

B37059

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

ANNUAL FINANCIAL REPORT

2009

CITY OF NAPPANEE

ELKHART COUNTY, INDIANA



FILED
05/28/2010

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SCHEDULE OF 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 Utilities	Gale Gerber	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nappanee (City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than 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 cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 2, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations,

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Included in the financial statements are the receipts and disbursements activity from emergency telephone system fees (IC 36-8-16) and enhanced wireless emergency telephone fees (IC 36-8-15.5). In accordance with IC 36-8-16-14 and IC 36-8-16.5-41 these fees have been subject to an annual audit performed by the State Board of Accounts and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities, as listed in the Table of Contents, are not required parts of the basic financial statements but are 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 City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 2, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nappanee (City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 2, 2010

CITY OF NAPPANEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2009

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 1,729,517	\$ 65,305	\$ -	\$ -	\$ (1,664,212)	\$ -	\$ (1,664,212)
Public safety	2,695,773	196,959	-	-	(2,498,814)	-	(2,498,814)
Highways and streets	641,954	-	241,749	-	(400,205)	-	(400,205)
Sanitation	-	101,128	-	-	101,128	-	101,128
Economic development	374,409	-	-	-	(374,409)	-	(374,409)
Culture and recreation	797,543	344,000	-	-	(453,543)	-	(453,543)
Urban redevelopment and housing	20,913	-	-	-	(20,913)	-	(20,913)
Total governmental activities	6,260,109	707,392	241,749	-	(5,310,968)	-	(5,310,968)
Business-type activities:							
Wastewater Utility	1,073,135	1,243,007	-	3,700	-	173,572	173,572
Water Utility	1,385,961	1,365,980	-	6,108	-	(13,873)	(13,873)
Total business-type activities	2,459,096	2,608,987	-	9,808	-	159,699	159,699
Total primary government	\$ 8,719,205	\$ 3,316,379	\$ 241,749	\$ 9,808	(5,310,968)	159,699	(5,151,269)
General receipts:							
Property taxes					5,588,842	-	5,588,842
Intergovernmental					1,746,570	-	1,746,570
Other local sources					298,769	-	298,769
Grants and contributions not restricted to specific programs					15,893	-	15,893
Investment earnings					44,786	13,680	58,466
Total general receipts					7,694,860	13,680	7,708,540
Change in net assets					2,383,892	173,379	2,557,271
Net assets - beginning					7,037,517	3,413,440	10,450,957
Net assets - ending					\$ 9,421,409	\$ 3,586,819	\$ 13,008,228
<u>Assets</u>							
Cash and investments					\$ 5,943,435	\$ 2,054,552	\$ 7,997,987
Restricted assets:							
Cash and investments					3,477,974	1,532,267	5,010,241
Total assets					\$ 9,421,409	\$ 3,586,819	\$ 13,008,228
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 38,191	\$ -	\$ 38,191
Highways and streets					1,438,332	-	1,438,332
Debt service					-	294,462	294,462
Capital outlay					2,001,451	-	2,001,451
Other purposes					-	1,237,805	1,237,805
Unrestricted					5,943,435	2,054,552	7,997,987
Total net assets					\$ 9,421,409	\$ 3,586,819	\$ 13,008,228

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

CITY OF NAPPANEE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2009

	General	Parks And Recreation	Major Moves Construction	TIF City Wide	CEDIT	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 3,316,249	\$ 555,427	\$ -	\$ 866,849	\$ -	\$ 850,317	\$ 5,588,842
Special assessments	51	-	-	-	-	-	51
Licenses and permits	20,202	-	-	-	-	-	20,202
Intergovernmental	1,141,492	19,727	-	-	351,112	491,381	2,003,712
Charges for services	270,815	304,561	-	-	-	73,744	649,120
Fines and forfeits	17,417	-	-	-	-	4,023	21,440
Other	58,499	6,579	15,594	-	15,600	252,206	348,478
Total receipts	4,824,725	886,294	15,594	866,849	366,712	1,671,671	8,631,845
Disbursements:							
General government	1,220,686	-	-	-	-	322,023	1,542,709
Public safety	2,603,129	-	-	-	-	26,818	2,629,947
Highways and streets	-	-	-	-	-	394,857	394,857
Economic development	-	-	-	-	97,777	-	97,777
Culture and recreation	149,049	602,414	-	-	-	-	751,463
Urban redevelopment and housing	20,913	-	-	-	-	-	20,913
Capital outlay:							
General government	-	-	-	27,306	-	159,502	186,808
Public safety	65,826	-	-	-	-	-	65,826
Highways and streets	-	-	-	-	-	247,097	247,097
Economic development	-	-	-	-	276,632	-	276,632
Culture and recreation	-	46,080	-	-	-	-	46,080
Total disbursements	4,059,603	648,494	-	27,306	374,409	1,150,297	6,260,109
Excess (deficiency) of receipts over disbursements	765,122	237,800	15,594	839,543	(7,697)	521,374	2,371,736
Other financing sources:							
Other receipts	12,156	-	-	-	-	-	12,156
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	777,278	237,800	15,594	839,543	(7,697)	521,374	2,383,892
Cash and investment fund balance - beginning	816,664	149,399	1,119,290	-	1,239,560	3,712,604	7,037,517
Cash and investment fund balance - ending	\$ 1,593,942	\$ 387,199	\$ 1,134,884	\$ 839,543	\$ 1,231,863	\$ 4,233,978	\$ 9,421,409
Cash and Investment Assets - Ending							
Cash and investments	\$ 1,593,942	\$ 387,199	\$ -	\$ 839,543	\$ -	\$ 3,122,751	\$ 5,943,435
Restricted assets:							
Cash and investments	-	-	1,134,884	-	1,231,863	1,111,227	3,477,974
Total cash and investment assets - ending	\$ 1,593,942	\$ 387,199	\$ 1,134,884	\$ 839,543	\$ 1,231,863	\$ 4,233,978	\$ 9,421,409
Cash and Investment Fund Balance - Ending							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,191	\$ 38,191
Highways and streets	-	-	1,134,884	-	-	303,448	1,438,332
Capital outlay	-	-	-	-	1,231,863	769,588	2,001,451
Unrestricted	1,593,942	387,199	-	839,543	-	3,122,751	5,943,435
Total cash and investment fund balance - ending	\$ 1,593,942	\$ 387,199	\$ 1,134,884	\$ 839,543	\$ 1,231,863	\$ 4,233,978	\$ 9,421,409

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

CITY OF NAPPANEE
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As Of And For the Year Ended December 31, 2009

	Wastewater Utility	Water Utility	Totals
Operating receipts:			
Metered/measured	\$ 946,667	\$ 986,525	\$ 1,933,192
Fire protection receipts	-	192,384	192,384
Penalties	17,021	-	17,021
Miscellaneous	279,319	186,575	465,894
	<u>1,243,007</u>	<u>1,365,484</u>	<u>2,608,491</u>
Total operating receipts			
Operating disbursements:			
Salaries and wages	307,383	258,626	566,009
Employee pensions and benefits	58,669	73,681	132,350
Sludge removal	11,824	-	11,824
Purchased power	77,366	79,052	156,418
Fuel for power production	18,944	-	18,944
Chemicals	48,051	18,679	66,730
Material and supplies	66,515	102,415	168,930
Contractual services	310,003	450,120	760,123
Rents	-	7,316	7,316
Transportation	7,772	10,513	18,285
Insurance claims and expense	16,782	7,507	24,289
Refunds	309	284	593
Miscellaneous	149,517	194,898	344,415
	<u>1,073,135</u>	<u>1,203,091</u>	<u>2,276,226</u>
Total operating disbursements			
Excess of operating receipts over operating disbursements	<u>169,872</u>	<u>162,393</u>	<u>332,265</u>
Nonoperating receipts (disbursements):			
Investment income	9,518	4,162	13,680
Refunds	-	496	496
Debt service of principal	-	(140,000)	(140,000)
Interest disbursements	-	(42,870)	(42,870)
	<u>9,518</u>	<u>(178,212)</u>	<u>(168,694)</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	179,390	(15,819)	163,571
Capital contributions	<u>3,700</u>	<u>6,108</u>	<u>9,808</u>
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	183,090	(9,711)	173,379
Cash and investment fund balance - beginning	<u>1,771,537</u>	<u>1,641,903</u>	<u>3,413,440</u>
Cash and investment fund balance - ending	<u>\$ 1,954,627</u>	<u>\$ 1,632,192</u>	<u>\$ 3,586,819</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 1,245,194	\$ 809,358	\$ 2,054,552
Restricted assets:			
Cash and investments	<u>709,433</u>	<u>822,834</u>	<u>1,532,267</u>
Total cash and investment assets - December 31	<u>\$ 1,954,627</u>	<u>\$ 1,632,192</u>	<u>\$ 3,586,819</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ -	\$ 294,462	\$ 294,462
Other purposes	709,433	528,372	1,237,805
Unrestricted	<u>1,245,194</u>	<u>809,358</u>	<u>2,054,552</u>
Total cash and investment fund balance - December 31	<u>\$ 1,954,627</u>	<u>\$ 1,632,192</u>	<u>\$ 3,586,819</u>

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

CITY OF NAPPANEE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2009

	Pension Trust Fund	Agency Funds
Additions:		
Contributions:		
Plan members	\$ 117,813	
Deductions:		
Benefits	82,090	
Administrative and general	175	
Total deductions	82,265	
Excess of total additions over total deductions	35,548	
Cash and investment fund balance - beginning	84,699	
Cash and investment fund balance - ending	\$ 120,247	\$ 131,485

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

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

Primary Government: City of Nappanee

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City appoints the board members of the Nappanee Library Board.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The park and recreation fund is to account for the operating receipts and disbursements made in connection with the city or town providing recreation programs and facilities.

The major moves construction fund accounts for expenditures made for construction of high-ways, roads and bridges. Financing was provided by a distribution from the proceeds of the seventy-five year lease of the State's toll road.

The TIF city wide fund accounts for public improvement projects in the city wide property tax incremental financing district. Financing is provided by incremental taxes collected on property located in this district.

The county economic development income tax fund (CEDIT) accounts for the receipts from intergovernmental sources to be used for economic development purposes.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

Additionally, the City reports the following fund types:

The pension trust fund accounts for the activities of the 1925 police pension fund, which accumulates resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for state and federal taxing authorities, employee benefit providers, and private individuals, and serves as control of accounts for certain cash transactions during the time they are a liability to the City.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and Water and Wastewater Utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The City does not have any internal service funds.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and in 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.

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

Deposits

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. At December 31, 2009, the City had deposit balances in the amount of \$13,259,957. The bank balances held at Lake City Bank in the amount of \$8,816,439 were collateralized with securities held by the pledging financial institutions.

The remaining 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.

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Rate Structure – Enterprise Funds

Water Utility

On March 20, 1989, the City Council adopted Ordinance 1095 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on May 5, 2008.

Wastewater Utility

The current rate structure was approved by the City Council on May 5, 2008.

C. 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.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 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 City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

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 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 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 plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension
Annual required contribution	\$ 122,250	\$ 105,400
Interest on net pension obligation	4,146	40,800
Adjustment to annual required contribution	4,725	(51,500)
Annual pension cost	131,121	94,700
Contributions made	126,985	88,908
Increase in net pension obligation	4,136	5,792
Net pension obligation, beginning of year	57,185	680,717
Net pension obligation, end of year	\$ 61,321	\$ 686,509

	PERF	1925 Police Officers' Pension
Contribution rates:		
City	7.13%	240%
Plan members	3%	6%
Actuarial valuation date	07-01-08	01-01-08
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital

Actuarial Assumptions	PERF	1925 Police Officers' Pension
Investment rate of return	7.25%	6%
Projected future salary increases:		
Total	5%	4%
Attributed to inflation	4%	4%
Attributed to merit/seniority	1%	0%
Cost-of-living adjustments	2%	0/1%*

*0% converted members; 1% nonconverted members

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 113,387	85%	\$ (69,387)
	06-30-07	120,727	90%	(57,185)
	06-30-08	122,829	103%	(61,341)
1925 Police Officers' Pension Plan	12-31-06	95,800	82%	708,574
	12-31-07	95,200	129%	680,717
	12-31-08	94,700	94%	686,509

Membership in the 1925 Police Officers' Pension Plan at January 1, 2009, was comprised of the following:

	<u>1925 Police Officers' Pension</u>
Retirees and beneficiaries currently receiving benefits	4

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 and disability benefits.

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

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Costs

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 rate, which has not changed since the inception of the plan, is 19.5% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2009, 2008, and 2007, were \$130,496, \$138,518, and \$134,602, respectively, equal to the required contributions for each year.

CITY OF NAPPANEE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES 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%)

1925 Police Officer's Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-03	\$ 81,265	\$ 1,599,200	\$ (1,517,935)	5%	\$ 76,800	(1,976%)
01-01-04	54,219	1,350,700	(1,296,481)	4%	39,500	(3,282%)
01-01-05	87,339	1,325,500	(1,238,161)	7%	40,700	(3,042%)
01-01-06	78,899	1,316,800	(1,237,901)	6%	41,900	(2,954%)
01-01-07	62,987	1,300,700	(1,237,713)	5%	42,700	(2,899%)
01-01-08	85,878	1,283,000	(1,197,122)	7%	44,000	(2,721%)

CITY OF NAPPANEE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan					
	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed		
1925 Police Officers' Pension Plan	12-31-03	\$ 154,500	43%		
	12-31-04	162,800	54%		
	12-31-05	104,200	84%		
	12-31-06	105,200	75%		
	12-31-07	105,500	117%		
	12-31-08	105,400	84%		

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009

	Motor Vehicle Highway	Local Road And Street	Aviation	Law Enforcement Continuing Education	Riverboat	Emergency Telephone System
Receipts:						
Taxes	\$ 237,108	\$ -	\$ 82,656	\$ -	\$ -	\$ -
Intergovernmental	308,097	59,093	2,968	-	41,991	-
Charges for services	-	-	-	-	-	32,805
Fines and forfeits	-	-	-	-	-	-
Other	16,121	-	13,525	6,502	-	-
Total receipts	561,326	59,093	99,149	6,502	41,991	32,805
Disbursements:						
General government	-	-	47,781	-	-	-
Public safety	-	-	-	70	-	26,748
Highways and streets	394,857	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	-
Highways and streets	145,937	101,160	-	-	-	-
Total disbursements	540,794	101,160	47,781	70	-	26,748
Excess (deficiency) of receipts over disbursements	20,532	(42,067)	51,368	6,432	41,991	6,057
Cash and investment fund balance - beginning	470,838	345,515	55,586	21,461	53,681	32,134
Cash and investment fund balance - ending	\$ 491,370	\$ 303,448	\$ 106,954	\$ 27,893	\$ 95,672	\$ 38,191
Cash and Investment Assets - Ending						
Cash and investments	\$ 491,370	\$ -	\$ 106,954	\$ 27,893	\$ 95,672	\$ -
Restricted assets:						
Cash and investments	-	303,448	-	-	-	38,191
Total cash and investment assets - ending	\$ 491,370	\$ 303,448	\$ 106,954	\$ 27,893	\$ 95,672	\$ 38,191
Cash and Investment Fund Balance - Ending						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,191
Highways and streets	-	303,448	-	-	-	-
Capital outlay	-	-	-	-	-	-
Unrestricted	491,370	-	106,954	27,893	95,672	-
Total cash and investment fund balance - ending	\$ 491,370	\$ 303,448	\$ 106,954	\$ 27,893	\$ 95,672	\$ 38,191

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	User Fee	Gift	Rainy Day	Hazardous Materials	Aviation Rotary
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	49,895	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	2,027	-	-	-	-
Other	-	51,078	-	-	26,524
	<u>-</u>	<u>51,078</u>	<u>-</u>	<u>-</u>	<u>26,524</u>
 Total receipts	 <u>2,027</u>	 <u>51,078</u>	 <u>49,895</u>	 <u>-</u>	 <u>26,524</u>
Disbursements:					
General government	1,465	34,737	-	-	44,476
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Highways and streets	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total disbursements	 <u>1,465</u>	 <u>34,737</u>	 <u>-</u>	 <u>-</u>	 <u>44,476</u>
 Excess (deficiency) of receipts over disbursements	 <u>562</u>	 <u>16,341</u>	 <u>49,895</u>	 <u>-</u>	 <u>(17,952)</u>
 Cash and investment fund balance - beginning	 <u>3,665</u>	 <u>205,874</u>	 <u>391,684</u>	 <u>516</u>	 <u>35,308</u>
 Cash and investment fund balance - ending	 <u>\$ 4,227</u>	 <u>\$ 222,215</u>	 <u>\$ 441,579</u>	 <u>\$ 516</u>	 <u>\$ 17,356</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 4,227	\$ 222,215	\$ 441,579	\$ 516	\$ 17,356
Restricted assets:					
Cash and investments	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total cash and investment assets - ending	 <u>\$ 4,227</u>	 <u>\$ 222,215</u>	 <u>\$ 441,579</u>	 <u>\$ 516</u>	 <u>\$ 17,356</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-
Capital outlay	-	-	-	-	-
Unrestricted	<u>4,227</u>	<u>222,215</u>	<u>441,579</u>	<u>516</u>	<u>17,356</u>
 Total cash and investment fund balance - ending	 <u>\$ 4,227</u>	 <u>\$ 222,215</u>	 <u>\$ 441,579</u>	 <u>\$ 516</u>	 <u>\$ 17,356</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Golf Course Capital Outlays	Park and Recreation Special Non-reverting	Special Recreation	Fireworks	Insurance Reimbursement
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	1,711	-	-	-
Charges for services	-	-	40,939	-	-
Fines and forfeits	-	-	-	-	-
Other	-	13,525	-	-	-
	<u>-</u>	<u>15,236</u>	<u>40,939</u>	<u>-</u>	<u>-</u>
Total receipts	<u>-</u>	<u>15,236</u>	<u>40,939</u>	<u>-</u>	<u>-</u>
Disbursements:					
General government	-	14,427	41,243	-	-
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Capital outlay:					
General government	9,866	-	-	-	-
Highways and streets	-	-	-	-	-
	<u>9,866</u>	<u>14,427</u>	<u>41,243</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>9,866</u>	<u>14,427</u>	<u>41,243</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(9,866)</u>	<u>809</u>	<u>(304)</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - beginning	<u>9,967</u>	<u>8,816</u>	<u>26,828</u>	<u>5,397</u>	<u>32,380</u>
Cash and investment fund balance - ending	<u>\$ 101</u>	<u>\$ 9,625</u>	<u>\$ 26,524</u>	<u>\$ 5,397</u>	<u>\$ 32,380</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 101	\$ 9,625	\$ 26,524	\$ 5,397	\$ 32,380
Restricted assets:					
Cash and investments	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and investment assets - ending	<u>\$ 101</u>	<u>\$ 9,625</u>	<u>\$ 26,524</u>	<u>\$ 5,397</u>	<u>\$ 32,380</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-
Capital outlay	-	-	-	-	-
Unrestricted	<u>101</u>	<u>9,625</u>	<u>26,524</u>	<u>5,397</u>	<u>32,380</u>
Total cash and investment fund balance - ending	<u>\$ 101</u>	<u>\$ 9,625</u>	<u>\$ 26,524</u>	<u>\$ 5,397</u>	<u>\$ 32,380</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Vehicle Inspection	School & Home Safety	Crime Forfeitures	1990 General Obligation Bonds	ECCF Tornado Assistance Grant
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	125	-	-	-
Other	-	-	-	-	113,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,000</u>
Total receipts	<u>-</u>	<u>125</u>	<u>-</u>	<u>-</u>	<u>113,000</u>
Disbursements:					
General government	-	428	8,963	-	116,572
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Capital outlay:					
General government	-	-	-	-	-
Highways and streets	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>-</u>	<u>428</u>	<u>8,963</u>	<u>-</u>	<u>116,572</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(303)</u>	<u>(8,963)</u>	<u>-</u>	<u>(3,572)</u>
Cash and investment fund balance - beginning	<u>1,889</u>	<u>598</u>	<u>9,249</u>	<u>849</u>	<u>3,572</u>
Cash and investment fund balance - ending	<u>\$ 1,889</u>	<u>\$ 295</u>	<u>\$ 286</u>	<u>\$ 849</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 1,889	\$ 295	\$ 286	\$ 849	\$ -
Restricted assets:					
Cash and investments	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and investment assets - ending	<u>\$ 1,889</u>	<u>\$ 295</u>	<u>\$ 286</u>	<u>\$ 849</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-
Capital outlay	-	-	-	-	-
Unrestricted	<u>1,889</u>	<u>295</u>	<u>286</u>	<u>849</u>	<u>-</u>
Total cash and investment fund balance - ending	<u>\$ 1,889</u>	<u>\$ 295</u>	<u>\$ 286</u>	<u>\$ 849</u>	<u>\$ -</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Elkhart County Drug Grant	TIF Heritage Farms	TIF District Downtown	TIF West Industrial Park	Sale of Utility
Receipts:					
Taxes	\$ -	\$ 127,833	\$ 17,888	\$ 145,394	\$ -
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other	-	-	-	-	11,931
	<u>-</u>	<u>127,833</u>	<u>17,888</u>	<u>145,394</u>	<u>11,931</u>
Total receipts	-	127,833	17,888	145,394	11,931
Disbursements:					
General government	-	-	-	-	11,931
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Capital outlay:					
General government	-	48,248	-	100,000	-
Highways and streets	-	-	-	-	-
	<u>-</u>	<u>48,248</u>	<u>-</u>	<u>100,000</u>	<u>11,931</u>
Total disbursements	-	48,248	-	100,000	11,931
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>79,585</u>	<u>17,888</u>	<u>45,394</u>	<u>-</u>
Cash and investment fund balance - beginning	<u>274</u>	<u>221,739</u>	<u>467</u>	<u>209,610</u>	<u>1,046,224</u>
Cash and investment fund balance - ending	<u>\$ 274</u>	<u>\$ 301,324</u>	<u>\$ 18,355</u>	<u>\$ 255,004</u>	<u>\$ 1,046,224</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 274	\$ 301,324	\$ 18,355	\$ 255,004	\$ 1,046,224
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 274</u>	<u>\$ 301,324</u>	<u>\$ 18,355</u>	<u>\$ 255,004</u>	<u>\$ 1,046,224</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	-	-	-	-
Capital outlay	-	-	-	-	-
Unrestricted	<u>274</u>	<u>301,324</u>	<u>18,355</u>	<u>255,004</u>	<u>1,046,224</u>
Total cash and investment fund balance - ending	<u>\$ 274</u>	<u>\$ 301,324</u>	<u>\$ 18,355</u>	<u>\$ 255,004</u>	<u>\$ 1,046,224</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Clerk's Records Perpetuation	Cumulative Capital Development	Building and Firefighting Equipment	Cumulative Capital Improvement	Totals
Receipts:					
Taxes	\$ -	\$ 143,500	\$ 95,938	\$ -	\$ 850,317
Intergovernmental	-	4,225	2,826	20,575	491,381
Charges for services	-	-	-	-	73,744
Fines and forfeits	1,871	-	-	-	4,023
Other	-	-	-	-	252,206
Total receipts	<u>1,871</u>	<u>147,725</u>	<u>98,764</u>	<u>20,575</u>	<u>1,671,671</u>
Disbursements:					
General government	-	-	-	-	322,023
Public safety	-	-	-	-	26,818
Highways and streets	-	-	-	-	394,857
Capital outlay:					
General government	-	-	-	1,388	159,502
Highways and streets	-	-	-	-	247,097
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,388</u>	<u>1,150,297</u>
Excess (deficiency) of receipts over disbursements	<u>1,871</u>	<u>147,725</u>	<u>98,764</u>	<u>19,187</u>	<u>521,374</u>
Cash and investment fund balance - beginning	<u>14,571</u>	<u>106,692</u>	<u>185,818</u>	<u>211,402</u>	<u>3,712,604</u>
Cash and investment fund balance - ending	<u>\$ 16,442</u>	<u>\$ 254,417</u>	<u>\$ 284,582</u>	<u>\$ 230,589</u>	<u>\$ 4,233,978</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 16,442	\$ -	\$ -	\$ -	\$ 3,122,751
Restricted assets:					
Cash and investments	-	254,417	284,582	230,589	1,111,227
Total cash and investment assets - ending	<u>\$ 16,442</u>	<u>\$ 254,417</u>	<u>\$ 284,582</u>	<u>\$ 230,589</u>	<u>\$ 4,233,978</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 38,191
Highways and streets	-	-	-	-	303,448
Capital outlay	-	254,417	284,582	230,589	769,588
Unrestricted	16,442	-	-	-	3,122,751
Total cash and investment fund balance - ending	<u>\$ 16,442</u>	<u>\$ 254,417</u>	<u>\$ 284,582</u>	<u>\$ 230,589</u>	<u>\$ 4,233,978</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2009

	Payroll	Ambulance Fee Reimburse	Court Costs Due County	Assessment Registration County Transfer	Park and Recreation Cleaning Deposits	Anthem Small Business Holding
Additions:						
Agency fund additions	\$ 3,110,118	\$ 1,224	\$ 8,834	\$ 204	\$ 2,360	\$ 629,400
Deductions:						
Agency fund deductions	3,109,084	1,363	8,834	196	2,355	622,869
Excess (deficiency) of total additions over total deductions	1,034	(139)	-	8	5	6,531
Cash and investment fund balance - beginning	44,504	304	-	-	1,160	51,031
Cash and investment fund balance - ending	<u>\$ 45,538</u>	<u>\$ 165</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ 1,165</u>	<u>\$ 57,562</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2009
 (Continued)

	Utility Employment Taxes	Building Improvement District	Sales Tax	City Court	Nappanee Fight Crime	Totals
Additions:						
Agency fund additions	\$ 37,395	\$ 24,836	\$ 12,016	\$ 151,751	\$ 1	\$ 3,978,139
Deductions:						
Agency fund deductions	37,395	7,000	12,018	149,594	-	3,950,708
Excess (deficiency) of total additions over total deductions	-	17,836	(2)	2,157	1	27,431
Cash and investment fund balance - beginning	-	200	173	4,008	2,674	104,054
Cash and investment fund balance - ending	\$ -	\$ 18,036	\$ 171	\$ 6,165	\$ 2,675	\$ 131,485

CITY OF NAPPANEE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2009

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 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	\$ 1,279,981
Infrastructure	213,438
Buildings	4,375,052
Improvements other than buildings	5,221,692
Machinery and equipment	4,164,079
Construction in progress	<u>492,757</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 15,746,999</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	382,115
Buildings	1,235,088
Improvements other than buildings	5,095,856
Machinery and equipment	<u>244,141</u>
 Total Water Utility capital assets	 <u>7,176,030</u>

Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 22,787
Construction in progress	1,403,168
Buildings	2,575,250
Improvements other than buildings	7,119,917
Machinery and equipment	<u>290,729</u>
 Total Wastewater Utility capital assets	 <u>11,411,851</u>

Total business-type activities capital assets	<u>\$ 18,587,881</u>
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CITY OF NAPPANEE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2009

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Water Utility:		
Revenue bonds:		
1999 Waterworks additions and improvements	\$ 705,000	\$ 56,048
2003 Waterworks refunding	<u>130,000</u>	<u>132,204</u>
Total Water Utility	<u>835,000</u>	<u>188,252</u>
Wastewater Utility:		
SRF Loan	<u>723,883</u>	<u>86,355</u>
Total business-type activities debt	<u>\$ 1,558,883</u>	<u>\$ 274,607</u>

*The City of Nappanee has been approved for a total of \$4,875,000.

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Nappanee (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2009. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 2, 2010

CITY OF NAPPANEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2009

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety	20.600	FY 08-09	\$ 3,627
Pass-Through Elkhart County Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	K8-2008-02-03-07	<u>5,210</u>
Total for Cluster			<u>8,837</u>
Pass-Through Indiana Department of Transportation Federal Transit - Formula Grants	20.507	IN-16-X003	<u>36,800</u>
Total for federal grantor agency			<u>45,637</u>
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	2W-00E73001-0	111,959
ARRA - Capitalization Grants for Clean Water State Revolving Funds		2W-00E73001-0	<u>413,490</u>
Total for federal grantor agency			<u>525,449</u>
Total federal awards expended			<u>\$ 571,086</u>

The accompanying note are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF NAPPANEE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Nappanee (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF NAPPANEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
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66.458	Capitalization Grants for Clean Water State Revolving Funds ARRA – Capitalization Grants for Clean Water State Revolving Funds
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Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF NAPPANEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on March 2, 2010, with Kimberly A. Ingle, Clerk-Treasurer; and Larry L. Thompson, Mayor. Our audit disclosed no material items that warrant comment at this time.