

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

EXAMINATION REPORT
OF

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
LAPORTE COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
11/16/2012

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--|---|--|
| Controller | John J. Schaffer Yvonne Hoffmaster Donna Pappas | 01-01-11 to 12-31-11 01-01-12 to 01-31-12 02-01-12 to 12-31-12 |
| Mayor | Charles E. Oberlie Ron Meer | 01-01-08 to 12-31-11 01-01-12 to 12-31-15 |
| President of the Utility Board of Directors | Larry J. Jordan, III | 01-01-11 to 12-31-12 |
| Office Manager | Ronald Plamowski | 01-01-11 to 12-31-12 |
| Superintendent of Water Utility | Randall E. Russell | 01-01-11 to 12-31-12 |



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 DEPARTMENT OF WATER WORKS,
MICHIGAN CITY, LAPORTE COUNTY, INDIANA

We have examined the accompanying financial statements of the business-type activities of the Department of Water Works (Utility), a department of the Michigan City, as of and for the year ended December 31, 2011. The Utility'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 statements 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 Department of Water Works, Michigan City, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utility. They do not purport to, and do not, present fairly the financial position of the City of Michigan City as of December 31, 2011, 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 Department of Water Works, as of December 31, 2011, 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 Department of Water Works 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

August 7, 2012

WATER UTILITY
CITY OF MICHIGAN CITY
STATEMENT OF NET ASSETS
December 31, 2011

| | Water |
|---|---------------|
| <u>Assets</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,373,560 |
| Accounts receivable (net of allowance) | 463,555 |
| Inventories | 368,448 |
| Prepaid expense | 66,976 |
| Total current assets | 2,272,539 |
| Noncurrent assets: | |
| Restricted cash, cash equivalents and investments: | |
| Improvement cash and investments | 2,746,413 |
| Bond and interest cash and investments | 404,131 |
| Customer deposits cash and investments | 489,344 |
| Pension assets | 72,878 |
| Total restricted assets: | 3,712,766 |
| Deferred charges | 157,095 |
| Capital assets: | |
| Land, improvements to land and construction in progress | 301,977 |
| Other capital assets (net of accumulated depreciation) | 45,673,721 |
| Total capital assets | 45,975,698 |
| Total noncurrent assets | 49,845,559 |
| Total assets | 52,118,098 |
| <u>Liabilities</u> | |
| Current liabilities: | |
| Accounts payable | 135,086 |
| Accrued wages payable | 74,638 |
| Taxes payable | 21,318 |
| Unearned revenue | 21,884 |
| Current liabilities payable from restricted assets: | |
| Customer deposits | 489,097 |
| Revenue bonds payable | 830,000 |
| Loans payable | 40,000 |
| Accrued interest payable | 116,141 |
| Total current liabilities | 1,728,164 |
| Noncurrent liabilities: | |
| Revenue bonds payable (net of unamortized discounts and deferred amount on refunding) | 3,818,434 |
| Loans payable | 5,964,916 |
| Advances for construction | 48,525 |
| Total noncurrent liabilities | 9,831,875 |
| Total liabilities | 11,560,039 |
| <u>Net Assets</u> | |
| Invested in capital assets, net of related debt | 35,322,348 |
| Restricted for debt service | 404,068 |
| Restricted for capital outlay | 2,746,413 |
| Restricted for other purposes | 562,222 |
| Unrestricted | 1,523,008 |
| Total net assets | \$ 40,558,059 |

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

WATER CITY
CITY OF MICHIGAN CITY
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2011

| | Water |
|--|---------------|
| Operating revenues: | |
| Metered water revenue: | |
| Residential | \$ 3,410,042 |
| Industrial | 1,029,221 |
| Fire protection revenue | 1,153,607 |
| Penalties | 36,136 |
| Sales for resale | 368,155 |
| Other revenue | 244,973 |
| Total operating revenues | 6,242,134 |
| Operating expenses: | |
| Source of supply - operations and maintenance | 633,695 |
| Treatment expense - operations and maintenance | 793,310 |
| Transmission and distribution | 984,494 |
| Customer accounts | 334,012 |
| Administration and general | 933,470 |
| In lieu of tax | 441,844 |
| Gross income tax | 191,833 |
| Depreciation | 1,191,600 |
| Total operating expenses | 5,504,258 |
| Operating income | 737,876 |
| Nonoperating revenues (expenses): | |
| Interest and investment revenue | 48,150 |
| Amortization of bond issue costs | (53,367) |
| Interest expense | (360,661) |
| Total nonoperating revenues (expenses) | (365,878) |
| Income before contributions | 371,998 |
| Capital contributions | 120,187 |
| Change in net assets | 492,185 |
| Total net assets - beginning | 40,065,874 |
| Total net assets - ending | \$ 40,558,059 |

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

WATER CITY
CITY OF MICHIGAN CITY
STATEMENT OF CASH FLOWS
As Of And For The Year Ended December 31, 2011

| | Water |
|--|--------------|
| Cash flows from operating activities: | |
| Receipts from customers and users | \$ 5,531,034 |
| Payments to suppliers and contractors | (1,607,920) |
| Payments to employees | (2,334,667) |
| Interfund services provided | 781,137 |
| Interfund services used | (441,844) |
| Net cash provided by operating activities | 1,927,740 |
| Cash flows from capital and related financing activities: | |
| Capital contributions | 120,187 |
| Acquisition and construction of capital assets | (1,983,522) |
| Principal paid on capital debt | (800,000) |
| principal paid on state revolving fund loan | (40,000) |
| Interest paid on revenue bonds | (195,369) |
| Interest paid on state revolving fund loan | (175,013) |
| Refund on customer advances for construction | (651) |
| Net cash used by capital and related financing activities | (3,074,368) |
| Cash flows from investing activities: | |
| Interest received | 48,150 |
| Net increase in cash and cash equivalents | (1,098,478) |
| Cash and cash equivalents, January 1 | 6,111,926 |
| Cash and cash equivalents, December 31 | \$ 5,013,448 |
| Reconciliation of operating income to net cash provided (used) by operating activities: | |
| Operating income | \$ 737,876 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 1,191,600 |
| (Increase) decrease in assets: | |
| Accounts receivable | 61,207 |
| Prepaid items | (66,976) |
| Inventories | (41,486) |
| Pension assets | (18,752) |
| Increase (decrease) in liabilities: | |
| Accounts payable | 61,695 |
| Accrued wages payable | (7,027) |
| Taxes payable | 773 |
| Unearned revenue | 2,852 |
| Customer deposits | 5,978 |
| Total adjustments | 1,189,864 |
| Net cash provided by operating activities | \$ 1,927,740 |
| Noncash investing, capital and financing activities: | |
| Completed work in progress projects transferred to capital assets | \$ 1,514,635 |
| Capital assets purchase through accounts payable | 18,595 |

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

DEPARTMENT OF WATER WORKS
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 Utility Board of Directors, per Indiana Code 8-1.5-4-1.5(b), 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.

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

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

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.

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

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 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 historical 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 |
|-----------------------------------|-----------------------------|------------------------|--------------------------|
| Buildings | \$ 500 | Composite | 2% |
| Improvements other than buildings | 500 | Composite | 2% |
| Machinery and equipment | 500 | Composite | 2% |
| Transportation equipment | 500 | Composite | 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 8 hours 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.

DEPARTMENT OF WATER WORKS
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.

7. Restricted Net Assets

The financial statements report \$39,035,051 of restricted net assets, of which \$3,712,703 is restricted by enabling legislation.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utility does not have a deposit policy for custodial credit risk. At December 31, 2011, the Utility had deposit balances in the amount of \$5,013,488.

B. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|------------------|------------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 91,291 | \$ - | \$ - | \$ 91,291 |
| Construction in progress | 41,503 | 1,682,268 | 1,514,635 | 209,136 |
| Total capital assets, not being depreciated | <u>132,794</u> | <u>1,682,268</u> | <u>1,514,635</u> | <u>300,427</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 20,644,452 | 89,374 | - | 20,733,826 |
| Improvements other than buildings | 32,527,169 | 1,393,970 | 603,235 | 33,317,904 |
| Machinery and equipment | 6,416,995 | 347,096 | 78,707 | 6,685,384 |
| Totals | <u>59,588,616</u> | <u>1,830,440</u> | <u>681,942</u> | <u>60,737,114</u> |

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|---------------------|----------------------|
| Less accumulated depreciation for : | | | | |
| Buildings | 4,750,523 | 412,889 | - | 5,163,412 |
| Improvements other than buildings | 8,831,532 | 650,543 | 603,235 | 8,878,840 |
| Machinery and equipment | 971,680 | 128,168 | 78,707 | 1,021,141 |
| Totals | 14,553,735 | 1,191,600 | 681,942 | 15,063,393 |
| Total capital assets, being depreciated, net | 45,034,881 | 638,840 | - | 45,673,721 |
| Total capital assets, net | <u>\$ 45,167,675</u> | <u>\$ 2,321,108</u> | <u>\$ 1,514,635</u> | <u>\$ 45,974,148</u> |

Depreciation expense was charged to functions/programs of the Utility as follows:

Business-type activities:

 Water \$ 1,191,600

C. Construction Commitments

Construction work in progress is composed of the following:

| Project | Expended to December 31, 2011 | Committed |
|---|-------------------------------------|---------------------|
| Basin Equipment Replacement | \$ 66,063 | \$ 848,537 |
| Pahs Road Booster Station (VFD Project) | 137,014 | 134,124 |
| Indiana Dunes National Lakeshore Campground Project | 7,609 | 45,000 |
| Totals | \$ 210,686 | \$ 1,027,661 |

D. 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 | Balance at December 31 | Less: Deferral on Refunding | Revenue Bonds |
|---|-------------------|---------------------------|-----------------------------------|---------------------|
| 2004 Waterworks refunding revenue bonds | 3.5% to 3.75% | <u>\$ 4,800,000</u> | <u>\$ 151,566</u> | <u>\$ 4,648,434</u> |

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

| Year Ended December 31 | Principal | Interest |
|---------------------------|---------------------|-------------------|
| 2012 | 830,000 | \$ 167,106 |
| 2013 | 870,000 | 137,706 |
| 2014 | 905,000 | 106,794 |
| 2015 | 945,000 | 73,500 |
| 2016 | 970,000 | 37,781 |
| 2017 | <u>280,000</u> | <u>5,250</u> |
| Totals | <u>\$ 4,800,000</u> | <u>\$ 528,137</u> |

2. Loan Payable

The Utility has entered into a State Revolving Fund Loan. Annual debt service requirements to maturity for the loan, including Interest of \$1,402,417, are as follows:

| Year Ended December 31 | Principal | Interest |
|---------------------------|---------------------|---------------------|
| 2012 | \$ 40,000 | \$ 173,853 |
| 2013 | 30,000 | 172,765 |
| 2014 | 30,000 | 171,895 |
| 2015 | 25,000 | 171,098 |
| 2016 | 30,000 | 170,373 |
| 2017-2021 | 5,245,000 | 533,660 |
| 2022 | <u>604,916</u> | <u>8,771</u> |
| Totals | <u>\$ 6,004,916</u> | <u>\$ 1,402,415</u> |

3. Advance Refunding

In 2004, the Utility defeased revenue bonds of 1995, 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. The following outstanding bonds, at December 31, 2011, were considered defeased:

\$4,920,000

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|----------------------|-------------|------------------|---------------------|------------------------|
| Revenue bonds payable | \$ 5,600,000 | \$ - | \$ 800,000 | \$ 4,800,000 | \$ 830,000 |
| Less deferred amount on refunding | <u>180,901</u> | <u>-</u> | <u>29,335</u> | <u>151,566</u> | <u>-</u> |
| Total revenue bonds payable | 5,419,099 | - | 770,665 | 4,648,434 | 830,000 |
| Loan payable | 6,044,916 | - | 40,000 | 6,004,916 | 40,000 |
| Advances for construction | <u>49,176</u> | <u>-</u> | <u>651</u> | <u>48,525</u> | <u>-</u> |
| Total long-term liabilities | <u>\$ 5,995,740</u> | <u>\$ -</u> | <u>\$ 39,349</u> | <u>\$ 5,956,391</u> | <u>\$ 40,000</u> |

E. Restricted Assets

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

| | |
|--|---------------------|
| Improvement cash and investment | \$ 2,746,413 |
| Bond and interest cash and investments | 404,131 |
| Other - customer deposits cash and investments | \$ 489,344 |
| Other - pension obligation | <u>72,878</u> |
| Total restricted assets | <u>\$ 3,712,766</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, 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 (January 1, 2011 to April 30, 2011)

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 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

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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).

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.

Effective May 1, 2011 the Utility discontinued its participation in the risk financing fund of the City of Michigan City and purchased its own health insurance policy through the United Steelworkers Health and Welfare Fund. The Utility expenses the monthly premiums paid for this insurance.

B. Rate Structure

The current rate structure was approved by the Indiana Utility Regulatory Commission on March 31, 2004. The Utility has 12,612 customers.

C. 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 percent of the annual covered salary. The Utility is required to contribute at an actuarially determined rate. The current rate is 0 percent of the annual covered payroll. Employer and employee contributions to the plan were \$0.00 and \$51,228, respectively.

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

| | | |
|--|----|------------------------|
| Annual required contribution | \$ | - |
| Interest on net pension obligation | | (4,429) |
| Adjustment to annual required contribution | | <u>5,364</u> |
| | | |
| Decrease in net pension obligation | | 935 |
| Net pension obligation, beginning of year | | <u>(73,813)</u> |
| | | |
| Net pension obligation, end of year | \$ | <u><u>(72,878)</u></u> |
| | | |
| Contribution rates: | | |
| Utility | | 0% |
| Plan members | | 3% |
| Actuarial valuation date | | 01-01-12 |
| Actuarial cost method | | Entry age normal cost |
| Amortization method | | Ten year level funding |
| Amortization period | | 30 years |

Actuarial Assumptions

| | | |
|------------------------------------|--|-------|
| Investment rate of return | | 6.00% |
| Projected future salary increases: | | 4.00% |

Three Year Trend Information

| Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------|---------------------------|-------------------------------|------------------------|
| 12-31-09 | \$ 68,217 | 0.0% | \$ (74,760) |
| 12-31-10 | 947 | 0.0% | (73,813) |
| 12-31-11 | 935 | 0.0% | (72,878) |

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Assets Over Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------------|--|---|---|--------------------------|---------------------------|--|
| 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% |
| 01-01-09 | 7,534,128 | 6,175,000 | 1,359,128 | 122% | 1,687,915 | 81% |
| 01-01-10 | 8,601,372 | 6,560,416 | 2,040,956 | 131% | 1,728,340 | 118% |
| 01-01-11 | 9,243,455 | 6,113,433 | 3,130,022 | 151% | 1,819,252 | 172% |

The Schedule of Funding Progress, presented as RSI for the above plans following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

DEPARTMENT OF WATER WORKS
MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on August 7, 2012, with Randall E. Russell, Superintendent of Water Utility, and Ron Plamowski, Office Manager. Our examination disclosed no material items that warrant comment at this time.

The contents of this report were also discussed on August 20, 2012, with John J. Schaefer, former City Controller, Yvonne Hoffmaster, former City Controller; Donna Pappas, City Controller; and Marc Espar, President of the Common Council.