Contractual services	99,700
Other	120,085
Transmission and distribution expense:	
Salaries and wages	660,947
Purchased power	46,152
Materials and supplies	96,158
Contractual services	96,446
Transportation expense	76,735
Other	40,089
Customer account expense:	
Salaries and wages	228,227
Materials and supplies	78,071
Contractual services	10,453
Bad debt expense	9,600
Other	1,263
Administrative and general expense:	
Salaries and wages	204,910
Employee pensions and benefits	417,481
Purchased power	11,137
Materials and supplies	15,839
Contractual services	99,534
Transportation expense	11,327
Insurance	61,032
Taxes	195,647
Depreciation	1,054,800
Other	<u>60,466</u>
Total operating expenses	<u>4,647,538</u>
Operating income	<u>1,665,284</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	249,199
Interest expense	(516,799)
Miscellaneous expense	<u>(11,728)</u>
Total nonoperating revenues (expenses)	<u>(279,328)</u>
Income (loss) before contributions	1,385,956
Capital contributions	<u>2,365,158</u>
Change in net assets	3,751,114
Total net assets - beginning	<u>31,789,474</u>
Total net assets - ending	<u>\$ 35,540,588</u>

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

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2007

Cash flows from operating activities:	
Receipts from customers and users	\$ 6,218,987
Payments to suppliers and contractors	(1,655,678)
Payments to employees	<u>(1,994,484)</u>
Net cash provided by operating activities	<u>2,568,825</u>
Cash flows from noncapital financing activities:	
Proceeds from loan payments	<u>79,347</u>
Cash flows from capital and related financing activities:	
Capital contributions	2,365,158
Acquisition and construction of capital assets	(3,736,079)
Principal paid on capital debt	(745,000)
Interest paid on capital debt	(470,862)
Refunds of customer advances for construction	<u>(134,484)</u>
Net cash used by capital and related financing activities	<u>(2,721,267)</u>
Cash flows from investing activities:	
Interest received	<u>249,199</u>
Net increase in cash and cash equivalents	176,104
Cash and cash equivalents, January 1 (Including \$410,385, \$2,732,736 and \$547,906 for the servicing of debt, capital improvements, and customer deposits, respectively, reported in restricted accounts)	
	<u>5,045,210</u>
Cash and cash equivalents, December 31 (Including \$410,702, \$2,837,693 and \$515,858 for the servicing of debt, capital improvements, and customer deposits, respectively, reported in restricted accounts)	
	<u>\$ 5,221,314</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 1,665,284</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,054,800
Bad debt expense	9,600
(Increase) decrease in assets:	
Accounts receivable	(71,470)
Inventories	(92,595)
Prepaid items	8,457
Increase (decrease) in liabilities:	
Accounts payable	11,613
Accrued wages and withholding payable	2,136
Taxes payable	3,365
Unearned revenue	2,823
Customer deposits	<u>(25,188)</u>
Total adjustments	<u>903,541</u>
Net cash provided by operating activities	<u>\$ 2,568,825</u>
Noncash investing, capital and financing activities:	
Deletion of obsolete capital assets	\$ 455,682
Decrease in pension asset	(11,728)

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

WATER UTILITY
CITY OF MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and 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 Utility's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

2. Inventories and Prepaid Items

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

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

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

3. Restricted Assets

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

4. Capital Assets

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

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

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

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

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

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 1.5 days per month. Unused sick leave may be accumulated to a maximum of 180 days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

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

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

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond issuance costs and deferred loss on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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.

2. Investments

Investment Policies

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

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Water Utility and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Utility may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an

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

instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Interest Rate Risk

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

B. Loan Receivable

On March 21, 2003, the Utility entered into a water service agreement with the Town of Long Beach (Town), whereby the Town agreed to purchase water from the Utility. Upgrades in the Town's distribution system were necessary in order to receive and distribute the needed water. The Utility agreed to advance the funds needed to finance the upgrades. On May 19, 2003, the Utility loaned the Town \$350,000 at 3% interest to be repaid in 60 monthly installments. At December 31, 2007, the outstanding loan receivable was \$31,211.

C. Deferred Charges

In 2002, the Water Utility received a State Revolving Fund Loan. The related issuance costs in the amount of \$129,529 were recorded to be amortized through the year 2022. In 2004, the Water Utility issued Waterworks Refunding Revenue Bonds. Bond issuing costs in the amount of \$212,741 were recorded to be amortized over a 12 year period. The total unamortized issuance cost balance at December 31, 2007, was \$253,223.

D. 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	\$ 91,291	\$ -	\$ -	\$ 91,291
Construction in progress	151,974	3,120,317	3,194,273	78,018
 Total capital assets, not being depreciated	 243,265	 3,120,317	 3,194,273	 169,309
Capital assets, being depreciated:				
Improvements other than buildings	27,209,694	3,108,460	136,560	30,181,594
Buildings	20,302,044	296,415	300,004	20,298,455
Machinery and equipment	5,258,474	403,660	19,118	5,643,016
 Totals	 52,770,212	 3,808,535	 455,682	 56,123,065

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated: (continued)				
Less accumulated depreciation for:				
Improvements other than buildings	7,122,187	544,194	436,564	7,229,817
Buildings	3,917,808	406,041	-	4,323,849
Machinery and equipment	898,190	104,565	19,118	983,637
 Totals	 11,938,185	 1,054,800	 455,682	 12,537,303
 Total capital assets, being depreciated, net	 40,832,027	 2,753,735	 -	 43,585,762
 Total capital assets, net	 <u>\$ 41,075,292</u>	 <u>\$ 5,874,052</u>	 <u>\$ 3,194,273</u>	 <u>\$ 43,755,071</u>

E. Lease

Operating Lease

The Utility has entered into an operating lease having an initial or remaining noncancelable term exceeding one year for a folder inserter machine. Rental expenditures for this lease were \$3,767. The following is a schedule by years of future minimum rental payments as of December 31, 2007:

2008	\$ 3,767
2009	<u>2,197</u>
Total	<u>\$ 5,964</u>

F. Long-Term Liabilities

1. Revenue Bonds

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

Purpose	Interest Rates	Amount
2004 Waterworks refunding revenue bond	3% to 3.75 %	<u>\$ 7,825,000</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 715,000	\$ 269,419
2009	735,000	247,362
2010	775,000	222,669
2011	800,000	195,369
2012	830,000	167,106
2013-2017	<u>3,970,000</u>	<u>680,475</u>
Totals	<u>\$ 7,825,000</u>	<u>\$ 1,782,400</u>

2. Loan Payable

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

Year Ended <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 50,000	\$ 179,000
2009	50,000	177,550
2010	40,000	176,173
2011	40,000	175,012
2012	40,000	173,853
2013-2017	875,000	852,370
2018-2022	<u>5,089,916</u>	<u>376,192</u>
Totals	<u>\$ 6,184,916</u>	<u>\$ 2,110,150</u>

3. Advances For Construction

Advances for construction represent liabilities to customers that paid for main extensions to the water lines. The costs for these extensions were recorded as a liability to be paid as other customers were charged and billed over a four year period that tapped into the main extensions.

4. Advance Refunding

In prior years, the Utility 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 utility's financial statements. At December 31, 2007, \$8,820,000 of the 1995 revenue bonds outstanding were considered defeased.

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

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 8,515,000	\$ -	\$ 690,000	\$ 7,825,000	\$ 715,000
Less deferred amount on refunding	<u>298,242</u>	<u>-</u>	<u>29,335</u>	<u>268,907</u>	<u>-</u>
Total revenue bonds payable	8,216,758	-	660,665	7,556,093	715,000
Loan payable	6,239,916	-	55,000	6,184,916	50,000
Advances for construction	<u>265,911</u>	<u>-</u>	<u>134,484</u>	<u>131,427</u>	<u>-</u>
Total long-term liabilities	<u>\$ 14,722,585</u>	<u>\$ -</u>	<u>\$ 850,149</u>	<u>\$ 13,872,436</u>	<u>\$ 765,000</u>

III. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents

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

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

WATER UTILITY
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 Utility separate from the City.

B. Subsequent Event

In 2008, the Utility Board of Directors awarded the Phase II On-Shore Intake Placement Project to Woodruff and Sons in the amount of \$1,061,244.

C. Rate Structure

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 31, 2004. The Utility has 12,446 customers.

D. Pension Plan

Plan Description

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the governing board of the Utility and the Plan Administrator. Plan members are required to contribute 3% of the annual covered salary. The Utility is required to contribute at an actuarially determined rate. The current rate is 0% of annual covered payroll. Employer and employee contributions to the plan were \$0 and \$47,130, respectively.

Actuarial Information for the Above Plan

	Utility Pension
Increase in net pension obligation	\$ 11,728
Net pension obligation, beginning of year	(156,540)
Net pension obligation, end of year	\$ (144,812)

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

	Utility Pension
Contribution rates:	
Utility	0%
Plan members	3%
Actuarial valuation date	01-01-07
Actuarial cost method	Entry Age Normal
Amortization method	Ten year level funding
Amortization period	N/A
Asset valuation method	Market value

N/A = Not available

Actuarial Assumptions

Investment rate of return	6%
Projected future salary increases:	4%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Utility Pension Plan	12-31-05	\$ 1,957	N/A	\$ (158,474)
	12-31-06	1,934	N/A	(156,540)
	12-31-07	2,002	N/A	(144,812)

N/A = Not available

WATER UTILITY
CITY OF MICHIGAN CITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Water Utility 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%

WATER UTILITY
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on October 28, 2008, with Larry J. Jordan III, President of the Utility Board of Directors; Randall E. Russell, Superintendent; Ronald Plamowski, Office Manager; and John J. Schaefer, Controller. Our examination disclosed no material items that warrant comment at this time.