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

ANNUAL FINANCIAL REPORT

2005

WATER AND WASTEWATER UTILITIES

CITY OF LIGONIER

NOBLE COUNTY, INDIANA

FILED

12/29/2006

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OFFICIALS

Office	Official	Term
Clerk-Treasurer	Helen J. Gerke	01-01-04 to 12-31-07
Mayor	Gary W. Bishop, Sr.	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Gary W. Bishop, Sr.	01-01-04 to 12-31-07
President of the Common Council	Kenneth Schuman	01-01-05 to 12-31-06
Superintendent of Water Utility	Jeffery L. Boyle	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Environmental Management Corporation	01-01-05 to 12-31-06

STATE OF INDIANA

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER AND WASTEWATER UTILITIES,
CITY OF LIGONIER, NOBLE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water and Wastewater Utilities, a department of the City of Ligonier, 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 Ligonier, 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 Ligonier 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.

The Schedules of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Utilities' management has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

November 14, 2006

WATER AND WASTEWATER UTILITIES
CITY OF LIGONIER
STATEMENT OF NET ASSETS
December 31, 2005

	2005	
Assets	Water Utility	Wastewater Utility
Current assets:		
Cash and cash equivalents	$ 134,556	$ 1,679,809
Accounts receivable (net of allowance)	36,677	11,433
Inventories	50,675	-
Prepaid items	5,609	6,237
Total current assets	227,517	1,697,479
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	10,000	139,899
Bond and interest cash and investments	180,135	687,198
Debt service reserve cash and investments	326,250	628,055
Construction cash and investments	52,818	74,280
Customer deposits	10,385	-
Total restricted assets	579,588	1,529,432
Deferred charges	113,847	200,850
Capital assets:		
Land, improvements to land and construction in progress	96,278	246,709
Other capital assets (net of accumulated depreciation)	5,527,433	9,861,126
Total capital assets	5,623,711	10,107,835
Total noncurrent assets	6,317,146	11,838,117
Total assets	6,544,663	13,535,596
Liabilities		
Current liabilities:		
Accounts payable	7,724	26,219
Wages payable	5,573	6,744
Taxes payable	2,678	-
Current liabilities payable from restricted assets:		
Accounts payable	-	46,982
Retainage payable	-	13,051
Customer deposits	10,385	-
Revenue bonds payable	145,000	175,000
Loan payable	-	21,000
Accrued interest payable	55,743	39,813
Total current liabilities	227,103	328,809
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	3,367,180	3,467,199
Loan payable	-	1,799,000
Total noncurrent liabilities	3,367,180	5,266,199
Total liabilities	3,594,283	5,595,008
Net Assets		
Invested in capital assets, net of related debt	2,111,531	4,645,636
Restricted for debt service	506,385	1,315,253
Restricted for other purposes	62,818	214,179
Unrestricted	269,646	1,765,520
Total net assets	$ 2,950,380	$ 7,940,588

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

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

	2005	
	Water Utility	Wastewater Utility
Operating revenues:		
Metered water revenue	$ 649,215	$ -
Fire protection revenue	69,850	-
Penalties	4,255	17,602
Connection fees	9,800	4,940
Measured wastewater revenue	-	929,128
Other	4,240	9,101
Total operating revenues	737,360	960,771
Operating expenses:		
Salaries and wages	141,870	158,808
Employee pensions and benefits	48,489	53,838
Purchased power	33,268	44,185
Sludge removal	-	5,650
Chemicals	4,149	11,692
Materials and supplies	39,398	34,490
Contractual services	47,183	278,977
Transportation expenses	8,317	5,542
Insurance expense	14,673	17,184
Depreciation	137,711	269,351
Miscellaneous expenses	27,171	20,181
Total operating expenses	502,229	899,898
Operating income	235,131	60,873
Nonoperating revenues (expenses):		
Interest and investment revenue	13,055	75,868
Interest expense	(171,652)	(288,603)
Loss on disposal of capital assets	(660)	(28,306)
Amortization expense	(7,042)	(6,746)
Total nonoperating expenses	(166,299)	(247,787)
Income (loss) before contributions and transfers	68,832	(186,914)
Transfers in	26,832	1,131,357
Change in net assets	95,664	944,443
Total net assets - beginning	2,854,716	6,996,145
Total net assets - ending	$ 2,950,380	$ 7,940,588

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

WATER AND WASTEWATER UTILITIES
CITY OF LIGONIER
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	2005	
	Water Utility	Wastewater Utility
Cash flows from operating activities:		
Receipts from customers and users	$ 736,282	$ 960,401
Payments to suppliers and contractors	(219,401)	(464,501)
Payments to employees	(142,065)	(158,061)
Net cash provided by operating activities	374,816	337,839
Cash flows from noncapital financing activities:		
Interfund loans	-	115,000
Transfers from other funds	26,832	1,131,357
Net cash provided by noncapital financing activities	26,832	1,246,357
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(30,791)	(199,951)
Principal paid on capital debt	(135,000)	(281,000)
Interest paid on capital debt	(170,561)	(207,322)
Bond issue costs paid	-	(58,565)
Accrued interest at refunding	-	67,066
Local contribution - defeasance of bonds	-	(196,391)
Net cash used by capital and related financing activities	(336,352)	(876,163)
Cash flows from investing activities:		
Interest received	15,034	82,925
Net increase in cash and cash equivalents	80,330	790,958
Cash and cash equivalents, January 1 (Including $66,248, $250,045, and $9,670 for the Water Utility, and $37,726, and $74,020 for the Wastewater Utility, for the construction of capital assets, improvement and maintenance of capital assets, debt service, and customer deposits, respectively, reported in restricted accounts)	433,814	1,690,283
Cash and cash equivalents, December 31 (Including $52,818, $10,000, $306,385, and $10,385 for the Water Utility, and $74,280, $39,899, and $687,253 for the Wastewater Utility, for the construction of capital assets, improvement and maintenance of capital assets, debt service, and customer deposits, respectively, reported in restricted accounts)	$ 514,144	$ 2,481,241
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 235,131	$ 60,873
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	137,711	269,351
(Increase) decrease in assets:		
Accounts receivable	(1,078)	(370)
Inventories	842	-
Prepaid items	(289)	(113)
Increase (decrease) in liabilities:		
Accounts payable	2,041	7,285
Wages payable	(195)	813
Taxes payable	(62)	-
Customer deposits	715	-
Total adjustments	139,685	276,966
Net cash provided by operating activities	$ 374,816	$ 337,839
Noncash investing, capital and financing activities:		
Construction of capital assets on account	$ -	$ 60,033

On April 4, 2005, the City of Ligonier issued $4,580,000 in refunding revenue bonds to refund $4,475,000 of outstanding 1996 serials bonds. The net proceeds of $4,534,200 (after payment of $58,565 in issuance costs and $45,800 in bond Discount) and local contributions of $196,391 were deposited in an irrevocable trust with an escrow agent. The accounting loss of $209,054 has been recognized on the Balance Sheet as Deferral of Loss on Refunding and will be amortized using the straight-line method and charged to interest expense over the next 12 years.

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Ligonier (City).

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. The activity has been classified Class B, requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners. However, the utility continues to maintain Class C (cash basis) accounts.

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 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.

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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

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.

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 they may be used only for debt service or construction.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	$ 2,500	Straight-line	50 years
Equipment	2,500	Straight-line	15 to 100 years
Water collection systems	2,500	Straight-line	5 to 50 years
Wastewater distribution and collection systems	2,500	Straight-line	10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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. No interest was capitalized during the audit period.

5. Compensated Absences

   a. Sick Leave – Utility employees earn sick leave at the rate of 56 hours per year. Unused sick leave may be accumulated to a maximum of 168 hours. Accumulated sick leave is not paid to employees.

   b. Vacation Leave – Utility employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

   c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. 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

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 bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	$ 96,278	$ -	$ -	$ 96,278
Capital assets, being depreciated:				
Improvements other than buildings	4,951,842	15,214	1,079	4,965,977
Buildings	1,351,617	-	-	1,351,617
Machinery and equipment	326,215	-	23,009	303,206
Transportation equipment	45,408	15,577	-	60,985
Totals	6,675,082	30,791	24,088	6,681,785

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility (continued):				
Less accumulated depreciation for:				
Improvements other than buildings	539,488	92,217	657	631,048
Buildings	260,642	26,871	-	287,513
Machinery and equipment	214,184	15,815	22,771	207,228
Transportation equipment	25,755	2,808	-	28,563
Totals	1,040,069	137,711	23,428	1,154,352
Total capital assets, being depreciated, net	5,635,013	(106,920)	660	5,527,433
Total Water Utility capital assets, net	$ 5,731,291	$ (106,920)	$ 660	$ 5,623,711
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	$ 6,277	$ -	$ -	$ 6,277
Construction in Progress	-	240,432	-	240,432
Total capital assets, not being depreciated	6,277	240,432	-	246,709
Capital assets, being depreciated:				
Improvements other than buildings	2,342,382	-	304	2,342,078
Buildings	9,477,306	-	23,578	9,453,728
Machinery and equipment	373,255	19,552	50,511	342,296
Transportation equipment	365,083	-	32,250	332,833
Totals	12,558,026	19,552	106,643	12,470,935
Less accumulated depreciation for:				
Improvements other than buildings	355,487	24,923	110	380,300
Buildings	1,722,939	189,070	1,416	1,910,593
Machinery and equipment	263,861	19,809	46,741	236,929
Transportation equipment	76,508	35,549	30,070	81,987
Totals	2,418,795	269,351	78,337	2,609,809
Total capital assets, being depreciated, net	10,139,231	(249,799)	28,306	9,861,126
Total Water Utility capital assets, net	$ 10,145,508	$ (9,367)	$ 28,306	$ 10,107,835

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

Water	$ 137,711
Wastewater	269,351
Total depreciation expense	$ 407,062

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2005	Committed
Wastewater plant upgrade	$ 1,021,600	$ 103,557	$ 1,021,600
Mclean street infrastructure	189,492	136,875	189,492
Totals	$ 1,211,092	$ 240,432	$ 1,211,092

D. Interfund Balances and Activity

Interfund Transfers

Interfund transfers at December 31, 2005, were as follows:

	Transfer To		
Transfer From	Water Utility	Wastewater Utility	Total
CEDIT	$ 26,832	$ -	$ 26,832
TIF#2	-	1,131,357	1,131,357
Totals	$ 26,832	$ 1,131,357	$ 1,158,189

The Utility typically uses transfers to fund ongoing operating subsidies and debt service requirements.

E. 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	Amount	Less: Deferral on loss of Refunding; Bond Discount	Revenue Bond
Water Utility:				
Waterworks revenue bonds of 1998	4.30% to 5.25%	$ 2,190,000	$ 27,248	2,162,752
Waterworks revenue bonds of 2003	1.40% to 5.0%	1,365,000	15,572	1,349,428
Total Water Utility		3,555,000	42,820	3,512,180
Wastewater Utility:				
Tax increment and sewage works refunding revenue bonds of 2005	2.25% to 4.50%	4,320,000	677,801	3,642,199
Totals		$ 7,875,000	$ 720,621	$ 7,154,379

Revenue bonds debt service requirements to maturity are as follows:

Year Ended	Water Utility		Wastewater Utility	
December 31	Principal	Interest	Principal	Interest
2006	$ 145,000	$ 164,607	$ 175,000	$ 82,692
2007	150,000	158,995	365,000	158,315
2008	155,000	152,868	370,000	147,239
2009	165,000	146,150	385,000	134,895
2010	170,000	138,833	400,000	121,235
2011-2015	985,000	566,538	2,235,000	357,330
2016-2020	1,270,000	297,071	390,000	11,925
2021-2025	515,000	29,375	-	-
Totals	$ 3,555,000	$ 1,654,437	$ 4,320,000	$ 1,013,631

2. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of improvements to the Wastewater Utility. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2002 loan established a maximum draw of $1,880,000. At the completion of construction, the outstanding principal balance of $1,880,000 was amortized over a period of 40 years. Annual debt service requirements to maturity for this loan, including $1,811,885 in interest, is as follows:

2006	$ 100,406
2007	100,466
2008	100,503
2009	100,475
2010	101,403
2011-2015	504,925
2016-2020	504,684
2021-2025	505,000
2026-2030	504,663
2031-2035	503,353
2036-2040	504,769
2041	101,238
Total	$ 3,631,885

3. Advance Refunding

On April 4, 2005, the City of Ligonier issued $4,580,000 in refunding revenue bonds with an average interest rate of 4.15% to advance refund $4,475,000 of outstanding 1996 series bonds with an average interest rate of 5.35%. The net proceeds of $4,534,200 (after payment of $58,565 in issuance costs and $45,800 in bond discount) and local contributions of $196,391 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 series bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. The refunding resulted in the accounting loss of $209,054, which has been recognized on the Statement of Net Assets as Deferral of loss on refunding. This amount will be amortized using the straight-line method and charged to interest expense over the next 12 years. The City in effect decreased its aggregate debt service payment by $339,233 over the next 12 years and realized an economic loss (difference between the present values of the old and new debt service payments) of $338,645.

4. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	$ 3,690,000	$ -	$ 135,000	$ 3,555,000	$ 145,000
Wastewater Utility	4,475,000	105,000	260,000	4,320,000	175,000
Loan payable	1,841,000	-	21,000	1,820,000	21,000
Total long-term liabilities	$ 10,006,000	$ 105,000	$ 416,000	$ 9,695,000	$ 341,000

F. Restricted Assets

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

Customer deposits	$ 10,385
Revenue bond debt service accounts	1,821,638
Depreciation account	149,899
Revenue bond construction account	127,098
Total restricted assets	$ 2,109,020

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; 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.

Workers' Compensation

During 1997, the Utilities joined together with other governmental entities to form the Indiana Public Employers Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The Utilities pay an annual premium to the risk pool for their coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to $1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the $1,000,000 limit.

B. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on February 24, 2003.

2. Wastewater Utility

The current rate structure was approved by the Utility on March 10, 1997.

The total number of customers for both Utilities combined is 1,444.

C. Subsequent Event

On October 27, 2006, the City issued $4,000,000 in Wastewater revenue bonds for phase two of plant expansion.

D. Pension Plan

Public Employees' Retirement Fund

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 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	$ 22,558
Interest on net pension obligation	(2,952)
Adjustment to annual required contribution	3,364
Annual pension cost	22,970
Contributions made	19,014
Decrease in net pension obligation	3,956
Net pension obligation, beginning of year	(40,713)
Net pension obligation, end of year	$ (36,757)

Contribution rates:	
City	4.5%
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	$ 15,406	97%	$ (36,529)
	06-30-04	14,523	129%	(40,713)
	06-30-05	22,970	131%	(36,757)

WATER AND WASTEWATER UTILITIES
CITY OF LIGONIER
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	$ 397,494	$ 345,114	$ 52,380	115%	$ 432,515	12%
07-01-04	402,011	406,854	(4,843)	99%	505,217	(1%)
07-01-05	417,085	426,738	(9,653)	98%	472,009	(2%)

WATER AND WASTEWATER UTILITIES
CITY OF LIGONIER
AUDIT RESULT AND COMMENT

CAPITAL ASSET INVENTORY

An inventory of capital assets owned by the Utilities was not presented for audit.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER AND WASTEWATER UTILITIES
CITY OF LIGONIER
EXIT CONFERENCE

The contents of this report were discussed on November 14, 2006, with Helen J. Gerke, Clerk-Treasurer; and Gary W. Bishop, Sr., Mayor. The officials concurred with our audit finding.