

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

ANNUAL FINANCIAL REPORT

2006

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
ELKHART COUNTY, INDIANA



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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 and Wastewater Utilities	Gale Gerber	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2006. 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, 2006, 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, 2006, 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

April 3, 2007

CITY OF NAPPANEE
STATEMENT OF NET ASSETS
December 31, 2006

<u>Assets</u>	<u>Water</u>	<u>Wastewater</u>
Current assets:		
Cash and cash equivalents	\$ 376,722	\$ 1,695,597
Interest receivable	3,895	7,053
Accounts receivable (net of allowance)	12,846	12,236
Interfund receivables:		
Interfund services provided and used	7,443	1,493
Inventories	34,704	-
Prepaid items	9,284	12,815
Cylinder deposits	-	4,850
	<u>444,894</u>	<u>1,734,044</u>
Total current assets		
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	23,035	217,482
Bond and interest cash and investments	327,539	9,670
Construction cash and investments	39,307	-
Stormwater cash and investments	-	98,839
Improvement cash and investments	263,781	121,180
	<u>653,662</u>	<u>447,171</u>
Total restricted assets		
Deferred charges	30,372	-
	<u>30,372</u>	<u>-</u>
Capital assets:		
Land, improvements to land and construction in progress	458,050	248,405
Other capital assets (net of accumulated depreciation)	5,581,016	6,979,189
	<u>6,039,066</u>	<u>7,227,594</u>
Total capital assets		
Total noncurrent assets		
	<u>6,723,100</u>	<u>7,674,765</u>
Total assets		
	<u>7,167,994</u>	<u>9,408,809</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	14,393	14,492
Interfund payables:		
Interfund services provided and used	1,493	7,443
Accrued payroll and withholdings payable	7,039	9,932
Taxes payable	3,503	-
Current liabilities payable from restricted assets:		
Revenue bonds payable	130,000	-
Accrued interest payable	13,731	-
	<u>170,159</u>	<u>31,867</u>
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	1,088,214	-
	<u>1,088,214</u>	<u>-</u>
Total liabilities		
	<u>1,258,373</u>	<u>31,867</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,799,066	7,227,594
Restricted for debt service	327,539	-
Unrestricted	783,016	2,149,348
	<u>5,909,621</u>	<u>9,376,942</u>
Total net assets		
	<u>\$ 5,909,621</u>	<u>\$ 9,376,942</u>

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

CITY OF NAPPANEE
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2006

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 424,141	\$ -
Commercial	112,257	-
Industrial	57,859	-
Fire protection revenue	247,500	-
Penalties	5,288	13,467
Measured revenue:		
Wastewater	-	641,334
Stormwater	-	86,506
Other revenue	<u>53,459</u>	<u>34,717</u>
Total operating revenues	<u>900,504</u>	<u>776,024</u>
Operating expenses:		
Source of supply/collection system and expense - operations and maintenance	102,140	106,042
Transmission and distribution/pumping expense - operations and maintenance	105,479	190,171
Treatment and disposal expense - operations and maintenance	56,827	221,659
Customer accounts expense	57,257	40,135
Administration and general expense	108,407	150,277
Gross income tax	11,619	-
Depreciation	94,044	144,745
Stormwater	-	8,932
Operations and maintenance	<u>132,851</u>	<u>-</u>
Total operating expenses	<u>668,624</u>	<u>861,961</u>
Operating income (loss)	<u>231,880</u>	<u>(85,937)</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	39,430	100,163
Amortization of bond issue costs	(10,610)	-
Interest expense	(56,004)	-
Loss on sale of capital assets	<u>(1,382)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(28,566)</u>	<u>100,163</u>
Income before contributions and transfers	203,314	14,226
Capital contributions	<u>132,876</u>	<u>180,348</u>
Change in net assets	336,190	194,574
Total net assets - beginning	<u>5,573,431</u>	<u>9,182,368</u>
Total net assets - ending	<u>\$ 5,909,621</u>	<u>\$ 9,376,942</u>

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

CITY OF NAPPANEE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2006

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 948,468	\$ 836,137
Payments to suppliers and contractors	(401,474)	(390,825)
Payments to employees	(235,029)	(333,748)
Interfund services provided (used)	<u>(2,520)</u>	<u>2,520</u>
Net cash provided by operating activities	<u>309,445</u>	<u>114,084</u>
Cash flows from capital and related financing activities:		
Capital contributions	132,876	180,348
Acquisition and construction of capital assets	(182,814)	(377,560)
Principal paid on capital debt	(125,000)	-
Interest paid on capital debt	<u>(57,098)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(232,036)</u>	<u>(197,212)</u>
Cash flows from investing activities:		
Interest received	<u>36,721</u>	<u>96,248</u>
Net increase in cash and cash equivalents	114,130	13,120
Cash and cash equivalents, January 1	<u>916,254</u>	<u>2,129,648</u>
Cash and cash equivalents, December 31	<u>\$ 1,030,384</u>	<u>\$ 2,142,768</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 231,880	\$ (85,937)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	94,044	144,745
(Increase) decrease in assets:		
Accounts receivable	47,964	60,113
Interfund services provided or used	(4,013)	(1,493)
Cylinder deposits	-	(4,850)
Inventories	3,875	-
Increase (decrease) in liabilities:		
Accounts payable	(59,166)	(4,303)
Interfund payables	1,493	4,013
Accrued wages payable	(6,717)	1,796
Taxes payable	<u>85</u>	<u>-</u>
Total adjustments	<u>77,565</u>	<u>200,021</u>
Net cash provided by operating activities	<u>\$ 309,445</u>	<u>\$ 114,084</u>
Noncash investing, capital and financing activities:		
Purchase of equipment on account	\$ -	\$ 471
Capital asset trade-ins	1,382	2,500

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, represent 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 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.

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

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

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
Improvement 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.
- 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.

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

- 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 earned may be taken in the succeeding calendar year, but 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, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 218,830	\$ -	\$ -	\$ 218,830
Construction in progress	<u>679,277</u>	<u>55,342</u>	<u>495,399</u>	<u>239,220</u>
 Total capital assets, not being depreciated	 <u>898,107</u>	 <u>55,342</u>	 <u>495,399</u>	 <u>458,050</u>
Capital assets, being depreciated:				
Buildings	1,435,288	-	-	1,435,288
Improvements other than buildings	4,013,208	622,872	1,382	4,634,698
Machinery and equipment	120,088	-	-	120,088
Transportation equipment	<u>79,680</u>	<u>-</u>	<u>-</u>	<u>79,680</u>
 Totals	 <u>5,648,264</u>	 <u>622,872</u>	 <u>1,382</u>	 <u>6,269,754</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Buildings	142,239	21,529	-	163,768
Improvements other than buildings	433,846	69,520	-	503,366
Machinery and equipment	10,385	1,801	-	12,186
Transportation equipment	8,224	1,194	-	9,418
	<u>594,694</u>	<u>94,044</u>	<u>-</u>	<u>688,738</u>
Totals				
Total capital assets, being depreciated, net	<u>5,053,570</u>	<u>528,828</u>	<u>1,382</u>	<u>5,581,016</u>
Total capital assets, net	<u>\$ 5,951,677</u>	<u>\$ 584,170</u>	<u>\$ 496,781</u>	<u>\$ 6,039,066</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 22,787	\$ -	\$ -	\$ 22,787
Construction in progress	363,944	129,680	268,006	225,618
	<u>386,731</u>	<u>129,680</u>	<u>268,006</u>	<u>248,405</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	2,575,250	-	-	2,575,250
Improvements other than buildings	6,363,949	449,100	2,500	6,810,549
Machinery and equipment	133,444	-	-	133,444
Transportation equipment	130,422	-	-	130,422
	<u>9,203,065</u>	<u>449,100</u>	<u>2,500</u>	<u>9,649,665</u>
Totals				
Less accumulated depreciation for:				
Buildings	720,120	38,629	-	758,749
Improvements other than buildings	1,737,553	102,158	2,500	1,837,211
Machinery and equipment	33,894	2,002	-	35,896
Transportation equipment	36,664	1,956	-	38,620
	<u>2,528,231</u>	<u>144,745</u>	<u>2,500</u>	<u>2,670,476</u>
Totals				
Total capital assets, being depreciated, net	<u>6,674,834</u>	<u>304,355</u>	<u>-</u>	<u>6,979,189</u>
Total capital assets, net	<u>\$ 7,061,565</u>	<u>\$ 434,035</u>	<u>\$ 268,006</u>	<u>\$ 7,227,594</u>

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

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

Water	\$	94,044
Wastewater		<u>144,745</u>
 Total depreciation expense	 \$	 <u><u>238,789</u></u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2006	Committed	Required Future Funding
Water Utility:				
Disinfection facility CL2/Chlorine change out	\$ 217,000	\$ 175,940	\$ 41,060	\$ -
Vulnerability assessment	8,471	8,471	-	-
Miriam water	<u>55,000</u>	<u>54,809</u>	<u>191</u>	<u>-</u>
 Total Water Utility	 <u>280,471</u>	 <u>239,220</u>	 <u>41,251</u>	 <u>-</u>
Wastewater Utility:				
Disinfection facility CL2/Chlorine change out	80,000	22,573	57,427	-
Combined sewer overflow	264,579	149,592	114,987	-
Stump property	3,175	3,175	-	-
Jackson lift station	<u>51,000</u>	<u>50,278</u>	<u>722</u>	<u>-</u>
 Total Wastewater Utility	 <u>398,754</u>	 <u>225,618</u>	 <u>173,136</u>	 <u>-</u>
 Totals	 <u><u>\$ 679,225</u></u>	 <u><u>\$ 464,838</u></u>	 <u><u>\$ 214,387</u></u>	 <u><u>\$ -</u></u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2006, is as follows:

Due To	Due From	Total
Water Utility	Wastewater Utility	\$ 7,443
Wastewater Utility	Water Utility	<u>1,493</u>
 Total		 <u><u>\$ 8,936</u></u>

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

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 \$1,020, respectively. The following is a schedule by years of future minimum rental payments as of December 31, 2006:

	2007	\$	3,612
	2008		3,816
	2009		<u>3,000</u>
	Total	\$	<u>10,428</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	Amount
1999 Waterworks additions and improvements	4.80% to 5.15 %	\$ 744,823
2003 Waterworks refunding	3.39%	<u>473,391</u>
Total		<u>\$ 1,218,214</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2007	\$ 130,000	\$ 52,606
2008	135,000	47,873
2009	140,000	42,956
2010	150,000	37,742
2011	160,000	30,948
2012-2014	<u>525,000</u>	<u>41,414</u>
Totals	<u>\$ 1,240,000</u>	<u>\$ 253,539</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, 2006, 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	\$ 1,365,000	\$ -	\$ 125,000	\$ 1,240,000	\$ 130,000
Less deferred amount on discount and refunding	<u>26,829</u>	<u>-</u>	<u>5,043</u>	<u>21,786</u>	<u>5,043</u>
Total long-term liabilities	<u>\$ 1,338,171</u>	<u>\$ -</u>	<u>\$ 119,957</u>	<u>\$ 1,218,214</u>	<u>\$ 124,957</u>

G. Restatements

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Wastewater Utility. The adjustment below represents funds misclassified in prior audit.

<u>Balance as Reported December 31, 2005</u>	<u>Fund Reclassification</u>	<u>Balance as Restated January 1, 2006</u>
<u>\$ 9,164,252</u>	<u>\$ 18,116</u>	<u>\$ 9,182,368</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 2,421 customers.

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

2. Wastewater Utility

The current rate structure was approved by the Utility on August 18, 1997. The Utility has 2,375 customers.

C. Pension Plan

Agent Multiple-Employer Defined Benefit Pension Plans

Plan Description

The City, including the Utilities, 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 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 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 presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

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

Actuarial Information for the Above Plan

Annual required contribution	\$	84,496
Interest on net pension obligation		(5,946)
Adjustment to annual required contribution		<u>6,776</u>
Annual pension cost		85,326
Contributions made		<u>90,120</u>
Decrease in net pension obligation		(4,794)
Net pension obligation, beginning of year		<u>(82,015)</u>
Net pension obligation, end of year	\$	<u><u>(86,809)</u></u>
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		75% of expected actuarial value plus 25% of market value

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
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
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund 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 April 3, 2007, with Kimberly A. Ingle, Clerk-Treasurer; and Larry L. Thompson, Mayor. Our audit disclosed no material items that warrant comment at this time.