

**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, 2013 to December 31, 2013



**FILED**  
06/06/2014



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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 Pro Tempore of the Common Council	Jeff Kitson	01-01-13 to 12-31-14
Superintendent of Utilities	Gale Gerber	01-01-13 to 12-31-14



## 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, 2013, 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, 2013.

***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, 2013, 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 April 22, 2014, 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.

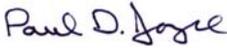
***Accompanying Information***

*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.

  
Paul D. Joyce, CPA  
State Examiner

April 22, 2014



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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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, 2013, and the related notes to the financial statement, and have issued our report thereon dated April 22, 2014, 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.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

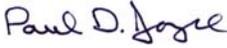
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***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.

  
Paul D. Joyce, CPA  
State Examiner

April 22, 2014

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## FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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, 2013

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
General	\$ 1,374,454	\$ 3,411,968	\$ 3,262,401	\$ 1,524,021
Motor Vehicle Highway	275,102	500,495	389,393	386,204
Local Road And Street	286,665	66,492	-	353,157
Aviation	53,247	54,630	46,680	61,197
Law Enforcement Continuing Ed	21,991	8,820	9,685	21,126
Riverboat	111,275	39,383	41,854	108,804
Emergency Telephone System	28,419	371	6,077	22,713
Parks And Recreation	335,103	602,002	837,144	99,961
User Fee	6,745	1,267	1,924	6,088
Rainy Day	538,010	-	5,758	532,252
Hazardous Materials	449	-	-	449
Levy Excess	24,577	-	24,577	-
Major Moves Construction	1,145,701	1,301	-	1,147,002
Cumulative Capital Development	274,785	56,494	98,208	233,071
Cumulative Fire	46,201	3,200	6,010	43,391
Cumulative Capital Improvement	222,015	17,846	6,714	233,147
Cedit Capital Projects	972,082	297,317	446,010	823,389
Police Pension	136,760	65,406	75,791	126,375
Rent House Regis. Non Revert	33,450	7,000	16,077	24,373
United Health Holding	1,152	543,849	488,561	56,440
Lincoln Finan. Holding	-	14,691	13,473	1,218
HUD Grant - Airport	1	181,982	181,982	1
NSP3 - Housing Grant	68	810,540	805,659	4,949
INPRS - Holding	-	372,751	372,751	-
Gift	192,293	46,114	40,435	197,972
Aviation Rotary	39,026	42,425	61,718	19,733
Golf Crs. Capital Outlays	101	-	-	101
P&R Spec. Non-Rev./Day Camp	8,955	395	165	9,185
Special Recreation Fund	41,367	42,905	48,893	35,379
Sidewalk Program	-	4,956	4,956	-
Fireworks Fund	5,397	-	-	5,397
Insurance Reimbursement	25,398	-	-	25,398
Vehicle Inspection Fund	1,861	-	-	1,861
Home & School Safety Fund	89	49	-	138
1990 G.O. Bonds	849	-	-	849
Elkhart County Drug Grant	274	-	-	274
Tif - City Wide	1,655,130	620,944	237,330	2,038,744
Tif - West Industrial Pk.	71,182	-	-	71,182
Utility Sale	1,046,224	1,188	1,188	1,046,224
Court Clerk Perpetuation Fund	14,836	1,232	525	15,543
Payroll	15,601	2,838,892	2,841,286	13,207
Ambulance Fee Reimburse	181	-	-	181
Court Costs Due County	-	5,674	6,355	(681)
Assess. Reg. - Cty. Tr.	-	2,620	2,620	-
P&R Cleaning Dep. Reimb.	1,835	2,665	2,920	1,580
Anthem Bc/Bs - Holding	5,769	-	-	5,769
Utility Employment Taxes	-	31,144	31,144	-
Nappanee Bus Impr Dist	23,018	11,050	12,858	21,210
Sales Tax Payable	243	11,055	11,276	22
City Court	5,146	88,204	91,512	1,838
Storm Water Utility - Operating	403,290	87,867	35,861	455,296
Wastewater Utility - Operating	1,230,532	1,266,120	1,294,991	1,201,661
Wastewater Utility - Bond And Interest	419,049	259,370	214,051	464,368
Wastewater Utility - Deprec/Improve	197,346	19,633	14,898	202,081
Wastewater Utility - Improvement	480,111	126,422	227,743	378,790
Water Utility - Operating	1,044,193	1,339,498	1,000,073	1,383,618
Water Utility - Bond And Interest	307,473	75,077	189,485	193,065
Water Utility - Depreciation/Improve	25,047	27	-	25,074
Water Utility - Construction	42,689	49	-	42,738
Water Utility - Improvement	551,705	127,270	46,501	632,474
Totals	<u>\$ 13,744,462</u>	<u>\$ 14,110,650</u>	<u>\$ 13,555,513</u>	<u>\$ 14,299,599</u>

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, 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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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 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.

CITY OF NAPPANEE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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, 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 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.

CITY OF NAPPANEE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

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

CITY OF NAPPANEE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

**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:

CITY OF NAPPANEE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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

*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:

CITY OF NAPPANEE  
 NOTES TO FINANCIAL STATEMENT  
 (Continued)

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

*Funding Policy*

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

**Note 7. Cash Balance Deficits**

The financial statement contains a fund with a deficit in cash. The fund Court Costs Due County is negative \$681. This is a result of overpayments made in error in February and March 2013 to the county for their share of court costs. The errors were corrected by adjusting January, February, and March 2014 payments.

**Note 8. Restatements**

For the year ended December 31, 2013, 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.

Fund Name	Balance as of December 31, 2012	Prior Period Adjustment	Balance as of January 1, 2013
Police Pension	\$ 136,705	\$ 55	\$ 136,760

## 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, 2013

	General	Motor Vehicle Highway	Local Road And Street	Aviation	Law Enforcement Continuing Ed	Riverboat	Emergency Telephone System
Cash and investments - beginning	\$ 1,374,454	\$ 275,102	\$ 286,665	\$ 53,247	\$ 21,991	\$ 111,275	\$ 28,419
Receipts:							
Taxes	1,844,906	164,115	-	34,862	-	-	-
Licenses and permits	20,541	-	-	-	-	-	-
Intergovernmental	1,176,752	319,928	56,492	2,943	-	39,383	-
Charges for services	300,489	10,500	-	16,825	-	-	371
Fines and forfeits	12,422	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	56,858	5,952	10,000	-	8,820	-	-
Total receipts	<u>3,411,968</u>	<u>500,495</u>	<u>66,492</u>	<u>54,630</u>	<u>8,820</u>	<u>39,383</u>	<u>371</u>
Disbursements:							
Personal services	2,382,822	295,818	-	-	-	-	-
Supplies	190,992	42,466	-	1,680	-	-	-
Other services and charges	644,899	41,100	-	41,779	9,685	-	6,077
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	43,688	10,009	-	3,221	-	41,854	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>3,262,401</u>	<u>389,393</u>	<u>-</u>	<u>46,680</u>	<u>9,685</u>	<u>41,854</u>	<u>6,077</u>
Excess (deficiency) of receipts over disbursements	<u>149,567</u>	<u>111,102</u>	<u>66,492</u>	<u>7,950</u>	<u>(865)</u>	<u>(2,471)</u>	<u>(5,706)</u>
Cash and investments - ending	<u>\$ 1,524,021</u>	<u>\$ 386,204</u>	<u>\$ 353,157</u>	<u>\$ 61,197</u>	<u>\$ 21,126</u>	<u>\$ 108,804</u>	<u>\$ 22,713</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Parks And Recreation	User Fee	Rainy Day	Hazardous Materials	Levy Excess	Major Moves Construction	Cumulative Capital Development
Cash and investments - beginning	\$ 335,103	\$ 6,745	\$ 538,010	\$ 449	\$ 24,577	\$ 1,145,701	\$ 274,785
Receipts:							
Taxes	270,249	-	-	-	-	-	51,979
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	14,684	-	-	-	-	-	4,515
Charges for services	316,404	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	665	1,267	-	-	-	1,301	-
Total receipts	<u>602,002</u>	<u>1,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,301</u>	<u>56,494</u>
Disbursements:							
Personal services	406,166	-	-	-	-	-	-
Supplies	124,551	-	-	-	-	-	-
Other services and charges	170,669	-	-	-	-	-	10,500
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	135,758	-	-	-	-	-	87,708
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	1,924	5,758	-	24,577	-	-
Total disbursements	<u>837,144</u>	<u>1,924</u>	<u>5,758</u>	<u>-</u>	<u>24,577</u>	<u>-</u>	<u>98,208</u>
Excess (deficiency) of receipts over disbursements	<u>(235,142)</u>	<u>(657)</u>	<u>(5,758)</u>	<u>-</u>	<u>(24,577)</u>	<u>1,301</u>	<u>(41,714)</u>
Cash and investments - ending	<u>\$ 99,961</u>	<u>\$ 6,088</u>	<u>\$ 532,252</u>	<u>\$ 449</u>	<u>\$ -</u>	<u>\$ 1,147,002</u>	<u>\$ 233,071</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Cumulative Fire	Cumulative Capital Improvement	Cedit Capital Projects	Police Pension	Rent House Regis. Non Revert	United Health Holding	Lincoln Finan. Holding
Cash and investments - beginning	\$ 46,201	\$ 222,015	\$ 972,082	\$ 136,760	\$ 33,450	\$ 1,152	\$ -
Receipts:							
Taxes	-	-	-	65,367	-	-	-
Licenses and permits	-	-	-	-	7,000	-	-
Intergovernmental	-	17,846	281,717	-	-	-	-
Charges for services	-	-	15,600	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	3,200	-	-	39	-	543,849	14,691
Total receipts	3,200	17,846	297,317	65,406	7,000	543,849	14,691
Disbursements:							
Personal services	-	-	-	75,791	16,037	-	-
Supplies	-	-	341	-	-	-	-
Other services and charges	-	-	402,739	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	6,010	6,714	29,350	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	13,580	-	40	488,561	13,473
Total disbursements	6,010	6,714	446,010	75,791	16,077	488,561	13,473
Excess (deficiency) of receipts over disbursements	(2,810)	11,132	(148,693)	(10,385)	(9,077)	55,288	1,218
Cash and investments - ending	\$ 43,391	\$ 233,147	\$ 823,389	\$ 126,375	\$ 24,373	\$ 56,440	\$ 1,218

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	HUD Grant - Airport	NSP3 - Housing Grant	INPRS - Holding	Gift	Aviation Rotary	Golf Crs. Capital Outlays	P&R Spec. Non-Rev./Day Camp
Cash and investments - beginning	\$ 1	\$ 68	\$ -	\$ 192,293	\$ 39,026	\$ 101	\$ 8,955
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	181,982	810,540	-	-	456	-	-
Charges for services	-	-	-	-	-	-	395
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	372,751	46,114	41,969	-	-
Total receipts	<u>181,982</u>	<u>810,540</u>	<u>372,751</u>	<u>46,114</u>	<u>42,425</u>	<u>-</u>	<u>395</u>
Disbursements:							
Personal services	-	-	-	-	-	-	165
Supplies	-	-	-	21,491	60,820	-	-
Other services and charges	181,982	805,659	-	8,044	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	372,751	10,900	898	-	-
Total disbursements	<u>181,982</u>	<u>805,659</u>	<u>372,751</u>	<u>40,435</u>	<u>61,718</u>	<u>-</u>	<u>165</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>4,881</u>	<u>-</u>	<u>5,679</u>	<u>(19,293)</u>	<u>-</u>	<u>230</u>
Cash and investments - ending	<u>\$ 1</u>	<u>\$ 4,949</u>	<u>\$ -</u>	<u>\$ 197,972</u>	<u>\$ 19,733</u>	<u>\$ 101</u>	<u>\$ 9,185</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Special Recreation Fund	Sidewalk Program	Fireworks Fund	Insurance Reimbursement	Vehicle Inspection Fund	Home & School Safety Fund	1990 G.O. Bonds
Cash and investments - beginning	\$ 41,367	\$ -	\$ 5,397	\$ 25,398	\$ 1,861	\$ 89	\$ 849
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	42,905	4,956	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	49	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total receipts	<u>42,905</u>	<u>4,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49</u>	<u>-</u>
Disbursements:							
Personal services	17,330	-	-	-	-	-	-
Supplies	15,553	-	-	-	-	-	-
Other services and charges	16,010	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	4,956	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>48,893</u>	<u>4,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(5,988)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49</u>	<u>-</u>
Cash and investments - ending	<u>\$ 35,379</u>	<u>\$ -</u>	<u>\$ 5,397</u>	<u>\$ 25,398</u>	<u>\$ 1,861</u>	<u>\$ 138</u>	<u>\$ 849</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Elkhart County Drug Grant	Tif - City Wide	Tif - West Industrial Pk.	Utility Sale	Court Clerk Perpetuation Fund	Payroll	Ambulance Fee Reimburse
Cash and investments - beginning	\$ 274	\$ 1,655,130	\$ 71,182	\$ 1,046,224	\$ 14,836	\$ 15,601	\$ 181
Receipts:							
Taxes	-	617,749	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	1,232	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	3,195	-	1,188	-	2,838,892	-
Total receipts	-	620,944	-	1,188	1,232	2,838,892	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	16,814	-	-	525	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	220,516	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	1,188	-	2,841,286	-
Total disbursements	-	237,330	-	1,188	525	2,841,286	-
Excess (deficiency) of receipts over disbursements	-	383,614	-	-	707	(2,394)	-
Cash and investments - ending	\$ 274	\$ 2,038,744	\$ 71,182	\$ 1,046,224	\$ 15,543	\$ 13,207	\$ 181

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Court Costs Due County	Assess. Reg. - Cty. Tr.	P&R Cleaning Dep. Reimb.	Anthem Bc/Bs - Holding	Utility Employment Taxes	Nappanee Bus Impr Dist	Sales Tax Payable
Cash and investments - beginning	\$ -	\$ -	\$ 1,835	\$ 5,769	\$ -	\$ 23,018	\$ 243
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	5,674	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	2,620	2,665	-	31,144	11,050	11,055
Total receipts	<u>5,674</u>	<u>2,620</u>	<u>2,665</u>	<u>-</u>	<u>31,144</u>	<u>11,050</u>	<u>11,055</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	1,991	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	6,355	2,620	2,920	-	31,144	10,867	11,276
Total disbursements	<u>6,355</u>	<u>2,620</u>	<u>2,920</u>	<u>-</u>	<u>31,144</u>	<u>12,858</u>	<u>11,276</u>
Excess (deficiency) of receipts over disbursements	<u>(681)</u>	<u>-</u>	<u>(255)</u>	<u>-</u>	<u>-</u>	<u>(1,808)</u>	<u>(221)</u>
Cash and investments - ending	<u>\$ (681)</u>	<u>\$ -</u>	<u>\$ 1,580</u>	<u>\$ 5,769</u>	<u>\$ -</u>	<u>\$ 21,210</u>	<u>\$ 22</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	City Court	Storm Water Utility - Operating	Wastewater Utility - Operating	Wastewater Utility - Bond And Interest	Wastewater Utility - Deprec/Improve	Wastewater Utility - Improvement
Cash and investments - beginning	\$ 5,146	\$ 403,290	\$ 1,230,532	\$ 419,049	\$ 197,346	\$ 480,111
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	85,798	1,170,747	-	-	-
Penalties	-	1,220	19,767	-	-	-
Other receipts	88,204	849	75,606	259,370	19,633	126,422
Total receipts	88,204	87,867	1,266,120	259,370	19,633	126,422
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	214,051	-	-
Capital outlay	-	5,100	-	-	-	227,743
Utility operating expenses	-	30,687	712,274	-	14,898	-
Other disbursements	91,512	74	582,717	-	-	-
Total disbursements	91,512	35,861	1,294,991	214,051	14,898	227,743
Excess (deficiency) of receipts over disbursements	(3,308)	52,006	(28,871)	45,319	4,735	(101,321)
Cash and investments - ending	\$ 1,838	\$ 455,296	\$ 1,201,661	\$ 464,368	\$ 202,081	\$ 378,790

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2013  
 (Continued)

	Water Utility - Operating	Water Utility - Bond And Interest	Water Utility - Depreciation - Improvement	Water Utility - Construction	Water Utility - Improvement	Totals
Cash and investments - beginning	\$ 1,044,193	\$ 307,473	\$ 25,047	\$ 42,689	\$ 551,705	\$ 13,744,462
Receipts:						
Taxes	-	-	-	-	-	3,049,227
Licenses and permits	-	-	-	-	-	27,541
Intergovernmental	-	-	-	-	-	2,907,238
Charges for services	-	-	-	-	-	708,445
Fines and forfeits	-	-	-	-	-	19,377
Utility fees	1,257,579	-	-	-	-	2,514,124
Penalties	7,963	-	-	-	-	28,950
Other receipts	73,956	75,077	27	49	127,270	4,855,748
Total receipts	1,339,498	75,077	27	49	127,270	14,110,650
Disbursements:						
Personal services	-	-	-	-	-	3,194,129
Supplies	-	-	-	-	-	459,885
Other services and charges	-	-	-	-	-	2,356,482
Debt service - principal and interest	-	188,985	-	-	-	403,036
Capital outlay	-	-	-	-	46,501	869,128
Utility operating expenses	597,319	-	-	-	-	1,355,178
Other disbursements	402,754	500	-	-	-	4,917,675
Total disbursements	1,000,073	189,485	-	-	46,501	13,555,513
Excess (deficiency) of receipts over disbursements	339,425	(114,408)	27	49	80,769	555,137
Cash and investments - ending	\$ 1,383,618	\$ 193,065	\$ 25,074	\$ 42,738	\$ 632,474	\$ 14,299,599

CITY OF NAPPANEE  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2013

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 231,179	\$ 1,954,039
Storm Water	519	1,177
Wastewater	45,241	20,279
Water	<u>18,828</u>	<u>19,880</u>
Totals	<u>\$ 295,767</u>	<u>\$ 1,995,375</u>

CITY OF NAPPANEE  
SCHEDULE OF LEASES AND DEBT  
December 31, 2013

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	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 Parks and Recreation	Lease Golf Carts	6,965	12-11-13	10-01-18
City of Nappanee Police Dept.	Lease Color Digital Copier	<u>2,482</u>	07-28-11	10-28-16
Total of annual lease payments		<u>\$ 37,611</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater:			
Revenue bonds	Wastewater Treatment Plant Improvements	\$ 2,761,000	\$ 213,973
Water:			
Revenue bonds	Water Works Improvements	<u>185,000</u>	<u>189,764</u>
Totals		<u>\$ 2,946,000</u>	<u>\$ 403,737</u>

CITY OF NAPPANEE  
SCHEDULE OF CAPITAL ASSETS  
December 31, 2013

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.

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 1,279,980
Infrastructure	372,277
Buildings	4,314,106
Improvements other than buildings	6,988,550
Machinery, equipment, and vehicles	4,647,930
Construction in progress	<u>1,377,582</u>
Total governmental activities	<u>18,980,425</u>
Wastewater:	
Land	145,387
Buildings	2,261,621
Improvements other than buildings	11,189,140
Machinery, equipment, and vehicles	997,619
Construction in progress	<u>990,023</u>
Total Wastewater	<u>15,583,790</u>
Water:	
Land	281,815
Buildings	1,228,421
Improvements other than buildings	6,317,082
Machinery, equipment, and vehicles	258,684
Construction in progress	<u>225,608</u>
Total Water	<u>8,311,610</u>
Total capital assets	<u>\$ 42,875,825</u>

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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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 its major federal program for the year ended December 31, 2013. 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.

***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 the City's major federal program 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 the 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 its major federal program for the year ended December 31, 2013.

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

***Report on Internal Control Over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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.

  
Paul D. Joyce, CPA  
State Examiner

April 22, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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, 2013

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	Elkhart County	14.228	-	\$ 734,026
NSP3 Housing Grant				
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	Direct Grant	14.251	-	181,982
HUD Grant - Airport				
Total - Department of Housing and Urban Development				<u>916,008</u>
Total federal awards expended				<u>\$ 916,008</u>

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.

