

**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, 2016 to December 31, 2016



**FILED**  
03/15/2018



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-5
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 <i>Government Auditing Standards</i> .....	6-7
Financial Statement and Accompanying Notes:	
Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis .....	10
Notes to Financial Statement .....	11-15
Other Information - Unaudited:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis .....	18-28
Schedule of Payables and Receivables .....	29
Schedule of Leases and Debt .....	30
Schedule of Capital Assets .....	31
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control over Compliance .....	34-35
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards .....	38
Notes to Schedule of Expenditures of Federal Awards .....	39
Schedule of Findings and Questioned Costs .....	40-44
Auditee-Prepared Document:	
Corrective Action Plan .....	46-48
Other Reports .....	49

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kathy L. Brown	01-01-16 to 12-31-19
Mayor	Philip W. Jenkins	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Philip W. Jenkins	01-01-16 to 12-31-19
President of the Common Council	Philip W. Jenkins	01-01-16 to 12-31-19
Superintendent of Utilities	Gale Gerber	01-01-16 to 12-31-18



## 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, 2016, and the related notes to the financial statement as listed in the Table of Contents.

### ***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 from 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 to 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, 2016.

***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, 2016, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Matters***

*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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

*Other Information*

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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2018, 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 solely 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 effectiveness of the City's 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.

  
Paul D. Joyce, CPA  
State Examiner

January 30, 2018



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2016, and the related notes to the financial statement, and have issued our report thereon dated January 30, 2018, 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 City'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002, that we consider 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**

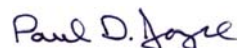
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2016-001.

**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.

  
Paul D. Joyce, CPA  
State Examiner

January 30, 2018

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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, 2016

Fund	Cash and Investments		Cash and Investments	
	01-01-16	Receipts	Disbursements	12-31-16
General	\$ 2,931,745	\$ 4,338,068	\$ 3,811,187	\$ 3,458,626
Motor Vehicle Highway	134,293	644,458	510,602	268,149
Local Road And Street	340,477	59,567	46,981	353,063
Aviation	78,040	56,370	77,151	57,259
Law Enforcement Continuing Ed	31,779	15,727	9,295	38,211
Riverboat	165,568	39,381	12,841	192,108
Emergency Telephone System	22,713	-	-	22,713
Parks And Recreation	330,772	970,210	867,510	433,472
User Fee	8,216	984	-	9,200
Rainy Day	1,126,091	266,381	101,600	1,290,872
Hazardous Materials	449	-	-	449
Tiff - Legacy	546,551	33,231	325,649	254,133
Major Moves Construction	1,148,823	-	-	1,148,823
Cumulative Capital Development	313,488	70,934	162,057	222,365
Cumulative Fire	2,303	-	-	2,303
Cumulative Capital Improvement	232,679	16,944	-	249,623
Cedit Capital Projects	336,081	438,416	388,530	385,967
Police Pension	123,263	64,168	70,226	117,205
Local Option Income Tax LOIT	121,188	374,059	235,628	259,619
Rent House Regis. Non Revert	16,242	12,745	17,215	11,772
United Health Holding	43,788	745,662	618,871	170,579
Lincoln Finan. Holding	2,251	17,149	16,373	3,027
NSP 3 - Housing Grant	203,902	-	-	203,902
INPRS - Holding	-	485,641	485,641	-
CRIME FORFT	967	-	-	967
Credit Card - Holding	10,133	313,167	323,300	-
MVH SPECIAL DIST LOIT	-	639,242	187,536	451,706
Gift	120,386	45,785	36,221	129,950
Aviation Rotary	36,749	30,134	20,117	46,766
P & R Spec. Non-Rev./Day Camp	9,567	-	9,567	-
Utility Employment Taxes	-	39,569	39,569	-
Special Recreation Fund	32,514	51,538	40,462	43,590
Sidewalk Program	(698)	9,242	9,519	(975)
Home & School Safety Fund	781	-	520	261
Elkhart County Drug Grant	274	-	-	274
Tif - City Wide	1,506,533	1,076,671	279,670	2,303,534
Tif - West Industrial Pk.	71,182	-	-	71,182
Court Clerk Perpetuation Fund	16,686	2,023	2,332	16,377
Payroll	50,833	3,502,243	3,481,479	71,597
Ambulance Fee Reimburse	181	408	408	181
Cout Costs Due County	1,978	5,145	5,871	1,252
Infraction Deferral fees	(1,350)	12,554	11,095	109
P & R Cleaning Dep. Reimb.	2,100	2,385	2,735	1,750
Nappanee Bus Impr Dist	55,694	18,655	6,449	67,900
Sales Tax Payable	(1,817)	13,253	11,313	123
City Court	4,299	76,406	78,334	2,371
Storm Water Utility-Operating	580,553	89,582	28,353	641,782
Wastewater Construction	-	6,934,453	6,934,031	422
Wastewater Utility-Operating	926,741	2,832,657	2,903,048	856,350
Wastewater Util-Bond And Interest	500,650	180,880	681,530	-
Wastewater Utility-Deprec/Improve	91,222	29	1,415	89,836
Wastewater Utility-Improvement	238,291	438,802	619,048	58,045
Water Utility-Operating	778,883	3,722,903	1,511,810	2,989,976
Water Utility-Depreciation/Improve	25,101	13	-	25,114
Water Utility-Construction	42,775	26	79	42,722
Water Utility-Improvement	578,262	110,035	273,017	415,280
Totals	\$ 13,940,172	\$ 28,797,895	\$ 25,256,185	\$ 17,481,882

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.* Amounts received from one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's 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.* 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 the following: peddler licenses, auctioneer licenses, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF NAPPANEE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Intergovernmental receipts.* Amounts received from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of intergovernmental receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state, local road and street distributions 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.* Amounts received for services including, but not limited to, the following: planning commission charges, building department charges, copies of public records, copy machines charges, accident report copies, gun permit applications, recycling 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.* Amounts received 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.* Amounts received from charges for current services.

*Penalties.* Amounts received from late payment fees.

*Other receipts.* Amounts received from various sources, including, but 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.* Amounts disbursed 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.* Amounts disbursed for 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, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

*Other services and charges.* Amounts disbursed for services including, but not limited to, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

*Debt service - principal and interest.* Amounts disbursed for 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.

CITY OF NAPPANEE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Capital outlay.* Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

*Utility operating expenses.* Amounts disbursed for operating the utilities.

*Other disbursements.* Amounts disbursed for various other purposes including, but 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, make transfers 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 amounts 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 amounts 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 lien date (March 1 in a year ending before January 1, 2016 and January 1 in a year beginning after December 31, 2015) 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, the following: 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 a cost-sharing 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  
One North Capitol, 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. 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  
One North Capitol, 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 some funds with deficits in cash. This is a result of the reimbursement nature of the fund.

**Note 8. Other Postemployment Benefits**

The City provides to eligible retirees and their spouses the following benefits: Health 80/20 Employee, 2016 Employee paid full premium on dental and vision. These benefits pose a liability to the City for this year and in future years. Information regarding the benefits can be obtained by contacting the City.

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#### OTHER INFORMATION - UNAUDITED

The City's Annual Financial 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 City's Annual Financial Report 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 other 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, 2016

	General	Motor Vehicle Highway	Local Road And Street	Aviation	Law Enforcement Continuing Ed
Cash and investments - beginning	\$ 2,931,745	\$ 134,293	\$ 340,477	\$ 78,040	\$ 31,779
Receipts:					
Taxes	2,202,279	374,375	-	51,129	-
Licenses and permits	46,388	-	-	-	-
Intergovernmental	1,440,639	256,620	59,567	4,131	-
Charges for services	331,941	13,463	-	600	-
Fines and forfeits	-	-	-	-	15,727
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	316,821	-	-	510	-
Total receipts	4,338,068	644,458	59,567	56,370	15,727
Disbursements:					
Personal services	2,824,901	316,826	-	-	-
Supplies	318,511	54,642	-	13,207	-
Other services and charges	613,199	59,763	-	3,558	9,295
Debt service - principal and interest	-	-	-	-	-
Capital outlay	25,503	79,371	46,981	60,386	-
Utility operating expenses	-	-	-	-	-
Other disbursements	29,073	-	-	-	-
Total disbursements	3,811,187	510,602	46,981	77,151	9,295
Excess (deficiency) of receipts over disbursements	526,881	133,856	12,586	(20,781)	6,432
Cash and investments - ending	\$ 3,458,626	\$ 268,149	\$ 353,063	\$ 57,259	\$ 38,211

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Riverboat	Emergency Telephone System	Parks And Recreation	User Fee	Rainy Day
Cash and investments - beginning	\$ 165,568	\$ 22,713	\$ 330,772	\$ 8,216	\$ 1,126,091
Receipts:					
Taxes	39,381	-	576,736	984	57,109
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	46,595	-	209,272
Charges for services	-	-	13,002	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	-	-	333,877	-	-
Total receipts	<u>39,381</u>	<u>-</u>	<u>970,210</u>	<u>984</u>	<u>266,381</u>
Disbursements:					
Personal services	-	-	458,761	-	-
Supplies	-	-	122,651	-	-
Other services and charges	-	-	187,843	-	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	12,841	-	58,187	-	101,600
Utility operating expenses	-	-	-	-	-
Other disbursements	-	-	40,068	-	-
Total disbursements	<u>12,841</u>	<u>-</u>	<u>867,510</u>	<u>-</u>	<u>101,600</u>
Excess (deficiency) of receipts over disbursements	<u>26,540</u>	<u>-</u>	<u>102,700</u>	<u>984</u>	<u>164,781</u>
Cash and investments - ending	<u>\$ 192,108</u>	<u>\$ 22,713</u>	<u>\$ 433,472</u>	<u>\$ 9,200</u>	<u>\$ 1,290,872</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Hazardous Materials	Tiff - Legacy	Major Moves Construction	Cumulative Capital Development	Cumulative Fire
Cash and investments - beginning	\$ 449	\$ 546,551	\$ 1,148,823	\$ 313,488	\$ 2,303
Receipts:					
Taxes	-	33,231	-	70,211	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	723	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	-	-	-	-	-
Total receipts	-	33,231	-	70,934	-
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	11,375	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	325,649	-	150,682	-
Utility operating expenses	-	-	-	-	-
Other disbursements	-	-	-	-	-
Total disbursements	-	325,649	-	162,057	-
Excess (deficiency) of receipts over disbursements	-	(292,418)	-	(91,123)	-
Cash and investments - ending	\$ 449	\$ 254,133	\$ 1,148,823	\$ 222,365	\$ 2,303

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Cumulative Capital Improvement	Cedit Capital Projects	Police Pension	Local Option Income Tax LOIT	Rent House Regis. Non Revert	United Health Holding
Cash and investments - beginning	\$ 232,679	\$ 336,081	\$ 123,263	\$ 121,188	\$ 16,242	\$ 43,788
Receipts:						
Taxes	-	-	64,168	374,059	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	16,944	422,216	-	-	-	-
Charges for services	-	16,200	-	-	12,745	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	-	-	-	745,662
Total receipts	16,944	438,416	64,168	374,059	12,745	745,662
Disbursements:						
Personal services	-	90,000	70,226	74,489	17,215	618,871
Supplies	-	1,470	-	161,139	-	-
Other services and charges	-	297,060	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	-	388,530	70,226	235,628	17,215	618,871
Excess (deficiency) of receipts over disbursements	16,944	49,886	(6,058)	138,431	(4,470)	126,791
Cash and investments - ending	\$ 249,623	\$ 385,967	\$ 117,205	\$ 259,619	\$ 11,772	\$ 170,579

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Lincoln Finan. Holding	NSP 3 - Housing Grant	INPRS - Holding	CRIME FORFT	Credit Card - Holding	MVH SPECIAL DIST LOIT
Cash and investments - beginning	\$ 2,251	\$ 203,902	\$ -	\$ 967	\$ 10,133	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	639,242
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	17,149	-	485,641	-	313,167	-
Total receipts	17,149	-	485,641	-	313,167	639,242
Disbursements:						
Personal services	16,373	-	485,641	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	323,300	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	187,536
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	16,373	-	485,641	-	323,300	187,536
Excess (deficiency) of receipts over disbursements	776	-	-	-	(10,133)	451,706
Cash and investments - ending	\$ 3,027	\$ 203,902	\$ -	\$ 967	\$ -	\$ 451,706

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Gift	Aviation Rotary	P & R Spec. Non-Rev./Day Camp	Utility Employment Taxes	Special Recreation Fund
Cash and investments - beginning	\$ 120,386	\$ 36,749	\$ 9,567	\$ -	\$ 32,514
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	30,134	-	39,569	51,538
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	45,785	-	-	-	-
Total receipts	<u>45,785</u>	<u>30,134</u>	<u>-</u>	<u>39,569</u>	<u>51,538</u>
Disbursements:					
Personal services	-	-	-	-	23,064
Supplies	-	-	9,567	-	17,398
Other services and charges	36,221	20,117	-	-	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	-	-	-	-
Utility operating expenses	-	-	-	-	-
Other disbursements	-	-	-	39,569	-
Total disbursements	<u>36,221</u>	<u>20,117</u>	<u>9,567</u>	<u>39,569</u>	<u>40,462</u>
Excess (deficiency) of receipts over disbursements	<u>9,564</u>	<u>10,017</u>	<u>(9,567)</u>	<u>-</u>	<u>11,076</u>
Cash and investments - ending	<u>\$ 129,950</u>	<u>\$ 46,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,590</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Sidewalk Program	Home & School Safety Fund	Elkhart County Drug Grant	Tif - City Wide	Tif - West Industrial Pk.	Court Clerk Perpetuation Fund
Cash and investments - beginning	\$ (698)	\$ 781	\$ 274	\$ 1,506,533	\$ 71,182	\$ 16,686
Receipts:						
Taxes	-	-	-	1,076,671	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	9,242	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	2,023
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total receipts	9,242	-	-	1,076,671	-	2,023
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	520	-	-	-	2,332
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	112,753	-	-
Capital outlay	9,519	-	-	166,917	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	9,519	520	-	279,670	-	2,332
Excess (deficiency) of receipts over disbursements	(277)	(520)	-	797,001	-	(309)
Cash and investments - ending	\$ (975)	\$ 261	\$ 274	\$ 2,303,534	\$ 71,182	\$ 16,377

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Payroll	Ambulance Fee Reimburse	Cout Costs Due County	Infraction Deferral fees	P & R Cleaning Dep. Reimb.	Nappanee Bus Impr Dist
Cash and investments - beginning	\$ 50,833	\$ 181	\$ 1,978	\$ (1,350)	\$ 2,100	\$ 55,694
Receipts:						
Taxes	-	-	-	-	-	18,655
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	408	-	-	-	-
Fines and forfeits	-	-	5,145	12,554	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	3,502,243	-	-	-	2,385	-
Total receipts	3,502,243	408	5,145	12,554	2,385	18,655
Disbursements:						
Personal services	3,481,479	-	-	-	-	-
Supplies	-	-	-	-	-	6,449
Other services and charges	-	408	5,871	11,095	2,735	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	3,481,479	408	5,871	11,095	2,735	6,449
Excess (deficiency) of receipts over disbursements	20,764	-	(726)	1,459	(350)	12,206
Cash and investments - ending	\$ 71,597	\$ 181	\$ 1,252	\$ 109	\$ 1,750	\$ 67,900

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Sales Tax Payable	City Court	Storm Water Utility-Operating	Wastewater Construction	Wastewater Utility-Operating
Cash and investments - beginning	\$ (1,817)	\$ 4,299	\$ 580,553	\$ -	\$ 926,741
Receipts:					
Taxes	13,253	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	19,720	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	89,404	-	1,716,252
Penalties	-	-	-	-	21,253
Other receipts	-	56,686	178	6,934,453	1,095,152
Total receipts	13,253	76,406	89,582	6,934,453	2,832,657
Disbursements:					
Personal services	-	20,223	16,231	-	390,164
Supplies	-	989	-	-	-
Other services and charges	11,313	5,141	400	-	19,223
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	-	-	-	-
Utility operating expenses	-	-	11,722	-	1,546,434
Other disbursements	-	51,981	-	6,934,031	947,227
Total disbursements	11,313	78,334	28,353	6,934,031	2,903,048
Excess (deficiency) of receipts over disbursements	1,940	(1,928)	61,229	422	(70,391)
Cash and investments - ending	\$ 123	\$ 2,371	\$ 641,782	\$ 422	\$ 856,350

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Wastewater Util-Bond And Interest	Wastewater Utility-Deprec/Improve	Wastewater Utility-Improvement	Water Utility-Operating
Cash and investments - beginning	\$ 500,650	\$ 91,222	\$ 238,291	\$ 778,883
Receipts:				
Taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Utility fees	-	-	-	-
Penalties	-	-	-	8,237
Other receipts	180,880	29	438,802	3,714,666
Total receipts	<u>180,880</u>	<u>29</u>	<u>438,802</u>	<u>3,722,903</u>
Disbursements:				
Personal services	-	-	-	249,783
Supplies	-	-	-	-
Other services and charges	-	-	-	9,531
Debt service - principal and interest	213,413	-	-	-
Capital outlay	-	-	-	-
Utility operating expenses	-	-	758	846,996
Other disbursements	468,117	1,415	618,290	405,500
Total disbursements	<u>681,530</u>	<u>1,415</u>	<u>619,048</u>	<u>1,511,810</u>
Excess (deficiency) of receipts over disbursements	<u>(500,650)</u>	<u>(1,386)</u>	<u>(180,246)</u>	<u>2,211,093</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 89,836</u>	<u>\$ 58,045</u>	<u>\$ 2,989,976</u>

CITY OF NAPPANEE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For the Year Ended December 31, 2016

	Water <u>Utility-Depreciation/Improve</u>	Water <u>Utility-Construction</u>	Water <u>Utility-Improvement</u>	<u>Totals</u>
Cash and investments - beginning	\$ 25,101	\$ 42,775	\$ 578,262	\$ 13,940,172
Receipts:				
Taxes	-	-	-	4,952,241
Licenses and permits	-	-	-	46,388
Intergovernmental	-	-	-	3,095,949
Charges for services	-	-	-	538,562
Fines and forfeits	-	-	-	35,449
Utility fees	-	-	-	1,805,656
Penalties	-	-	-	29,490
Other receipts	<u>13</u>	<u>26</u>	<u>110,035</u>	<u>18,294,160</u>
Total receipts	<u>13</u>	<u>26</u>	<u>110,035</u>	<u>28,797,895</u>
Disbursements:				
Personal services	-	-	-	9,154,247
Supplies	-	-	-	708,875
Other services and charges	-	-	-	1,627,448
Debt service - principal and interest	-	-	-	326,166
Capital outlay	-	-	-	1,225,172
Utility operating expenses	-	-	273,017	2,678,927
Other disbursements	-	<u>79</u>	-	<u>9,535,350</u>
Total disbursements	<u>-</u>	<u>79</u>	<u>273,017</u>	<u>25,256,185</u>
Excess (deficiency) of receipts over disbursements	<u>13</u>	<u>(53)</u>	<u>(162,982)</u>	<u>3,541,710</u>
Cash and investments - ending	<u>\$ 25,114</u>	<u>\$ 42,722</u>	<u>\$ 415,280</u>	<u>\$ 17,481,882</u>

CITY OF NAPPANEE  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2016

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ 14,414	\$ -
Water	32,252	-
Governmental activities	<u>308,904</u>	<u>44,308</u>
Totals	<u>\$ 355,570</u>	<u>\$ 44,308</u>

CITY OF NAPPANEE  
SCHEDULE OF LEASES AND DEBT  
December 31, 2016

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Nappanee Clerk-Treasurer	Lease Color Digital Copier	\$ 855	3/12/2012	6/12/2017
City of Nappanee Comm. & Econ. Development	Lease Color Digital Copier	1,862	12/27/2012	12/27/2017
City of Nappanee Police Department	Lease Color Digital Copier	2,880	9/28/2015	12/28/2020
City of Nappanee Parks and Recreation	Lease 2011 Golf Carts	16,589	11/16/2011	10/1/2016
City of Nappanee Parks and Recreation	Lease 2013 Golf Carts	6,965	12/11/2013	10/1/2018
City of Nappanee Parks and Recreation	Lease 2016 Golf Carts	5,735	5/1/2016	12/1/2020
City of Nappanee Parks and Recreation	Lease 2016 Mower	<u>7,271</u>	3/23/2016	3/23/2020
Total governmental activities		<u>42,157</u>		
Total of annual lease payments		<u>\$ 42,157</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
2015 Tax Incremental Revenue Bond	Redevelopment	\$ 1,060,000	\$ 72,163
Wastewater:			
2016 Sewage Revenue and Refunding Series A	Infrastructure Improvements	9,000,000	236,229
2016 Sewage Revenue and Refunding Series B	Infrastructure Improvements	6,345,000	165,539
2016 Sewage Revenue and Refunding Series C	Infrastructure Improvements	<u>1,982,000</u>	<u>55,132</u>
Total Wastewater		<u>17,327,000</u>	<u>456,900</u>
Totals		<u>\$ 18,387,000</u>	<u>\$ 529,063</u>

CITY OF NAPPANEE  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2016

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	4,590,586
Improvements other than buildings	7,163,674
Machinery, equipment, and vehicles	5,031,859
Construction in progress	<u>3,569,492</u>
Total governmental activities	<u>22,007,868</u>
Wastewater:	
Land	145,387
Buildings	2,261,621
Improvements other than buildings	11,276,938
Machinery, equipment, and vehicles	1,013,916
Construction in progress	<u>8,275,677</u>
Total Wastewater	<u>22,973,539</u>
Water:	
Land	281,815
Buildings	1,228,421
Improvements other than buildings	6,322,157
Machinery, equipment, and vehicles	258,684
Construction in progress	<u>370,981</u>
Total Water	<u>8,462,058</u>
Total capital assets	<u>\$ 53,443,465</u>

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

**Report on Compliance for the Major Federal Program**

We have audited the City of Nappanee's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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, 2016.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 the Uniform Guidance, 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 a 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 a 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003, that we consider to be a material weakness.

The City's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

January 30, 2018

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF NAPPANEE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2016

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	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Water and Waste Program Cluster					
Water and Waste Disposal Systems for Rural Communities Sewer - Wet Weather Alternative	Direct Grant	10.760	92-01	\$ -	\$ 6,050,257
Total - Water and Wastewater Program Cluster				-	6,050,257
Total - Department of Agriculture				-	6,050,257
<u>Department of Transportation</u>					
Highway Safety Cluster					
State and Community Highway Safety Operation Pullover	Elkhart County	20.600	FY2016	-	5,504
Alcohol Impaired Driving Countermeasures Incentive Grants I DUI Task Force	Elkhart County	20.601	FY2016	-	12,177
Total - Highway Safety Cluster				-	17,681
Total - Department of Transportation				-	17,681
Total federal awards expended				\$ -	\$ 6,067,938

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

CITY OF NAPPANEE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2016. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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 deficiency identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weakness identified?	yes
Significant deficiency identified?	none reported
Any audit finding disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Water and Waste Program Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
--	----

**Section II - Financial Statement Findings**

**FINDING 2016-001**

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

There were deficiencies in the internal control system of the City related to financial transactions and the input of financial information entered into the Indiana Gateway for government units financial reporting system (Gateway), which is the source for the Annual Financial Report (AFR) and the financial statement. Financial information was prepared and submitted into the Gateway without effective oversight, review, approval, or other compensating control to ensure the accuracy of the information prior to submission. As a result, the following errors occurred:

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

1. The 2016 AFR did not agree to the City Fund Report and Utility's Ledger of Receipts, Disbursements, and Balances. As a result, beginning cash and investment balances were overstated by \$1,284,862, receipts were understated by \$7,337,168, and disbursements were understated by \$7,805,196. As a result, ending cash and investment balances as of December 31, 2016, were overstated by \$1,752,890.
2. Depository reconciliations of the fund balances to the bank account balances were incorrect. The bank reconcilements for the City, Wastewater, and Water accounts were not reconciled to the Annual Financial Report. Several bank reconcilements were presented for audit. The City hired several consultants to assist them in preparing the reconcilements during the audit period.

Audit adjustments were proposed, accepted by the City, and made to the AFR and financial statement.

*Context*

The lack of internal controls was a systemic problem throughout the audit period.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

*Cause*

The City's management had not established a proper system of internal control to ensure proper reporting of the AFR and financial statement.

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

*Effect*

The failure to establish controls enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City's management establish controls to prevent, or detect and correct, errors on the AFR and financial statement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2016-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Finding: Material Weakness

*Condition*

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City relied on one employee to prepare the SEFA. There was no evidence of a control, such as an oversight, review, or approval process by the City, to ensure federal awards information entered and submitted was correct.

*Context*

The lack of internal controls was a systemic problem throughout the audit period.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

*Cause*

Management had not established a system of internal control that would ensure proper reporting of the SEFA.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the City establish a system of internal controls related to preparation of the SEFA.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2016-003**

Subject: Water and Waste Program Cluster - Cash Management and Reporting  
Federal Agency: Department of Agriculture  
Federal Program: Water and Waste Disposal Systems for Rural Communities  
CFDA Number: 10.760  
Federal Award Number and Year (or Other Identifying Number): 92-01  
Compliance Requirements: Cash Management, Reporting  
Audit Finding: Material Weakness

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Cash Management and Reporting compliance requirements.

*Cash Management*

The City was required to disburse grant funds to vendors within ten days of receipt of the drawdowns. There was no oversight, review, or approval process in place to ensure compliance with this requirement.

*Reporting*

The Project Expenditure Report was prepared by one employee. There was no oversight, review, or approval process in place to ensure compliance with this requirement.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period.

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . .

*Cause*

The City's management had not developed a system of internal controls that would have segregated key functions.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, to ensure compliance with the Cash Management and Reporting compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



# City of Nappanee

300 West Lincoln Street  
P.O. Box 29  
Nappanee, IN 46550-0029

Phone: (574) 773-2112  
Fax: (574) 773-5878

Office of  
CLERK-TREASURER  
Kathy L. Brown  
kbrown@nappanee.org

## CORRECTIVE ACTION PLAN

### **FINDING 2016-001**

Contact Person Responsible for Corrective Action: **Kathy L. Brown**  
Contact Phone Number: **574-773-2112**

Views of Responsible Official: We had one employee run the reports and other employees pull their portion of the Gateway items needed. The Clerk-Treasurer pulled this information all together and entered into Gateway, however our secondary control did not work and that employee was terminated in 2016.

### Description of Corrective Action Plan:

One Staff Employee will start of the process of Bank Reconciliation and run the financial reports at **month end** (Fund, Appropriation and Revenue). The Employee will also put their initials on the front page of the report for Audit testing. The Clerk-Treasurer will verify the reports and bank reconciliations. Then close the month so no further changes can be made and will initial any reports verified.

The Clerk-Treasurer will put the information into Gateway and initial. A Staff Employee will run an independent report and verify the correctness of the report then initial this has been done.

Anticipated Completion Date: January 26<sup>th</sup>, 2018.

Kathy L. Brown  
(Signature)

Clerk - Treasurer  
(Title)

1-26-18  
(Date)



# City of Nappanee

300 West Lincoln Street  
P.O. Box 29  
Nappanee, IN 46550-0029

(Date)

Phone: (574) 773-2112  
Fax: (574) 773-5878

Office of  
CLERK-TREASURER  
Kathy L. Brown  
kbrown@nappanee.org

## CORRECTIVE ACTION PLAN

### **FINDING 2016-002**

Contact Person Responsible for Corrective Action: **Kathy L. Brown**  
Contact Phone Number: **574-773-2112**

Views of Responsible Official: On the SEFA report we were not using the bank reconciliation software and items were not getting captured correctly for Gateway.

### Description of Corrective Action Plan:

A staff employee of the Clerk-Treasurer will look at the bank reconciliation and fund report to make sure when given to the Clerk-Treasurer to enter into Gateway all items are correct. The employee will then initial the paperwork and give to the Clerk. The Clerk-Treasurer will verify that reports are correct and enter into Gateway. The staff employee will verify by an independent report that the information in Gateway matches what has been entered. Both the employee and the Clerk-Treasurer will initial all reports.

Anticipated Completion Date: 1-26-18

Kathy L. Brown  
(Signature)

Clerk - Treasurer  
(Title)

1-29-18  
(Date)



# City of Nappanee

300 West Lincoln Street  
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Nappanee, IN 46550-0029

Phone: (574) 773-2112  
Fax: (574) 773-5878

Office of  
CLERK-TREASURER  
Kathy L. Brown  
kbrown@nappanee.org

## CORRECTIVE ACTION PLAN

### **FINDING 2016-003**

Contact Person Responsible for Corrective Action: **Kathy L. Brown**  
Contact Phone Number: **574-773-2112**

Views of Responsible Official: **Per USDA every meeting they ask the Vendors if they have received their check for the previous month. Due to the amount of the bond that must be kept we tried to keep this project with as few hands as possible.**

### Description of Corrective Action Plan:

**A staff employee of the Clerk-Treasurer will look at the IN-Guide 3 that is sent to USDA and will look at each check to verify they are written to the correct Vendor and the dollar amount is correct. They will verify per the Board of Work Check Register and the UB-Guide 3. The Guide 3 will then be sent to USDA with two different sets of initials showing we have complied with our new internal controls.**

**Bank statements are currently done by a staff member and the Clerk-Treasurer. We started this in January of 2017. They will now have signatures or stamps of who has done the bank statement and who verifying the bank statement.**

Anticipated Completion Date: 1-26-18

Kathy L. Brown  
(Signature)

Clerk - Treasurer  
(Title)

1-26-18  
(Date)

#### OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.