B35768

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, 2008 to December 31, 2008

FILED
02/12/2010

TABLE OF CONTENTS

Description	Page
Officials	2
Independent Accountant's Report	3
Financial Information:	
Statement of Net Assets	4
Statement of Revenues, Expenses, and Other Changes in Fund Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16
Required Supplementary Information:	
Schedule of Funding Progress	17
Exit Conference	18

OFFICIALS

Office	Official	Term
Controller	John J. Schaefer	01-01-08 to 12-31-09
Mayor	Charles E. Oberlie	01-01-04 to 12-31-11
Sanitary District Manager	Alan J. Walus	01-01-08 to 12-31-09
President of the Board of Sanitary District Commissioners	Boyd Phelps	01-01-08 to 12-31-09

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
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, as of and for the year ended December 31, 2008. The District's management is responsible for the financial statements presented herein. Our responsibility is to express an opinion 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 statement 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 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 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, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Sanitary District, as of December 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Sanitary District 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.

STATE BOARD OF ACCOUNTS

December 22, 2009

SANITARY DISTRICT
CITY OF MICHIGAN CITY
STATEMENT OF NET ASSETS
December 31, 2008

Assets	
Current assets:	
Cash and cash equivalents	$ 1,369,765
Accounts receivable (net of allowance)	559,184
Taxes receivable	1,486,204
Intergovernmental receivable	170,000
Prepaid items	52,793
Total current assets	3,637,946
Noncurrent assets:	
Restricted cash, cash equivalents and investments:	
Bond and interest cash and investments	1,727,122
Improvement cash and investments	174,512
Excess levy cash and investments	154,727
Taxes receivable	1,963,893
Intergovernmental receivable	2,000
Total restricted assets:	4,022,254
Deferred charges	105,252
Capital assets:	
Land, improvements to land and construction in progress	1,046,324
Other capital assets (net of accumulated depreciation)	49,216,026
Total capital assets	50,262,350
Total noncurrent assets	54,389,856
Total assets	58,027,802
Liabilities	
Current liabilities:	
Accounts payable	137,589
Accrued wages payable	201,742
Interfund payables:	
Interfund loans	1,425,000
Interfund services provided and used	75,351
Current liabilities payable from restricted assets:	
Revenue bonds payable	725,000
Accrued interest payable	80,892
Total current liabilities	2,645,574
Noncurrent liabilities:	
Compensated absences	75,205
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	4,787,927
Total noncurrent liabilities	4,863,132
Total liabilities	7,508,706
Net Assets	
Invested in capital assets, net of related debt	44,749,421
Restricted for debt service	1,808,014
Restricted for improvements	174,512
Restricted for excess levy	154,727
Unrestricted	3,632,422
Total net assets	$ 50,519,096

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
As Of And For The Year Ended December 31, 2008

Operating revenues:	
Residential sales	$ 3,823,093
Commercial and industrial sales	495,319
Governmental sales	1,661,201
Tap and permit fees	17,916
Penalties	105,479
Other	119,241
Total operating revenues	6,222,249
Operating expenses:	
Sewer operations and maintenance	1,714,801
Plant operations and maintenance	2,579,572
Storm water operations and maintenance	247,535
Refuse operations and maintenance	2,575,847
Refuse containers	863,850
Administration and general	1,098,389
Bad debt expense	3,981
Other expenses	106,634
Depreciation expense	2,375,292
Total operating expenses	11,565,901
Operating loss	(5,343,652)
Nonoperating revenues (expenses):	
Interest and investment revenue	35,524
Local tax distributions for storm water and refuse	5,015,009
Intergovernmental revenue (win tax)	170,985
Loss on disposal of assets	(76,578)
Amortization of bond issue costs	(41,041)
Interest expense	(324,454)
Total nonoperating revenues (expenses)	4,779,445
Loss before contributions and transfers	(564,207)
Capital contributions	4,400,345
Change in net assets	3,836,138
Total net assets - beginning	46,682,958
Total net assets - ending	$ 50,519,096

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

SANITARY DISTRICT
CITY OF MICHIGAN CITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

Cash flows from operating activities:	
Receipts from customers and users	$ 6,472,070
Payments to suppliers and contractors	(4,742,564)
Payments to employees	(3,525,560)
Interfund services provided	31,773
Interfund services used	(846,216)
Net cash used by operating activities	(2,610,497)
Cash flows from noncapital financing activities:	
Interfund loans	1,425,000
Interfund loans repaid	(2,100,000)
Property taxes received	4,104,523
Win tax received	170,985
Net cash provided by noncapital financing activities	3,600,508
Cash flows from capital and related financing activities:	
Capital contributions	2,713,850
Acquisition and construction of capital assets	(426,530)
Principal paid on capital debt	(2,850,000)
Interest paid on capital debt	(292,715)
Net cash used by capital and related financing activities	(855,395)
Cash flows from investing activities:	
Interest received	35,524
Net increase in cash and cash equivalents	170,140
Cash and cash equivalents, January 1	3,255,986
Cash and cash equivalents, December 31	$ 3,426,126
Reconciliation of operating income to net cash used by operating activities:	
Operating income	$ (5,343,652)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,375,292
Bad debt expense	3,981
(Increase) decrease in assets:	
Accounts receivable	277,613
Prepaid items	21,329
Increase (decrease) in liabilities:	
Accounts payable	(39,751)
Accrued wages payable	29,108
Interfund payables	75,351
Taxes payable	(15,486)
Compensated absence payable	5,718
Total adjustments	2,733,155
Net cash used by operating activities	$ (2,610,497)
Noncash investing, capital and financing activities:	
Contributions of capital assets from government	$ 1,686,495
Capital asset disposals	76,578

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

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 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 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 both government-wide and fund financial statements.

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 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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 leave.

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 IC 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, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 735,366	$ -	$ -	$ 735,366
Construction in progress	117,021	310,958	117,021	310,958
Total capital assets, not being depreciated	852,387	310,958	117,021	1,046,324
Capital assets, being depreciated:				
Land improvements	720,950	-	-	720,950
Buildings	20,748,959	-	-	20,748,959
Building improvements	2,350,114	-	-	2,350,114
Infrastructure	60,959,798	1,547,543	-	62,507,341
Machinery and equipment	5,778,999	350,643	-	6,129,642
Transportation equipment	1,569,732	20,902	76,578	1,514,056
Totals	92,128,552	1,919,088	76,578	93,971,062

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Land improvements	282,084	23,722	-	305,806
Buildings	7,767,424	414,979	-	8,182,403
Building improvements	176,258	117,506	-	293,764
Infrastructure	31,052,378	1,233,491	-	32,285,869
Machinery and equipment	2,036,129	482,178	-	2,518,307
Transportation equipment	1,065,471	103,416	-	1,168,887
Totals	42,379,744	2,375,292	-	44,755,036
Total capital assets, being depreciated, net	49,748,808	(456,204)	76,578	49,216,026
Total capital assets, net	$ 50,601,195	$ (145,246)	$ 193,599	$ 50,262,350

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2008	Committed	Required Future Funding
Freyer Ditch/Gardena Street Storm Drainage	$ 811,753	$ 148,001	$ 663,752	$ -
Dewatering Press	168,650	151,785	16,865	-
Ohio Street/Southwind Drive Sewer Improvements	150,000	11,172	138,828	-
Total - Governmental activities	$ 1,130,403	$ 310,958	$ 819,445	$ -

D. Short Term Liabilities

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

Short-term debt activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Temporary loan	$ 2,100,000	$ 1,425,000	$ 2,100,000	$ 1,425,000

E. Long-Term Liabilities

1. 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 Rate	Amount
2005 Refunding revenue bonds	5%	$ 5,630,000

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2009	$ 725,000	$ 188,740
2010	750,000	166,655
2011	775,000	142,884
2012	800,000	116,749
2013	830,000	88,483
2014-2015	1,750,000	84,019
Totals	$ 5,630,000	$ 787,530

2. 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 being 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 drawn down the full $990,000 as of December 31, 2005. As of December 31, 2008, $125,598 has been collected and remitted to the State to date leaving a balance of $864,402. Annual debt service requirements to maturity are based upon the monthly collections received from the Indian Springs area residents. As of December 31, 2008, any cash on hand owed to the state was deemed immaterial. Sanitary 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.

The Sanitary 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 drawn down $78,427 and the project is considered complete. As of December 31, 2008, $7,784 has been collected and remitted to the State leaving a balance of $70,643. Annual debt service requirements to maturity are based upon the monthly collections received from the Whippoorwill area residents. As of December 31, 2008, any cash on hand owed to the state was deemed immaterial. Sanitary 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.

3. 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. The following outstanding bonds, at December 31, 2008, were considered defeased:

	Amount
1994 Revenue Bonds	$ 2,200,000

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	$ 2,145,000	$ -	$ 2,145,000	$ -	$ -
Less discount	(22,540)	-	(22,540)	-	-
Revenue bonds	6,335,000	-	705,000	5,630,000	725,000
Add premium	22,875	-	3,050	19,825	-
Less deferred amount on refunding	(157,959)	-	(21,061)	(136,898)	-
Total bonds payable	8,322,376	-	2,809,449	5,512,927	725,000
Compensated absences	96,414	-	21,209	75,205	-
Total long-term liabilities	$ 8,418,790	$ -	$ 2,830,658	$ 5,588,132	$ 725,000

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 Health and Health Insurance Funds, internal service funds, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $150,000 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).

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 the year 2006 payable 2007 were certified by the Indiana Department of Local Government Finance (DLGF) on August 31, 2009. Property tax rates and levies for the past two years, 2007 payable 2008 and 2008 payable 2009, have not yet been

certified. State statute requires that rates and levies be certified by February 15 of the year of payment. The rates and levies have not been certified due to the delay in the completion of trending of the assessment of properties in La Porte County and legal challenges to the trending procedure. This has resulted in delays in billing, collection, and distribution of tax revenues by the County in 2007, 2008, and 2009. Under normal circumstances, property tax payments are due on May 10 and November 10 each year. For 2007, provisional property tax bills were due in November 2007 and January 2008. For 2008, provisional property tax bills were due in October 2008 and March 2009. For 2009, provisional tax bills will be due in October 2009 and January 2010. The provisional tax bills are based on 2006 assessed values.

In addition, despite the fact that property tax rates and levies were approved by the DLGF, the LaPorte County Auditor has proposed to use assessed values different from those certified by the County Assessor for the year 2006 payable 2007 to calculate property taxes for that year. The County Assessor has initiated legal action in an attempt to force the County Auditor to use the values originally certified. If the County Auditor proceeds with this plan, the City will experience a shortfall estimated to be approximately $2,800,000.

It is likely that the property tax issue will not be resolved until 2011. To offset the delay in tax collections, the City has authorized, and will continue to authorize, interfund loans.

C. Postemployment Benefits

In addition to the pension benefits described below, the District provides postemployment health benefits, as authorized by IC 5-10-8, to all employees who retire from the District on or after attaining 55 years of age 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 on December 21, 2004. The District has 11,562 customers.

E. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including 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 three percent 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.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole (and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds).

Actuarial Information for the Above Plan

	PERF
Annual required contribution	$ 664,279
Interest on net pension obligation	(2,190)
Adjustment to annual required contribution	2,496
Annual pension cost	664,585
Contributions made	725,229
Decrease in net pension obligation	(60,644)
Net pension obligation,	
Net pension obligation, beginning of year	(30,209)
Net pension obligation, end of year	$ (90,853)

	PERF
Contribution rates:	
District	8%
Plan members	3%
Actuarial valuation date	07-01-08
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	06-30-06	$ 675,643	84%	$ (48,563)
	06-30-07	636,355	97%	(30,209)
	06-30-08	664,585	109%	(90,853)

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%)
07-01-08	11,520,746	13,991,244	(2,470,498)	82%	9,007,020	(27%)

SANITARY DISTRICT
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2009, John J. Schaefer, Controller; Alan J. Walus, Sanitary District Manager; and Doretha Sanders, Administrative Director. Our examination disclosed no material items that warrant comment at this time.