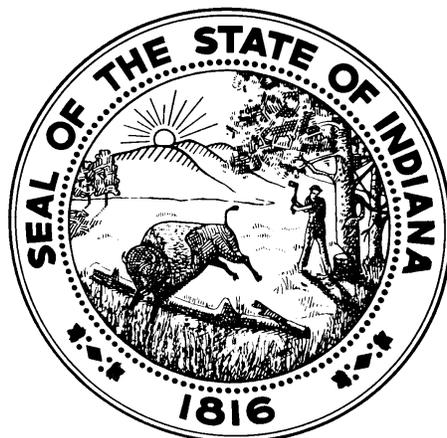


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
ELKHART COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
11/06/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kimberly A. Ingle	01-01-08 to 12-31-11
Mayor	Larry L. Thompson	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Larry L. Thompson	01-01-08 to 12-31-11
President of the Common Council	Larry L. Thompson	01-01-08 to 12-31-11
Superintendent of the Water and Wastewater Utilities	Gale Gerber	01-01-08 to 12-31-09



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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined 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, 2008. The Utilities' 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 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, 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 Water and Wastewater Utility, 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 Water and Wastewater Utilities have 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

October 7, 2009

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
STATEMENT OF NET ASSETS
December 31, 2008

	<u>Water</u>	<u>Wastewater</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 611,476	\$ 1,298,328
Interest receivable	1,628	1,583
Accounts receivable (net of allowance)	19,125	16,864
Interfund receivables	4,248	1,738
Inventories	39,884	-
Prepaid items	9,284	12,815
Cylinder deposits	-	1,150
	<u>685,645</u>	<u>1,332,478</u>
Total current assets		
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	24,801	118,121
Bond and interest cash and investments	287,178	9,903
Construction cash and investments	42,204	-
Improvement cash and investments	675,538	149,710
Stormwater cash and investments	-	194,869
	<u>1,029,721</u>	<u>472,603</u>
Total restricted assets		
Deferred charges	19,702	-
	<u>19,702</u>	<u>-</u>
Capital assets:		
Land, improvements to land and construction in progress	257,274	805,616
Other capital assets (net of accumulated depreciation)	5,696,475	6,962,381
	<u>5,953,749</u>	<u>7,767,997</u>
Total capital assets		
Total noncurrent assets	<u>7,003,172</u>	<u>8,240,600</u>
Total assets	<u>7,688,817</u>	<u>9,573,078</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	23,801	10,439
Interfund payables	1,738	4,248
Taxes payable	4,359	-
Accrued payroll and withholdings payable	12,125	14,439
Current liabilities payable from restricted assets:		
Revenue bonds payable	140,000	-
Accrued interest payable	11,364	-
	<u>193,387</u>	<u>29,126</u>
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	823,021	-
	<u>823,021</u>	<u>-</u>
Total liabilities		
	<u>1,016,408</u>	<u>29,126</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,978,749	7,767,997
Restricted for debt service	287,178	-
Unrestricted	1,406,482	1,775,955
	<u>6,672,409</u>	<u>9,543,952</u>
Total net assets	<u>\$ 6,672,409</u>	<u>\$ 9,543,952</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2008

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 492,563	\$ -
Commercial	115,391	-
Industrial	49,833	-
Measured revenue:		
Wastewater	-	707,942
Stormwater	-	85,556
Penalties	5,313	13,493
Fire protection revenue	286,848	-
Other revenue	<u>45,477</u>	<u>13,807</u>
 Total operating revenues	 <u>995,425</u>	 <u>820,798</u>
 Operating expenses:		
Source of supply/collection system - operations and maintenance	77,607	-
Transmission and distribution/pumping - operations and maintenance	83,031	-
Treatment and disposal - operations and maintenance	43,821	-
Collection	-	111,923
Plant	-	366,477
Customer accounts	42,017	40,527
Administration and general	210,176	236,118
Operations and maintenance	119,670	-
Gross income tax	12,197	-
Stormwater	-	48,773
Depreciation	<u>97,605</u>	<u>146,162</u>
 Total operating expenses	 <u>686,124</u>	 <u>949,980</u>
 Operating income (loss)	 <u>309,301</u>	 <u>(129,182)</u>
 Nonoperating revenues (expenses):		
Interest and investment revenue	35,164	51,607
Amortization of bond issue costs	(10,100)	-
Interest expense	(46,595)	-
Other nonoperating revenue	<u>20,095</u>	<u>32,521</u>
 Total nonoperating revenues (expenses)	 <u>(1,436)</u>	 <u>84,128</u>
 Change in net assets	 307,865	 (45,054)
Total net assets - beginning	<u>6,364,544</u>	<u>9,589,006</u>
Total net assets - ending	<u>\$ 6,672,409</u>	<u>\$ 9,543,952</u>

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

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2008

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 991,725	\$ 817,917
Payments to suppliers and contractors	(311,057)	(482,639)
Payments to employees	(262,133)	(328,341)
Interfund services provided (used)	<u>2,471</u>	<u>(2,471)</u>
Net cash provided by operating activities	<u>421,006</u>	<u>4,466</u>
Cash flows from capital and related financing activities:		
Proceeds from settlements	20,095	32,521
Acquisition and construction of capital assets	(37,428)	(410,823)
Principal paid on capital debt	(135,000)	-
Interest paid on capital debt	<u>(47,803)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(200,136)</u>	<u>(378,302)</u>
Cash flows from investing activities:		
Interest received	<u>39,831</u>	<u>60,177</u>
Net increase in cash and cash equivalents	260,701	(313,659)
Cash and cash equivalents, January 1	<u>1,380,496</u>	<u>2,084,590</u>
Cash and cash equivalents, December 31	<u>\$ 1,641,197</u>	<u>\$ 1,770,931</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	<u>\$ 309,301</u>	<u>\$ (129,182)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	97,605	146,162
(Increase) decrease in assets:		
Accounts receivable	(3,700)	(2,881)
Interfund services provided or used	2,331	(140)
Cylinder deposits	-	1,350
Inventories	(1,468)	-
Increase (decrease) in liabilities:		
Accounts payable	18,055	2,532
Interfund payables	140	(2,331)
Contracts payable	(4,520)	(13,450)
Accrued wages payable	2,178	2,406
Taxes payable	<u>1,084</u>	<u>-</u>
Total adjustments	<u>111,705</u>	<u>133,648</u>
Net cash provided by operating activities	<u>\$ 421,006</u>	<u>\$ 4,466</u>
Noncash investing, capital and financing activities:		
Completed work in progress projects transferred to capital assets	\$ 65,902	\$ 177,079
Transfer of capital assets between categories	-	61,348

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 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 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 Utilities' 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
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 – Utilities employees earn sick leave at the rate of 30 days per year. Sick leave does not accumulate from year to year.
- b. Vacation Leave – Utilities 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 or year.

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

- c. Personal Leave – Utilities employees earn personal leave at the rate of 1 day per 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 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:

	<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>87,608</u>	<u>16,738</u>	<u>65,902</u>	<u>38,444</u>
Total capital assets, not being depreciated	<u>306,438</u>	<u>16,738</u>	<u>65,902</u>	<u>257,274</u>
Capital assets, being depreciated:				
Buildings	1,611,228	8,471	-	1,619,699
Improvements other than buildings	4,634,698	57,431	-	4,692,129
Machinery and equipment*	120,088	-	-	120,088
Transportation equipment	<u>144,948</u>	<u>-</u>	<u>-</u>	<u>144,948</u>
Totals	<u>6,510,962</u>	<u>65,902</u>	<u>-</u>	<u>6,576,864</u>

*Adjusted for correction from 2007 of \$4,000 for a decrease in both the asset and accumulated depreciation.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility (continued):				
Less accumulated depreciation for*:				
Buildings	185,298	24,168	-	209,466
Improvements other than buildings	572,886	69,522	-	642,408
Machinery and equipment*	13,987	1,741	-	15,728
Transportation equipment	10,613	2,174	-	12,787
Totals	<u>782,784</u>	<u>97,605</u>	<u>-</u>	<u>880,389</u>
Total capital assets, being depreciated, net	<u>5,728,178</u>	<u>(31,703)</u>	<u>-</u>	<u>5,696,475</u>
Total capital assets, net	<u>\$ 6,034,616</u>	<u>\$ (14,965)</u>	<u>\$ 65,902</u>	<u>\$ 5,953,749</u>

*Adjusted for correction from 2007 of \$4,000 for a decrease in both the asset and accumulated depreciation.

Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 22,787	\$ -	\$ -	\$ 22,787
Construction in progress	640,190	319,718	177,079	782,829
Total capital assets, not being depreciated	<u>662,977</u>	<u>319,718</u>	<u>177,079</u>	<u>805,616</u>
Capital assets, being depreciated:				
Buildings	2,636,598	-	61,348	2,575,250
Improvements other than buildings	6,859,390	238,427	-	7,097,817
Machinery and equipment	133,444	-	-	133,444
Transportation equipment	114,650	-	-	114,650
Totals	<u>9,744,082</u>	<u>238,427</u>	<u>61,348</u>	<u>9,921,161</u>
Less accumulated depreciation for:				
Buildings	797,378	39,548	-	836,926
Improvements other than buildings	1,939,368	102,892	-	2,042,260
Machinery and equipment	37,898	2,002	-	39,900
Transportation equipment	37,974	1,720	-	39,694
Totals	<u>2,812,618</u>	<u>146,162</u>	<u>-</u>	<u>2,958,780</u>
Total capital assets, being depreciated, net	<u>6,931,464</u>	<u>92,265</u>	<u>61,348</u>	<u>6,962,381</u>
Total capital assets, net	<u>\$ 7,594,441</u>	<u>\$ 411,983</u>	<u>\$ 238,427</u>	<u>\$ 7,767,997</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:

Business-type activities:	
Water	\$ 97,605
Wastewater	<u>146,162</u>
Total depreciation expense - business-type activities	<u>\$ 243,767</u>

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2008	Committed
Water Utility:		
U.S. 6	<u>\$ 38,444</u>	<u>\$ 393,556</u>
Wastewater Utility:		
Combined sewer overflow (CSO)	\$ 565,478	\$ 204,522
Stump property	4,600	-
Plant	<u>212,751</u>	<u>-</u>
Total Wastewater Utility	<u>\$ 782,829</u>	<u>\$ 204,522</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2008, is as follows:

Due From	Due To	Totals
Water Utility	Wastewater Utility	\$ 1,738
Wastewater Utility	Water Utility	<u>4,248</u>
Total		<u>\$ 5,986</u>

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

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

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities 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: Deferral on Refunding	Revenue Bonds
1999 Waterworks additions and improvements	5.10% to 5.15%	\$ 720,000	\$ 3,674	\$ -	\$ 716,326
2003 Waterworks refunding	3.39%	255,000	-	8,305	246,695
Totals		<u>\$ 975,000</u>	<u>\$ 3,674</u>	<u>\$ 8,305</u>	<u>\$ 963,021</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2009	\$ 140,000	\$ 42,956
2010	150,000	37,742
2011	160,000	30,948
2012	165,000	22,660
2013	175,000	13,990
2014	<u>185,000</u>	<u>4,764</u>
Totals	<u>\$ 975,000</u>	<u>\$ 153,060</u>

2. 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
Water Utility:					
Revenue bonds payable:	\$ 1,110,000	\$ -	\$ 135,000	\$ 975,000	\$ 140,000
Less deferred amount:					
For discounts and refunding	<u>16,744</u>	<u>-</u>	<u>4,765</u>	<u>11,979</u>	<u>-</u>
Total long-term liabilities	<u>\$ 1,093,256</u>	<u>\$ -</u>	<u>\$ 130,235</u>	<u>\$ 963,021</u>	<u>\$ 140,000</u>

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

F. Restricted Assets

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

	Water	Wastewater
Revenue bond covenant accounts	\$ 287,178	\$ 9,903
Capital outlay accounts	742,543	267,831
Storm water operation and maintenance accounts	-	194,869
 Total restricted assets	 \$ 1,029,721	 \$ 472,603

III. Other Information

A. Risk Management

The Utilities are 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. Subsequent Event

The Nappanee Wastewater Utility is planning a \$4,500,000 renovation of their wastewater treatment plant. It will be funded through a State Revolving Fund (SRF) loan. The planned completion is fall of 2010. In conjunction with this project, there will be an increase in wastewater rates effective January 1, 2010.

C. Rate Structure

1. Water Utility

On March 20, 1989, the Common Council adopted Ordinance 1095 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Utility on May 5, 2008. The Utility had 2,418 customers at December 31, 2008.

2. Wastewater Utility

The current rate structure was approved by the Utility on May 5, 2008. The Utilities had 2,378 customers at December 31, 2008.

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

D. Pension Plan

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

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 Utilities 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 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 Utilities' 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.

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

Actuarial Information for the Above Plan

Annual required contribution	\$	122,250
Interest on net pension obligation		(4,146)
Adjustment to annual required contribution		<u>4,725</u>
Annual pension cost		122,829
Contributions made		<u>126,985</u>
Increase (decrease) in net pension obligation		(4,156)
Net pension obligation, beginning of year		<u>(57,185)</u>
Net pension obligation, end of year	\$	<u><u>(61,341)</u></u>
Contribution rates:		
City		7.25%
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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06-30-06	\$ 113,387	85%	\$ (69,387)
06-30-07	120,727	90%	(57,185)
06-30-08	122,829	103%	(61,341)

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
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)
07-01-06	\$ 1,276,510	\$ 1,567,791	\$ (291,281)	81%	\$ 1,684,360	(17%)
07-01-07	1,445,021	1,738,176	(293,155)	83%	1,680,691	(17%)
07-01-08	1,494,389	1,774,758	(280,369)	84%	1,724,489	(16%)

WATER AND WASTEWATER UTILITY
CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on October 7, 2009, with Kimberly A. Ingle, Clerk-Treasurer; and Larry L. Thompson, Mayor. Our examination disclosed no material items that warrant comment at this time.