

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

ANNUAL FINANCIAL REPORT

2007

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
ELKHART COUNTY, INDIANA



FILED
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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kimberly A. Ingle	01-01-04 to 12-31-11
Mayor	Larry L. Thompson	01-01-04 to 12-31-11
President of the Board of Public Works and Safety	Larry L. Thompson	01-01-04 to 12-31-11
President of the Common Council	Larry L. Thompson	01-01-04 to 12-31-11
Superintendent of the Water and Wastewater Utilities	Gale Gerber	01-01-07 to 12-31-08



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, City of Nappanee, as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Utilities' 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, 2007, 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, 2007, 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

September 18, 2008

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
STATEMENT OF NET ASSETS
December 31, 2007

	Water	Wastewater
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 413,356	\$ 1,382,355
Interest receivable	6,295	10,153
Accounts receivable (net of allowance)	15,425	13,983
Interfund receivables	6,579	1,598
Inventories	38,416	-
Prepaid items	9,284	12,815
Cylinder deposits	-	2,500
	489,355	1,423,404
Total current assets		
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	24,144	230,172
Bond and interest cash and investments	342,177	9,822
Construction cash and investments	41,128	-
Improvement cash and investments	559,691	296,519
Storm water cash and investments	-	165,722
	967,140	702,235
Total restricted assets:		
Deferred charges	25,037	-
	25,037	-
Capital assets:		
Land, improvements to land and construction in progress	306,438	662,977
Other capital assets (net of accumulated depreciation)	5,728,178	6,931,464
	6,034,616	7,594,441
Total capital assets		
Total noncurrent assets		
	7,026,793	8,296,676
Total assets		
	7,516,148	9,720,080
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	5,746	7,907
Interfund payables	1,598	6,579
Contracts payable	25,210	104,555
Taxes payable	3,275	-
Accrued payroll and withholdings payable	9,947	12,033
Current liabilities payable from restricted assets:		
Revenue bonds payable	135,000	-
Accrued interest payable	12,572	-
	193,348	131,074
Total current liabilities		
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	958,256	-
	958,256	-
Total liabilities		
	1,151,604	131,074
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,924,616	7,503,336
Restricted for debt service	342,177	-
Unrestricted	1,097,751	2,085,670
	6,364,544	9,589,006
Total net assets		
	\$ 6,364,544	\$ 9,589,006

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, 2007

	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Metered water revenue:		
Residential	\$ 460,983	\$ -
Commercial	111,816	-
Industrial	54,830	-
Measured revenue:		
Wastewater	-	687,611
Storm water	-	86,919
Penalties	4,802	12,277
Fire protection revenue	263,889	-
Other revenue	44,011	18,287
	<u>940,331</u>	<u>805,094</u>
 Total operating revenues		
Operating expenses:		
Source of supply/collection system - operations and maintenance	83,956	120,094
Transmission and distribution/pumping - operations and maintenance	85,181	198,105
Treatment and disposal - operations and maintenance	53,181	216,435
Customer accounts	65,345	39,826
Administration and general	149,537	151,438
Operations and maintenance	138,931	-
Gross income tax	11,450	-
Storm water	-	30,062
Bad debt expense	-	-
Depreciation	94,046	144,744
	<u>681,627</u>	<u>900,704</u>
 Total operating expenses		
Operating income (loss)	<u>258,704</u>	<u>(95,610)</u>
 Nonoperating revenues (expenses):		
Interest and investment revenue	52,469	99,538
Amortization of bond issue costs	(10,377)	-
Interest expense	(51,435)	-
Gain/(loss) on sale of capital assets	1,174	(10,670)
	<u>(8,169)</u>	<u>88,868</u>
 Total nonoperating revenues (expenses)		
Income (loss) before contributions and transfers	250,535	(6,742)
 Capital contributions	<u>204,388</u>	<u>218,806</u>
 Change in net assets	454,923	212,064
Total net assets - beginning	<u>5,909,621</u>	<u>9,376,942</u>
Total net assets - ending	<u>\$ 6,364,544</u>	<u>\$ 9,589,006</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, 2007

	<u>Water</u>	<u>Wastewater</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 937,752	\$ 803,347
Payments to suppliers and contractors	(356,560)	(411,773)
Payments to employees	(236,180)	(343,204)
Interfund services provided (used)	<u>969</u>	<u>(969)</u>
Net cash provided by operating activities	<u>345,981</u>	<u>47,401</u>
Cash flows from capital and related financing activities:		
Capital contributions	204,388	218,806
Proceeds from capital debt	1,174	2,500
Acquisition and construction of capital assets	(68,906)	(423,323)
Principal paid on capital debt	(130,000)	-
Interest paid on capital debt	<u>(52,594)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(45,938)</u>	<u>(202,017)</u>
Cash flows from investing activities:		
Interest received	<u>50,069</u>	<u>96,438</u>
Net increase (decreased) in cash and cash equivalents	350,112	(58,178)
Cash and cash equivalents, January 1	<u>1,030,384</u>	<u>2,142,768</u>
Cash and cash equivalents, December 31	<u>\$ 1,380,496</u>	<u>\$ 2,084,590</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ 258,704</u>	<u>\$ (95,610)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	94,046	144,744
(Increase) decrease in assets:		
Accounts receivable	(2,579)	(1,747)
Interfund services provided or used	864	(105)
Cylinder deposits	-	2,350
Inventories	(3,712)	-
Increase (decrease) in liabilities:		
Accounts payable	(8,647)	(6,585)
Interfund payables	105	(864)
Contracts payable	4,520	3,117
Accrued wages payable	2,908	2,101
Taxes payable	<u>(228)</u>	<u>-</u>
Total adjustments	<u>87,277</u>	<u>143,011</u>
Net cash provided by operating activities	<u>\$ 345,981</u>	<u>\$ 47,401</u>
Noncash investing, capital, and financing activities:		
Purchase of equipment on account	\$ 20,690	\$ 101,438
Completed project transferred to capital assets	175,940	110,189

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 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 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.

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
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.

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 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, 2007, 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>239,220</u>	<u>24,328</u>	<u>175,940</u>	<u>87,608</u>
 Total capital assets, not being depreciated	 <u>458,050</u>	 <u>24,328</u>	 <u>175,940</u>	 <u>306,438</u>

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):				
Capital assets, being depreciated:				
Buildings	1,435,288	175,940	-	1,611,228
Improvements other than buildings	4,634,698	-	-	4,634,698
Machinery and equipment	120,088	-	4,000	116,088
Transportation equipment	79,680	65,268	-	144,948
	<u>6,269,754</u>	<u>241,208</u>	<u>4,000</u>	<u>6,506,962</u>
Totals				
Less accumulated depreciation for:				
Buildings	163,768	21,530	-	185,298
Improvements other than buildings	503,366	69,520	-	572,886
Machinery and equipment	12,186	1,801	4,000	9,987
Transportation equipment	9,418	1,195	-	10,613
	<u>688,738</u>	<u>94,046</u>	<u>4,000</u>	<u>778,784</u>
Totals				
Total capital assets, being depreciated, net	<u>5,581,016</u>	<u>147,162</u>	<u>-</u>	<u>5,728,178</u>
Total capital assets, net	<u>\$ 6,039,066</u>	<u>\$ 171,490</u>	<u>\$ 175,940</u>	<u>\$ 6,034,616</u>
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 22,787	\$ -	\$ -	\$ 22,787
Construction in progress	225,618	524,761	110,189	640,190
	<u>248,405</u>	<u>524,761</u>	<u>110,189</u>	<u>662,977</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	2,575,250	61,348	-	2,636,598
Improvements other than buildings	6,810,549	48,841	-	6,859,390
Machinery and equipment	133,444	-	-	133,444
Transportation equipment	130,422	-	15,772	114,650
	<u>9,649,665</u>	<u>110,189</u>	<u>15,772</u>	<u>9,744,082</u>
Totals				

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>
Wastewater Utility (continued):				
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Buildings	758,749	38,629	-	797,378
Improvements other than buildings	1,837,211	102,157	-	1,939,368
Machinery and equipment	35,896	2,002	-	37,898
Transportation equipment	38,620	1,956	2,602	37,974
	<u>2,670,476</u>	<u>144,744</u>	<u>2,602</u>	<u>2,812,618</u>
Totals				
Total capital assets, being depreciated, net	<u>6,979,189</u>	<u>(34,555)</u>	<u>13,170</u>	<u>6,931,464</u>
Total capital assets, net	<u>\$ 7,227,594</u>	<u>\$ 490,206</u>	<u>\$ 123,359</u>	<u>\$ 7,594,441</u>

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

Water	\$ 94,046
Wastewater	<u>144,744</u>
Total depreciation expense	<u>\$ 238,790</u>

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, 2007</u>	<u>Committed</u>	<u>Required Future Funding</u>
Water Utility:				
Vulnerability assessment	\$ 8,471	\$ 8,471	\$ -	\$ -
Miriam water project	57,431	57,431	-	-
U.S. 6	<u>72,492</u>	<u>21,706</u>	<u>50,786</u>	<u>-</u>
Total Water Utility	<u>138,394</u>	<u>87,608</u>	<u>50,786</u>	<u>-</u>

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

Project	Total Project Authorized	Expended to December 31, 2007	Committed	Required Future Funding
Wastewater Utility:				
Combined sewer overflow	770,000	504,293	265,707	-
Disinfection facility CL2/Chlorine change out	80,000	22,573	57,427	-
Fine bubble aeration	133,900	110,149	23,751	-
Stump property	3,175	3,175	-	-
Total Wastewater Utility	987,075	640,190	346,885	-
Totals	<u>\$ 1,125,469</u>	<u>\$ 727,798</u>	<u>\$ 397,671</u>	<u>\$ -</u>

D. Interfund Balances and Activity

Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

Due From	Due To	Total
Water Utility	Wastewater Utility	\$ 1,598
Wastewater Utility	Water Utility	6,579
Total		<u>\$ 8,177</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.

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, 2007:

2008	\$ 3,612
2009	3,000
Total	<u>\$ 6,612</u>

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

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	5.10% to 5.15%	\$ 730,713
2003 Waterworks refunding	3.39%	<u>362,543</u>
Total		<u><u>\$ 1,093,256</u></u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2008	\$ 135,000	\$ 47,873
2009	140,000	42,956
2010	150,000	37,742
2011	160,000	30,948
2012	165,000	22,660
2013-2014	<u>360,000</u>	<u>18,754</u>
Totals	<u><u>\$ 1,110,000</u></u>	<u><u>\$ 200,933</u></u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility:					
Revenue bonds payable	\$ 1,240,000	\$ -	\$ 130,000	\$ 1,110,000	\$ 135,000
Less: Deferred amount on discount and refunding	<u>21,786</u>	<u>-</u>	<u>5,042</u>	<u>16,744</u>	<u>5,043</u>
Total long-term liabilities	<u><u>\$ 1,218,214</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 124,958</u></u>	<u><u>\$ 1,093,256</u></u>	<u><u>\$ 129,957</u></u>

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

G. Restricted Assets

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

Capital improvements account	\$ 24,144	\$ 230,172
Revenue bond operations and maintenance account	342,177	9,822
Construction and improvements account	600,819	296,519
Storm water operations and maintenance account	<u>-</u>	<u>165,722</u>
 Total restricted assets	 <u>\$ 967,140</u>	 <u>\$ 702,235</u>

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 Events

The Nappanee Wastewater Utility is planning to issue \$3,500,000 of sewage works revenue bonds. The proceeds of the revenue bonds will be used to finance the improvements to the wastewater treatment plant.

On May 5, 2008, the Common Council approved Ordinances 1417 and 1418 establishing new rates and charges for the Water and Wastewater Utilities, respectively. These rates and charges were effective on the July billing for June 2008 usage.

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 August 30, 2003. The Utility has 2,403 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 2,355 customers.

D. 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 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

	PERF
Annual required contribution	\$ 120,025
Interest on net pension obligation	(5,031)
Adjustment to annual required contribution	5,733
Annual pension cost	120,727
Contributions made	108,525
Increase in net pension obligation	12,202
Net pension obligation, beginning of year	(69,387)
Net pension obligation, end of year	\$ (57,185)
Contribution rates:	
Utilities	7.25%
Plan members	3%
Actuarial valuation date	07-01-07
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
PERF	06-30-05	\$ 85,326	106%	\$ (86,809)
	06-30-06	113,387	85%	(69,387)
	06-30-07	120,727	90%	(57,185)

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)	Assets Over Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-05	\$ 1,176,654	\$ 1,571,230	\$ (394,576)	75%	\$ 1,616,110	(24%)
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%)

WATER AND WASTEWATER UTILITIES
CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on September 18, 2008, with Kimberly A. Ingle, Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.