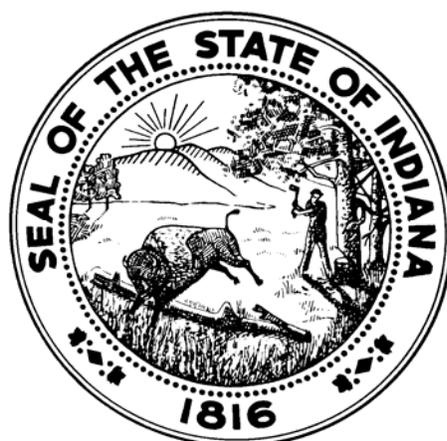


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
ELKHART COUNTY, INDIANA



FILED
10/12/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kimberly A. Ingle	01-01-04 to 12-31-07
Mayor	Larry L. Thompson	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Larry L. Thompson	01-01-04 to 12-31-07
President of the Common Council	Larry L. Thompson	01-01-04 to 12-31-07
Superintendent of the Water Utility	Gale Gerber	01-01-05 to 12-31-06
Superintendent of the Wastewater Utility	Philip D. Hochstetler Gale Gerber	01-01-05 to 12-31-05 01-01-06 to 12-31-06



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF NAPPANEE, ELKHART COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, departments of the City of Nappanee, as of and for the year ended December 31, 2005. 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 audit.

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

As discussed in Note I, the financial statements of the Water and Wastewater Utilities, City of Nappanee, 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 Utilities. They do not purport to, and do not, present fairly the financial position of the City of Nappanee as of December 31, 2005, 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 Water and Wastewater Utilities, as of December 31, 2005, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

August 31, 2006

CITY OF NAPPANEE UTILITIES
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>
Current assets:		
Cash and cash equivalents	\$ 338,711	\$ 1,742,564
Interest receivable	1,186	3,138
Accounts receivable (net of allowance)	60,668	71,350
Accounts receivable - other	142	-
Interfund receivables:		
Interfund services provided and used	3,430	-
Inventories	38,579	-
Prepaid items	<u>9,284</u>	<u>12,815</u>
 Total current assets	 <u>452,000</u>	 <u>1,829,867</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	22,219	188,592
Bond and interest cash and investments	315,595	9,553
Construction cash and investments	37,955	-
Improvement cash and investments	<u>201,774</u>	<u>171,822</u>
 Total restricted assets:	 <u>577,543</u>	 <u>369,967</u>
 Deferred charges	 <u>35,939</u>	 <u>-</u>
Capital assets:		
Land and construction in progress	858,822	386,731
Other capital assets (net of accumulated depreciation)	<u>5,092,856</u>	<u>6,674,834</u>
 Total capital assets	 <u>5,951,678</u>	 <u>7,061,565</u>
 Total noncurrent assets	 <u>6,565,160</u>	 <u>7,431,532</u>
 Total assets	 <u>7,017,160</u>	 <u>9,261,399</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	73,559	85,581
Accrued payroll and withholdings payable	13,756	8,136
Interfund payables:		
Interfund services provided and used	-	3,430
Taxes payable	3,418	-
Current liabilities payable from restricted assets:		
Revenue bonds payable	125,000	-
Accrued interest payable	<u>14,825</u>	<u>-</u>
 Total current liabilities	 <u>230,558</u>	 <u>97,147</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	<u>1,213,171</u>	<u>-</u>
 Total liabilities	 <u>1,443,729</u>	 <u>97,147</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	4,613,507	7,061,565
Restricted for debt service	315,595	-
Unrestricted	<u>644,329</u>	<u>2,102,687</u>
 Total net assets	 <u>\$ 5,573,431</u>	 <u>\$ 9,164,252</u>

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

CITY OF NAPPANEE UTILITIES
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 453,175	\$ -
Commercial	130,865	-
Industrial	62,313	-
Fire protection revenue	272,147	-
Penalties	4,899	11,222
Other water revenue	45,002	-
Measured wastewater revenue:	-	709,079
Other wastewater revenue	-	<u>2,272</u>
Total operating revenues	<u>968,401</u>	<u>722,573</u>
Operating expenses:		
Source of supply and expense/collection system expense - operations and maintenance	87,624	89,444
Transmission and distribution/pumping expense - operations and maintenance	56,188	148,145
Treatment and disposal expense - operations and maintenance	32,613	215,514
Customer accounts expense	56,463	49,587
Administrative and general expense	108,655	108,501
Gross income tax	11,712	-
Depreciation	85,313	138,046
Operations and maintenance	<u>133,504</u>	-
Total operating expenses	<u>572,072</u>	<u>749,237</u>
Operating income (loss)	<u>396,329</u>	<u>(26,664)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	22,089	54,334
Amortization of bond issue costs	(5,568)	-
Interest expense	<u>(65,404)</u>	-
Total nonoperating revenues (expenses)	<u>(48,883)</u>	<u>54,334</u>
Income before contributions	347,446	27,670
Capital contributions	<u>102,955</u>	<u>77,900</u>
Change in net assets	450,401	105,570
Total net assets - beginning	<u>5,123,030</u>	<u>9,058,682</u>
Total net assets - ending	<u>\$ 5,573,431</u>	<u>\$ 9,164,252</u>

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

CITY OF NAPPANEE UTILITIES
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 967,251	\$ 745,213
Payments to suppliers and contractors	(197,864)	(331,440)
Payments to employees	(255,747)	(266,498)
Interfund services provided (used)	<u>750</u>	<u>(750)</u>
Net cash provided by operating activities	<u>514,390</u>	<u>146,525</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(474,603)	(206,770)
Principal paid on capital debt	(125,000)	-
Interest paid on capital debt	<u>(61,468)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(661,071)</u>	<u>(206,770)</u>
Cash flows from investing activities:		
Interest received	<u>21,146</u>	<u>51,919</u>
Net cash provided by investing activities	<u>21,146</u>	<u>51,919</u>
Net decrease in cash and cash equivalents	(125,535)	(8,326)
Cash and cash equivalents, January 1	<u>1,041,789</u>	<u>2,120,857</u>
Cash and cash equivalents, December 31	<u>\$ 916,254</u>	<u>\$ 2,112,531</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 396,329	\$ (26,664)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	85,313	138,046
(Increase) decrease in assets:		
Accounts receivable	(1,150)	22,640
Interfund services provided or used	750	(750)
Cylinder deposit	800	2,100
Inventories	(12,207)	-
Prepaid items	(230)	(1,192)
Increase (decrease) in liabilities:		
Accounts payable	40,606	10,359
Wages payables	3,995	1,986
Taxes payable	<u>184</u>	<u>-</u>
Total adjustments	<u>118,061</u>	<u>173,189</u>
Net cash provided by operating activities	<u>\$ 514,390</u>	<u>\$ 146,525</u>
Noncash capital and financing activities:		
Contributions of capital assets	\$ 102,955	\$ 77,900
Purchase of equipment on account	-	67,257

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

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Nappanee (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, 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 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 Utilities 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.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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 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 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>
Buildings	\$ 5,000	Composite	66 years
Improvements other than buildings	5,000	Composite	66 years
Machinery and equipment	5,000	Composite	66 years
Transportation equipment	5,000	Composite	66 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

5. Compensated Absences

- a. Sick Leave – Employees earn sick leave at the rate of 30 days per year. Sick leave does not accumulate from year to year.

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

- b. Vacation Leave – Employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Employees earn personal leave at the end of the calendar year at the rate of 1 day for each 10 days of unused sick leave. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick, and personal 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 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, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, not being depreciated:				
Water Utility:				
Land	\$ 218,830	\$ -	\$ -	\$ 218,830
Construction in progress	286,433	353,559	-	639,992
Wastewater Utility:				
Land	22,787	-	-	22,787
Construction in progress	<u>137,147</u>	<u>226,797</u>	-	<u>363,944</u>
				-
Total capital assets, not being depreciated	<u>665,197</u>	<u>580,356</u>	-	<u>1,245,553</u>

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Water Utility:				
Buildings	1,393,666	56,622	15,000	1,435,288
Improvements other than buildings	3,925,979	117,293	-	4,043,272
Machinery and equipment	86,725	42,584	-	129,309
Transportation equipment	72,180	7,500	-	79,680
Total Water Utility	5,478,550	223,999	15,000	5,687,549
Wastewater Utility:				
Buildings	2,575,250	-	-	2,575,250
Improvements other than buildings	6,243,876	120,073	-	6,363,949
Machinery and equipment	128,387	5,057	-	133,444
Transportation equipment	130,422	-	-	130,422
Total Wastewater Utility	9,077,935	125,130	-	9,203,065
Less accumulated depreciation for:				
Water Utility:				
Buildings	135,710	21,529	15,000	142,239
Improvements other than buildings	373,197	60,649	-	433,846
Machinery and equipment	8,445	1,940	-	10,385
Transportation equipment	7,028	1,195	-	8,223
Total Water Utility	524,380	85,313	15,000	594,693
Wastewater Utility:				
Buildings	681,491	38,629	-	720,120
Improvements other than buildings	1,642,094	95,459	-	1,737,553
Machinery and equipment	31,892	2,002	-	33,894
Transportation equipment	34,708	1,956	-	36,664
Total Wastewater Utility	2,390,185	138,046	-	2,528,231
Total Water capital assets, being depreciated, net	4,954,170	138,686	-	5,092,856
Total Wastewater capital assets, being depreciated, net	6,687,750	(12,916)	-	6,674,834
Total capital assets, net	\$ 12,307,117	\$ 706,126	\$ -	\$ 13,013,243

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

Water	\$ 85,313
Wastewater	138,046
Total depreciation expense	\$ 223,359

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Water Utility:				
Apple Orchard Subdivision	\$ 125,000	\$ 27,185	\$ 97,815	\$ -
Disinfection Facility CL2/Chlorine Change Out	217,000	175,940	41,060	-
Reed Street/Indiana Avenue	470,000	428,396	41,604	-
Vulnerability Assessment	<u>8,471</u>	<u>8,471</u>	<u>-</u>	<u>-</u>
Total Water Utility	<u>820,471</u>	<u>639,992</u>	<u>180,479</u>	<u>-</u>
Wastewater Utility:				
Apple Orchard Subdivision	125,000	7,770	117,230	-
Combined Sewer Overflow - Phase 1	148,000	136,278	11,722	-
Disinfection Facility CL2/Chlorine Change Out	80,000	22,573	57,427	-
Reed Street/Indiana Avenue	200,000	195,073	4,927	-
Stump Property	<u>275,000</u>	<u>2,250</u>	<u>272,750</u>	<u>-</u>
Total Wastewater Utility	<u>828,000</u>	<u>363,944</u>	<u>464,056</u>	<u>-</u>
Totals	<u>\$ 1,648,471</u>	<u>\$ 1,003,936</u>	<u>\$ 644,535</u>	<u>\$ -</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
Water Utility	Wastewater Utility	<u>\$ 3,430</u>

Interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur.

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Leases

Operating Leases

The Water Utility has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for office equipment and office space. Rental expenditures for these leases were \$3,000 and \$816, respectively. The following is a schedule by years of future minimum rental payments as of December 31, 2005:

2006	\$ 3,816
2007	3,816
2008	3,816
2009	<u>3,000</u>
Total	<u>\$ 14,448</u>

F. Long-Term Liabilities

1. Revenue Bonds

The Water 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: Unamortized Discount	Less: Unamortized Loss on Refunding	Revenue Bonds
1999 Waterworks additions and improvements	4.80% to 5.15%	\$ 760,000	\$ 6,068	\$ -	\$ 753,932
2003 Waterworks refunding	3.39%	<u>605,000</u>	<u>-</u>	<u>20,761</u>	<u>584,239</u>
Totals		<u>\$ 1,365,000</u>	<u>\$ 6,068</u>	<u>\$ 20,761</u>	<u>\$ 1,338,171</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2006	\$ 125,000	\$ 57,112
2007	130,000	52,606
2008	135,000	47,873
2009	140,000	42,956
2010	150,000	37,742
2011-2014	<u>685,000</u>	<u>72,362</u>
Totals	<u>\$ 1,365,000</u>	<u>\$ 310,651</u>

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Utility:					
Revenue bonds payable	<u>\$ 1,490,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 1,365,000</u>	<u>\$ 125,000</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; 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.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on August 30, 2003. The Utility has 2,426 customers.

2. Wastewater Utility

The current rate structure was approved by the Utility on August 18, 1997. The Utility has 2,353 customers.

C. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plan

Plan Description

The City, including the Utility, 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 Utility authority to contribute

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Utility'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 not presented as an asset/liability of the proprietary funds

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 84,496
Interest on net pension obligation	(5,946)
Adjustment to annual required contribution	6,776
Annual pension cost	85,326
Contributions made	90,120
Decrease in net pension obligation	(4,794)
Net pension obligation, beginning of year	(82,015)
Net pension obligation, end of year	\$ (86,809)

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
Utilities	6.5%
Plan members	3%
Actuarial valuation date	07-01-05
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	06-30-03	\$ 70,885	113%	\$ (61,468)
	06-30-04	68,410	130%	(82,015)
	06-30-05	85,326	132%	(86,809)

CITY OF NAPPANEE UTILITIES
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Pension Plan

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)
07-01-03	\$ 1,061,894	\$ 1,157,595	\$ (95,701)	92%	\$ 1,320,770	(7%)
07-01-04	1,105,213	1,326,626	(221,413)	83%	1,429,382	(15%)
07-01-05	1,176,654	1,571,230	(394,576)	75%	1,616,110	(24%)

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on September 5, 2006, with Kimberly A. Ingle, Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.