

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF NAPPANEE
ELKHART COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/16/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kimberly A. Ingle	01-01-12 to 12-31-15
Mayor	Larry L. Thompson	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Larry L. Thompson	01-01-12 to 12-31-15
President of the Common Council	Larry L. Thompson	01-01-12 to 12-31-15
Superintendent of Utilities	Gale Gerber	01-01-12 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Nappanee (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2013, 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 integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. 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*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

Included in the financial statement are the receipts and disbursements activity from emergency telephone system fees (IC 36-8-16), enhanced wireless emergency telephone fees (IC 36-8-16.5), and statewide 911 services fees (IC 36-8-16.7). In accordance with Indiana Code 36-8-16-14, Indiana Code 36-8-16.5-41, and Indiana Code 36-8-16.7-38, these fees have been subject to an annual audit performed by the Indiana State Board of Accounts and, in our opinion, are fairly stated, in all material respects, in relation to the financial statement taken as a whole.



Bruce Hartman
State Examiner

August 14, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, 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, the financial statement of the City of Nappanee (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 14, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

City of Nappanee's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 14, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF NAPPANEE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 1,473,902	\$ 3,949,709	\$ 4,049,157	\$ 1,374,454
Motor Vehicle Highway	533,592	465,497	723,987	275,102
Local Road And Street	279,736	57,739	50,810	286,665
Aviation	56,435	50,659	53,847	53,247
Law Enforcement Continuing Ed	19,515	4,898	2,422	21,991
Riverboat	97,023	39,382	25,130	111,275
Emergency Telephone System	40,689	17,243	29,513	28,419
Parks And Recreation	442,601	678,424	785,922	335,103
User Fee	5,502	1,367	124	6,745
Rainy Day	538,010	-	-	538,010
Hazardous Materials	517	-	68	449
Levy Excess	-	24,577	-	24,577
Major Moves Construction	1,143,887	1,814	-	1,145,701
Cumulative Capital Development	387,508	61,212	173,935	274,785
Cumulative Fire	273,159	3,600	230,558	46,201
Cumulative Capital Improvement	205,827	17,632	1,444	222,015
Cedit Capital Projects	1,082,651	319,426	429,995	972,082
Police Pension	127,849	84,795	75,939	136,705
Rent House Regis. Non Revert	1,600	31,850	-	33,450
United Health Holding	52,269	658,136	709,253	1,152
Lincoln Finan. Holding	530	16,854	17,384	-
HUD Grant - Airport	-	38,430	38,429	1
NSP 3 - Housing Grant	-	290,096	290,028	68
INPRS - Holding	-	90,698	90,698	-
Gift	195,382	30,525	33,614	192,293
Aviation Rotary	31,539	43,229	35,742	39,026
Golf Crs. Capital Outlays	101	-	-	101
P & R Spec. Non-Rev./Day Camp	9,625	335	1,005	8,955
Special Recreation Fund	34,783	43,796	37,212	41,367
Sidewalk Program	-	1,365	1,365	-
Fireworks Fund	5,397	-	-	5,397
Insurance Reimbursement	25,628	1,414	1,644	25,398
Vehicle Inspection Fund	1,861	-	-	1,861
Home & School Safety Fund	69	190	170	89
Crime Forfeitures Fund	7,480	134	7,614	-
1990 G.O. Bonds	849	-	-	849
Elkhart County Drug Grant	274	-	-	274
Tif - City Wide	1,566,810	299,687	211,367	1,655,130
Tif - Downtown	18,241	-	18,241	-
Tif - West Industrial Pk.	255,004	-	183,822	71,182
Utility Sale	1,046,224	1,655	1,655	1,046,224
Court Clerk Perpetuation Fund	15,515	1,331	2,010	14,836
Payroll	41,096	3,115,004	3,140,499	15,601
Ambulance Fee Reimburse	181	40	40	181
Cout Costs Due County	-	6,178	6,178	-
Assess. Reg. - Cty. Tr.	12	184	196	-
P & R Cleaning Dep. Reimb.	1,500	3,400	3,065	1,835
Anthem Bc/Bs - Holding	5,769	-	-	5,769
Utility Employment Taxes	-	36,184	36,184	-
Nappanee Bus Impr Dist	12,866	10,850	698	23,018
Sales Tax Payable	74	12,988	12,819	243
City Court	2,260	93,570	90,684	5,146
Nappanee Fight Crime Fund	330	-	330	-
Storm Water Utility - Operating	353,641	87,148	37,499	403,290
Wastewater Utility - Operating	1,272,958	1,271,993	1,314,419	1,230,532
Wastewater Util - Bond And Interest	207,229	259,381	47,561	419,049
Wastewater Utility - Deprec/Improve	177,692	19,666	12	197,346
Wastewater Utility - Other #1	462,683	137,278	119,850	480,111
Water Utility - Operating	725,642	1,494,415	1,175,864	1,044,193
Water Utility - Bond And Interest	302,425	193,740	188,692	307,473
Water Utility - Depreciation/Improve	25,021	31	5	25,047
Water Utility - Construction	42,638	61	10	42,689
Water Utility - Other #1	80,634	556,871	85,800	551,705
Totals	\$ 13,692,235	\$ 14,626,681	\$ 14,574,509	\$ 13,744,407

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

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENT

Note 1. 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 some or all of 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, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize 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.

Note 5. Risk Management

The City may be 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; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 Indiana Public Retirement System (INPRS) 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 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF NAPPANEE
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan 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

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

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF NAPPANEE
 NOTES TO FINANCIAL STATEMENT
 (Continued)

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Restatements

For the year ended December 31, 2012, certain changes have been made to some of the beginning balances of the financial statement to more appropriately reflect financial activity of the City. The following schedule presents a summary of restated beginning balances.

<u>Fund</u>	<u>Balance as of December 31, 2011</u>	<u>Prior Period Adjustment</u>	<u>Balance as of January 1, 2012</u>
Police Pension	<u>\$ 127,805</u>	<u>\$ 48</u>	<u>\$ 127,849</u>

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Aviation	Law Enforcement Continuing Ed	Riverboat	Emergency Telephone System	Parks And Recreation
Cash and investments - beginning	\$ 1,473,902	\$ 533,592	\$ 279,736	\$ 56,435	\$ 19,515	\$ 97,023	\$ 40,689	\$ 442,601
Receipts:								
Taxes	1,986,001	144,973	-	34,754	-	-	-	191,435
Licenses and permits	15,103	-	-	-	-	-	-	-
Intergovernmental	1,209,877	308,944	57,739	1,660	-	39,382	-	74,975
Charges for services	288,739	10,500	-	14,245	-	-	17,243	300,791
Fines and forfeits	13,174	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	436,815	1,080	-	-	4,898	-	-	111,223
Total receipts	<u>3,949,709</u>	<u>465,497</u>	<u>57,739</u>	<u>50,659</u>	<u>4,898</u>	<u>39,382</u>	<u>17,243</u>	<u>678,424</u>
Disbursements:								
Personal services	2,704,709	326,187	-	-	-	-	-	413,778
Supplies	206,096	54,368	-	1,568	205	-	-	131,776
Other services and charges	662,935	43,973	-	52,279	2,217	-	29,513	167,391
Capital outlay	47,318	299,459	50,810	-	-	25,130	-	72,977
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	428,099	-	-	-	-	-	-	-
Total disbursements	<u>4,049,157</u>	<u>723,987</u>	<u>50,810</u>	<u>53,847</u>	<u>2,422</u>	<u>25,130</u>	<u>29,513</u>	<u>785,922</u>
Excess (deficiency) of receipts over disbursements	<u>(99,448)</u>	<u>(258,490)</u>	<u>6,929</u>	<u>(3,188)</u>	<u>2,476</u>	<u>14,252</u>	<u>(12,270)</u>	<u>(107,498)</u>
Cash and investments - ending	<u>\$ 1,374,454</u>	<u>\$ 275,102</u>	<u>\$ 286,665</u>	<u>\$ 53,247</u>	<u>\$ 21,991</u>	<u>\$ 111,275</u>	<u>\$ 28,419</u>	<u>\$ 335,103</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	User Fee	Rainy Day	Hazardous Materials	Levy Excess	Major Moves Construction	Cumulative Capital Development	Cumulative Fire	Cumulative Capital Improvement
Cash and investments - beginning	\$ 5,502	\$ 538,010	\$ 517	\$ -	\$ 1,143,887	\$ 387,508	\$ 273,159	\$ 205,827
Receipts:								
Taxes	-	-	-	-	-	58,420	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	24,577	-	2,792	-	17,632
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	1,367	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	1,814	-	3,600	-
Total receipts	1,367	-	-	24,577	1,814	61,212	3,600	17,632
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	68	-	-	-	-	-
Other services and charges	-	-	-	-	-	10,500	-	-
Capital outlay	-	-	-	-	-	163,435	230,558	1,444
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	124	-	-	-	-	-	-	-
Total disbursements	124	-	68	-	-	173,935	230,558	1,444
Excess (deficiency) of receipts over disbursements	1,243	-	(68)	24,577	1,814	(112,723)	(226,958)	16,188
Cash and investments - ending	\$ 6,745	\$ 538,010	\$ 449	\$ 24,577	\$ 1,145,701	\$ 274,785	\$ 46,201	\$ 222,015

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cedit Capital Projects	Police Pension	Rent House Regis. Non Revert	United Health Holding	Lincoln Finan. Holding	HUD Grant - Airport	NSP 3 - Housing Grant	INPRS - Holding
Cash and investments - beginning	\$ 1,082,651	\$ 127,849	\$ 1,600	\$ 52,269	\$ 530	\$ -	\$ -	\$ -
Receipts:								
Taxes	-	84,795	-	-	-	-	-	-
Licenses and permits	-	-	31,850	-	-	-	-	-
Intergovernmental	303,826	-	-	-	-	38,430	290,096	-
Charges for services	15,600	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	-	658,136	16,854	-	-	90,698
Total receipts	319,426	84,795	31,850	658,136	16,854	38,430	290,096	90,698
Disbursements:								
Personal services	-	75,939	-	-	-	-	-	-
Supplies	206	-	-	-	-	-	-	-
Other services and charges	398,279	-	-	-	-	38,429	290,028	-
Capital outlay	31,510	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	-	-	709,253	17,384	-	-	90,698
Total disbursements	429,995	75,939	-	709,253	17,384	38,429	290,028	90,698
Excess (deficiency) of receipts over disbursements	(110,569)	8,856	31,850	(51,117)	(530)	1	68	-
Cash and investments - ending	\$ 972,082	\$ 136,705	\$ 33,450	\$ 1,152	\$ -	\$ 1	\$ 68	\$ -

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Gift	Aviation Rotary	Golf Crs. Capital Outlays	P & R Spec. Non-Rev./ Day Camp	Special Recreation Fund	Sidewalk Program	Fireworks Fund	Insurance Reimbursement
Cash and investments - beginning	\$ 195,382	\$ 31,539	\$ 101	\$ 9,625	\$ 34,783	\$ -	\$ 5,397	\$ 25,628
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	335	43,796	1,365	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	30,525	43,229	-	-	-	-	-	1,414
Total receipts	30,525	43,229	-	335	43,796	1,365	-	1,414
Disbursements:								
Personal services	-	-	-	434	16,272	-	-	-
Supplies	16,591	35,742	-	571	15,618	-	-	-
Other services and charges	4,943	-	-	-	5,322	-	-	-
Capital outlay	4,580	-	-	-	-	1,365	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	7,500	-	-	-	-	-	-	1,644
Total disbursements	33,614	35,742	-	1,005	37,212	1,365	-	1,644
Excess (deficiency) of receipts over disbursements	(3,089)	7,487	-	(670)	6,584	-	-	(230)
Cash and investments - ending	\$ 192,293	\$ 39,026	\$ 101	\$ 8,955	\$ 41,367	\$ -	\$ 5,397	\$ 25,398

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Vehicle Inspection Fund	Home & School Safety Fund	Crime Forfeitures Fund	1990 G.O. Bonds	Elkhart County Drug Grant	Tif - City Wide	Tif - Downtown	Tif - West Industrial Pk.
Cash and investments - beginning	\$ 1,861	\$ 69	\$ 7,480	\$ 849	\$ 274	\$ 1,566,810	\$ 18,241	\$ 255,004
Receipts:								
Taxes	-	-	-	-	-	215,470	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	190	134	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	84,217	-	-
Total receipts	-	190	134	-	-	299,687	-	-
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	7,614	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	18,241	-
Capital outlay	-	-	-	-	-	186,564	-	183,822
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	-	170	-	-	-	24,803	-	-
Total disbursements	-	170	7,614	-	-	211,367	18,241	183,822
Excess (deficiency) of receipts over disbursements	-	20	(7,480)	-	-	88,320	(18,241)	(183,822)
Cash and investments - ending	<u>\$ 1,861</u>	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 849</u>	<u>\$ 274</u>	<u>\$ 1,655,130</u>	<u>\$ -</u>	<u>\$ 71,182</u>

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Utility Sale	Court Clerk Perpetuation Fund	Payroll	Ambulance Fee Reimburse	Cout Costs Due County	Assess. Reg. - Cty. Tr.	P & R Cleaning Dep. Reimb.	Anthem Bc/Bs - Holding
Cash and investments - beginning	\$ 1,046,224	\$ 15,515	\$ 41,096	\$ 181	\$ -	\$ 12	\$ 1,500	\$ 5,769
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	1,331	-	-	6,178	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	1,655	-	3,115,004	40	-	184	3,400	-
Total receipts	1,655	1,331	3,115,004	40	6,178	184	3,400	-
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-
Other services and charges	-	2,010	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	1,655	-	3,140,499	40	6,178	196	3,065	-
Total disbursements	1,655	2,010	3,140,499	40	6,178	196	3,065	-
Excess (deficiency) of receipts over disbursements	-	(679)	(25,495)	-	-	(12)	335	-
Cash and investments - ending	\$ 1,046,224	\$ 14,836	\$ 15,601	\$ 181	\$ -	\$ -	\$ 1,835	\$ 5,769

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Utility Employment Taxes	Nappanee Bus Impr Dist	Sales Tax Payable	City Court	Nappanee Fight Crime Fund	Storm Water Utility - Operating	Wastewater Utility - Operating	Wastewater Util - Bond And Interest
Cash and investments - beginning	\$ -	\$ 12,866	\$ 74	\$ 2,260	\$ 330	\$ 353,641	\$ 1,272,958	\$ 207,229
Receipts:								
Taxes	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	85,462	1,210,776	-
Penalties	-	-	-	-	-	1,224	19,739	-
Other receipts	36,184	10,850	12,988	93,570	-	462	41,478	259,381
Total receipts	36,184	10,850	12,988	93,570	-	87,148	1,271,993	259,381
Disbursements:								
Personal services	-	-	-	-	-	-	-	-
Supplies	-	236	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	9,922	-	-
Utility operating expenses	-	-	-	-	-	27,402	799,907	-
Other disbursements	36,184	462	12,819	90,684	330	175	514,512	47,561
Total disbursements	36,184	698	12,819	90,684	330	37,499	1,314,419	47,561
Excess (deficiency) of receipts over disbursements	-	10,152	169	2,886	(330)	49,649	(42,426)	211,820
Cash and investments - ending	\$ -	\$ 23,018	\$ 243	\$ 5,146	\$ -	\$ 403,290	\$ 1,230,532	\$ 419,049

CITY OF NAPPANEE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Wastewater Utility - Deprec/Improve	Wastewater Utility - Other #1	Water Utility - Operating	Water Utility - Bond And Interest	Water Utility - Depreciation/ Improve	Water Water Utility - Construction	Water Utility - Other #1	Totals
Cash and investments - beginning	\$ 177,692	\$ 462,683	\$ 725,642	\$ 302,425	\$ 25,021	\$ 42,638	\$ 80,634	\$ 13,692,235
Receipts:								
Taxes	-	-	-	-	-	-	-	2,715,848
Licenses and permits	-	-	-	-	-	-	-	46,953
Intergovernmental	-	-	-	-	-	-	428,099	2,798,029
Charges for services	-	-	-	-	-	-	-	692,614
Fines and forfeits	-	-	-	-	-	-	-	22,374
Utility fees	-	-	1,323,482	-	-	-	-	2,619,720
Penalties	-	-	8,073	-	-	-	-	29,036
Other receipts	19,666	137,278	162,860	193,740	31	61	128,772	5,702,107
Total receipts	<u>19,666</u>	<u>137,278</u>	<u>1,494,415</u>	<u>193,740</u>	<u>31</u>	<u>61</u>	<u>556,871</u>	<u>14,626,681</u>
Disbursements:								
Personal services	-	-	-	-	-	-	-	3,537,319
Supplies	-	-	-	-	-	-	-	470,659
Other services and charges	-	-	-	-	-	-	-	1,726,060
Capital outlay	-	108,470	-	-	-	-	84,174	1,501,538
Utility operating expenses	-	-	650,390	32	-	-	-	1,477,731
Other disbursements	12	11,380	525,474	188,660	5	10	1,626	5,861,202
Total disbursements	<u>12</u>	<u>119,850</u>	<u>1,175,864</u>	<u>188,692</u>	<u>5</u>	<u>10</u>	<u>85,800</u>	<u>14,574,509</u>
Excess (deficiency) of receipts over disbursements	<u>19,654</u>	<u>17,428</u>	<u>318,551</u>	<u>5,048</u>	<u>26</u>	<u>51</u>	<u>471,071</u>	<u>52,172</u>
Cash and investments - ending	<u>\$ 197,346</u>	<u>\$ 480,111</u>	<u>\$ 1,044,193</u>	<u>\$ 307,473</u>	<u>\$ 25,047</u>	<u>\$ 42,689</u>	<u>\$ 551,705</u>	<u>\$ 13,744,407</u>

CITY OF NAPPANEE
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Storm Water	\$ 452	\$ 1,169
Wastewater	56,245	18,437
Water	16,719	18,390
Governmental activities	<u>190,423</u>	<u>1,353,516</u>
Totals	<u>\$ 263,839</u>	<u>\$ 1,391,512</u>

CITY OF NAPPANEE
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Nappanee Clerk-Treasurer	Lease Color Digital Copier	\$ 2,793	03-12-12	06-12-17
City of Nappanee Comm. & Econ. Development	Lease Color Digital Copier	2,297	12-27-12	12-27-17
City of Nappanee Parks and Recreation	Lease Golf Carts	7,590	11-19-08	10-01-13
City of Nappanee Parks and Recreation	Lease Golf Carts	16,589	11-16-11	10-01-16
City of Nappanee Parks and Recreation	Lease Golf Carts	6,485	11-17-10	10-01-15
City of Nappanee Police Dept.	Lease Color Digital Copier	<u>2,482</u>	07-28-11	10-28-16
Total governmental activities		<u>38,236</u>		
Total of annual lease payments		<u>\$ 38,236</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater: Revenue bonds	Wastewater Treatment Plant Improvements	\$ 2,880,000	\$ 214,051
Water: Revenue bonds	Water Works Improvements	<u>360,000</u>	<u>188,990</u>
Totals		<u>\$ 3,240,000</u>	<u>\$ 403,041</u>

CITY OF NAPPANEE
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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.

	Ending Balance
Governmental activities:	
Land	\$ 1,279,980
Infrastructure	372,277
Buildings	4,314,106
Improvements other than buildings	5,386,010
Machinery, equipment, and vehicles	4,571,376
Construction in progress	2,085,639
Total governmental activities	18,009,388
Wastewater:	
Land	145,387
Buildings	2,288,384
Improvements other than buildings	11,151,826
Machinery, equipment, and vehicles	1,040,862
Construction in progress	860,952
Total Wastewater	15,487,411
Water:	
Land	281,815
Buildings	1,228,421
Improvements other than buildings	6,317,082
Machinery, equipment, and vehicles	247,745
Construction in progress	179,107
Total Water	8,254,170
Total capital assets	\$ 41,750,969

CITY OF NAPPANEE
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City has not established internal controls to ensure the Schedule of Expenditures of Federal Awards (SEFA) is prepared accurately. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. We noted several errors in the SEFA: two omitted federal programs, federal programs with wrong program titles, and two federal programs with no CFDA number.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Nappanee's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 14, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF NAPPANEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii NSP3 Housing Grant	Elkhart County	14.228		\$ 290,096
Economic Development Initiative - Special Project Neighborhood Initiative and Miscellaneous Grants HUD Grant - Airport	Direct Grant	14.251		38,430
Total - Department of Housing and Urban Development				328,526
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster Highway Planning and Construction	Indiana Department of Transportation	20.205	Des. 0401406 Des. 0800233 Des. 0710221	43,551 40,666 428,099
Total - Highway Planning and Construction Cluster				512,316
Highway Safety Cluster State and Community Highway Safety Operation Pullover	Elkhart County	20.600		1,435
Alcohol Impaired Driving Countermeasures Incentive Grants I DUI Task Force	Elkhart County	20.601		1,050
Total - Highway Safety Cluster				2,485
Total - Department of Transportation				514,801
<u>Environmental Protection Agency</u>				
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458	2W-00E73001-0	137,781
Total federal awards expended				\$ 981,108

The accompanying note is 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 and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF NAPPANEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	no
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Highway Planning and Construction Cluster Capitalization Grants for Clean Water State Revolving Funds

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

FINDING 2012-1 - INTERNAL CONTROLS OVER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City has not established internal controls to ensure the Schedule of Expenditures of Federal Awards (SEFA) is prepared accurately. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. We noted several errors in the SEFA: two omitted federal programs, federal programs with wrong program titles, and two federal programs with no CFDA number.

CITY OF NAPPANEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section. 300 states in part: "The auditee shall . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section.310."

OMB Circular A-133, Subpart C, section. 310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.



City of Nappanee

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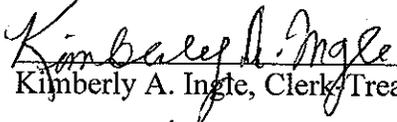
Finding 2012-1
Corrective Action Plan

August 5, 2013

State Board of Accounts
302 Washington St., Room E418
Indianapolis, IN 46204-2765

I have reviewed our internal control system and have designed the following control procedures; which will ensure the correction of our control deficiencies:

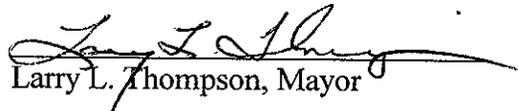
In order to strengthen the internal controls over the preparation of the financial statements, specifically the Schedule of Federal Expenditures, we agree to obtain a better understanding of what information is to be reported on the Schedule of Federal Expenditures to ensure accuracy and completeness.



Kimberly A. Ingle, Clerk/Treasurer

8/5/13

Date



Larry L. Thompson, Mayor

8-14-13

Date

CITY OF NAPPANEE
EXIT CONFERENCE

The contents of this report were discussed on August 14, 2013, with Kimberly A. Ingle, Clerk-Treasurer, and with Larry L. Thompson, Mayor.