

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

EXAMINATION REPORT

OF

CITY OF NAPPANEE

ELKHART COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**  
04/19/2007



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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 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 ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF NAPPANEE, ELKHART COUNTY, INDIANA

We have examined the financial information presented herein of the City of Nappanee (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial information 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 information 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.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

April 3, 2007

CITY OF NAPPANEE  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, BUSINESS-TYPE, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
<b>Governmental Funds:</b>				
General	\$ 2,070,542	\$ 3,729,040	\$ 3,846,928	\$ 1,952,654
Park and recreation	458,949	651,065	688,031	421,983
County economic development income tax	931,644	362,038	265,903	1,027,779
Local major moves	-	1,023,527	-	1,023,527
Sale of utility	1,046,224	-	-	1,046,224
Motor vehicle highway	265,901	695,936	401,651	560,186
Local road and street	153,026	67,349	-	220,375
Law enforcement continuing education	11,227	7,724	700	18,251
Riverboat	127,053	42,224	100,000	69,277
Rainy day	31,443	-	-	31,443
Gift	200,993	128,802	126,390	203,405
Aviation	227,060	113,768	81,801	259,027
Park and recreation special nonreverting	6,839	21,933	19,462	9,310
Sidewalk improvement	-	574	574	-
Special recreation	26,852	44,450	46,091	25,211
Volunteer fire hazmat cleanup	516	-	-	516
Aviation rotary	23,432	47,410	47,950	22,892
Fireworks	5,397	-	-	5,397
Insurance reimbursement	3,851	39,263	5,577	37,537
Levy excess	10,703	21,612	-	32,315
Vehicle inspection	2,736	-	-	2,736
Clerk's records perpetuation	7,771	2,846	-	10,617
School and home safety	1,967	275	723	1,519
Emergency telephone service	112,974	38,242	59,025	92,191
COPS in school grant	125,237	-	-	125,237
Law enforcement assistance grant	100,000	-	-	100,000
User fee	4,404	2,331	2,706	4,029
1981 CDBG	7,712	23	-	7,735
1983 CDBG community focus grant	9,103	40	-	9,143
1992 IHFA	54,196	3,370	1,250	56,316
1997 community focus grant	2,142	-	-	2,142
Crime forfeitures	1,038	4,879	3,644	2,273
Court - BMV project reimbursement	-	2,117	-	2,117
Elkhart county drug fund	-	8,200	8,200	-
1990 general obligation bonds	849	-	-	849
Cumulative capital improvement	170,886	23,972	5,265	189,593
Cumulative capital development	138,040	130,857	114,426	154,471
Golf course capital outlay	25,130	24,409	29,200	20,339
Building and firefighting equipment	156,447	87,024	79,989	163,482
TIF district downtown	1,367	-	-	1,367
TIF west industrial park	248,285	128,004	-	376,289
TIF heritage farms	59,411	136,921	-	196,332
<b>Business-type activities:</b>				
Water Utility - Operating	338,711	1,030,330	992,318	376,723
Water Utility - Bond and interest	315,595	195,772	182,599	328,768
Water Utility - Depreciation	22,219	912	-	23,131
Water Utility - Construction	37,955	1,570	-	39,525
Water Utility - improvement	201,774	170,411	107,826	264,359
Wastewater Utility - Operating	1,742,564	821,218	866,857	1,696,925
Wastewater Utility - Bond and interest	9,552	141	-	9,693
Wastewater Utility - Depreciation	188,593	29,143	-	217,736
Wastewater Utility - improvement	171,822	177,474	227,898	121,398
Wastewater Utility - stormwater	17,118	90,264	8,543	98,839
<b>Fiduciary Funds:</b>				
Police pension	78,899	82,725	98,637	62,987
Payroll	45,436	3,024,701	3,022,232	47,905
Ambulance fee reimbursement	165	1,561	1,498	228
Anthem small business holding	39,166	477,711	475,966	40,911
Court costs due county	-	14,251	14,251	-
Assessment registration county transfer	24	464	472	16
Park and recreation cleaning deposits	425	1,370	995	800
Sales tax	215	11,875	11,861	229
City court	5,298	179,950	179,729	5,519
Building improvement district	5,166	11,065	1,000	15,231
Utility unemployment tax	-	37,018	37,018	-
<b>Totals</b>	<b>\$ 10,052,044</b>	<b>\$ 13,950,151</b>	<b>\$ 12,165,186</b>	<b>\$ 11,837,009</b>

The accompanying notes are an integral part of the schedules.

CITY OF NAPPANEE  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. 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.

State statute (IC 5-13-9) authorizes the City 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.

CITY OF NAPPANEE  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City 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 this 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 City 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 members' 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. That 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 the plan members for PERF are established by the Board of Trustees of PERF.

b. 1925 Police Officers' Pension Plan

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by the state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by the state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF NAPPANEE  
NOTES TO FINANCIAL INFORMATION  
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death disability benefits. The City only has police officers eligible for this plan.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That 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

Plan members are required to contribute 6% of the first-class police officers' and firefighters salary and the City is to contribute at an actuarially determined rate. The current, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of the plan members and the City are established by the Board of Trustees of PERF.

Note 7. Subsequent Event

The City is expecting to increase the utility rates in the summer of 2007. The Water Utility rates will have an increase of 5% and the Wastewater Utility rate increase will be between 10 and 15%.

CITY OF NAPPANEE  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

As of December 31, 2006

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.

General infrastructure assets completed since 2004 has have been reported. The City has decided not to retroactively report general infrastructure.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 1,279,980
Infrastructure	112,278
Buildings	3,961,728
Improvements other than buildings	4,062,930
Machinery and equipment	3,797,393
Construction in progress	<u>605,451</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 13,819,760</u>
<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 218,830
Construction in progress	239,220
Buildings	1,435,288
Improvements other than buildings	4,634,698
Machinery and equipment	<u>199,768</u>
Total Water Utility capital assets	<u>6,727,804</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	22,787
Construction in progress	225,618
Buildings	2,575,250
Improvements other than buildings	6,810,549
Machinery and equipment	<u>263,866</u>
Total Wastewater Utility capital assets	<u>9,898,070</u>
Total business-type activities capital assets	<u>\$ 16,625,874</u>

CITY OF NAPPANEE  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

As of December 31, 2006

The City has entered into the following debt:

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Notes Payable	\$ <u>75,823</u>	\$ <u>75,823</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
1999 Waterworks Additions and Improvements	\$ 750,000	\$ 15,000
2003 Waterworks Refunding	<u>490,000</u>	<u>115,000</u>
Total business-type activities long-term debt	<u>\$ 1,240,000</u>	<u>\$ 130,000</u>

CITY OF NAPPANEE  
EXAMINATION RESULT AND COMMENT

APPROPRIATIONS

The records presented for audit indicated that the expenditures for the Building and Firefighting Equipment Fund were in excess of budgeted appropriations by \$147,623.

Indiana Code 6-1.1-18-4 state in part: “. . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article.”

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. The officials concurred with our finding.