

**AUDIT REPORT
OF
BANNER COUNTY**

JULY 1, 2011 THROUGH JUNE 30, 2012

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the Auditor of Public Accounts.**

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Issued on February 11, 2013

BANNER COUNTY

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BANNER COUNTY

LIST OF COUNTY OFFICIALS

At June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Gifford	Board of Commissioners	Jan. 2013
John Robert Faden		Jan. 2015
Robert Post		Jan. 2015
Sharon Sandberg	Assessor	Jan. 2015
James Zimmerman	Attorney	Jan. 2015
Lori Hostetler	Clerk Clerk of the District Court Election Commissioner Register of Deeds	Jan. 2015
Stanley McKnight	Sheriff	Jan. 2015
Monty Stoddard	Treasurer	Jan. 2015
John Brehm	Veterans' Service Officer	Appointed
Richard McGowan	Weed Superintendent	Appointed
Tom Neal	Highway Superintendent	Appointed



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BANNER COUNTY

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Banner County, Nebraska

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Banner County, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the County, as listed in the Table of Contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash position of the governmental activities, each major fund, and the aggregate remaining fund information of Banner County, as of June 30, 2012, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013, on our consideration of Banner County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining nonmajor fund financial statement, budgetary comparison information, schedule of office activity, and schedule of taxes certified and collected, are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

SIGNED ORIGINAL ON FILE

February 6, 2013

Deann Haeffner, CPA
Assistant Deputy Auditor

BANNER COUNTY
STATEMENT OF NET ASSETS - CASH BASIS
 June 30, 2012

	Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 1.D)	\$ 704,612
TOTAL ASSETS	\$ 704,612
 NET ASSETS	
Restricted for:	
Law Enforcement	1,510
Unrestricted	703,102
TOTAL NET ASSETS	\$ 704,612

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

BANNER COUNTY
STATEMENT OF ACTIVITIES - CASH BASIS
For the Year Ended June 30, 2012

Functions:	Cash Disbursements	Program Cash Receipts		Net (Disbursement) Receipts and Changes in Net Assets
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government	\$ (573,130)	\$ 49,847	\$ 1,114	\$ (522,169)
Public Safety	(98,797)	1,868	-	(96,929)
Public Works	(35,994)	-	336,711	300,717
Health and Sanitation	(627,862)	4,244	-	(623,618)
Public Assistance	(500)	-	-	(500)
Culture and Recreation	(7,752)	-	-	(7,752)
Total Governmental Activities	\$ (1,344,035)	\$ 55,959	\$ 337,825	(950,251)

General Receipts:

Property Taxes	851,502
Grants and Contributions Not Restricted to Specific Programs	44,131
Investment Income	10,322
Licenses and Permits	4,002
Insurance Proceeds	24,524
Miscellaneous	10,880
Total General Receipts	945,361
 Change in Net Assets	 (4,890)
Net Assets - Beginning	709,502
Net Assets - Ending	\$ 704,612

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

BANNER COUNTY
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Road Fund	Inheritance Fund	Equipment Sinking Fund	Bridge - WG Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents (Note 1.D)	\$ 42,750	\$ 59,973	\$ 298,588	\$ 79,748	\$ 197,530	\$ 26,023	\$ 704,612
TOTAL ASSETS	<u>\$ 42,750</u>	<u>\$ 59,973</u>	<u>\$ 298,588</u>	<u>\$ 79,748</u>	<u>\$ 197,530</u>	<u>\$ 26,023</u>	<u>\$ 704,612</u>
FUND BALANCES							
Restricted for:							
Law Enforcement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,510	\$ 1,510
Committed to:							
Road Maintenance	-	59,973	-	79,748	197,530	-	337,251
Culture and Recreation	-	-	-	-	-	24,513	24,513
Assigned to:							
Other Purposes	-	-	298,588	-	-	-	298,588
Unassigned	42,750	-	-	-	-	-	42,750
TOTAL CASH BASIS FUND BALANCES	<u>\$ 42,750</u>	<u>\$ 59,973</u>	<u>\$ 298,588</u>	<u>\$ 79,748</u>	<u>\$ 197,530</u>	<u>\$ 26,023</u>	<u>\$ 704,612</u>

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

BANNER COUNTY
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

	General Fund	Road Fund	Inheritance Fund	Equipment Sinking Fund	Bridge - WG Fund	Other Governmental Funds	Total Governmental Funds
RECEIPTS							
Property Taxes	\$ 502,535	\$ 242,575	\$ 94,538	\$ 44	\$ -	\$ 11,810	\$ 851,502
Licenses and Permits	4,002	-	-	-	-	-	4,002
Interest	10,322	-	-	-	-	-	10,322
Intergovernmental	30,250	351,060	-	-	-	646	381,956
Charges for Services	51,715	4,244	-	-	-	-	55,959
Miscellaneous	29,906	5,498	-	-	-	-	35,404
TOTAL RECEIPTS	<u>628,730</u>	<u>603,377</u>	<u>94,538</u>	<u>44</u>	<u>-</u>	<u>12,456</u>	<u>1,339,145</u>
DISBURSEMENTS							
General Government	573,130	-	-	-	-	-	573,130
Public Safety	98,797	-	-	-	-	-	98,797
Public Works	29,740	-	-	-	6,254	-	35,994
Health and Sanitation	4,151	623,711	-	-	-	-	627,862
Public Assistance	500	-	-	-	-	-	500
Culture and Recreation	-	-	-	-	-	7,752	7,752
TOTAL DISBURSEMENTS	<u>706,318</u>	<u>623,711</u>	<u>-</u>	<u>-</u>	<u>6,254</u>	<u>7,752</u>	<u>1,344,035</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>(77,588)</u>	<u>(20,334)</u>	<u>94,538</u>	<u>44</u>	<u>(6,254)</u>	<u>4,704</u>	<u>(4,890)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	301,322	81,600	-	-	203,784	-	586,706
Transfers out	(203,782)	(10,000)	(169,100)	-	-	(203,824)	(586,706)
TOTAL OTHER FINANCING SOURCES (USES)	<u>97,540</u>	<u>71,600</u>	<u>(169,100)</u>	<u>-</u>	<u>203,784</u>	<u>(203,824)</u>	<u>-</u>
Net Change in Fund Balances	19,952	51,266	(74,562)	44	197,530	(199,120)	(4,890)
CASH BASIS FUND BALANCES - BEGINNING							
	<u>22,798</u>	<u>8,707</u>	<u>373,150</u>	<u>79,704</u>	<u>-</u>	<u>225,143</u>	<u>709,502</u>
CASH BASIS FUND BALANCES - ENDING							
	<u>\$ 42,750</u>	<u>\$ 59,973</u>	<u>\$ 298,588</u>	<u>\$ 79,748</u>	<u>\$ 197,530</u>	<u>\$ 26,023</u>	<u>\$ 704,612</u>

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

BANNER COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CASH BASIS
FIDUCIARY FUNDS
June 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 39,087
LIABILITIES	
Due to other governments	
State	11,111
Schools	20,168
Educational Service Units	229
Technical College	1,446
Natural Resource Districts	829
Fire Districts	244
Cemeteries	1,969
Clerk of District Court Trust	2,859
Others	232
TOTAL LIABILITIES	39,087
TOTAL NET ASSETS	\$ -

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

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

1. **Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies utilized in the accounting system of Banner County.

A. Reporting Entity

Banner County, Nebraska (County) is a governmental entity established under and governed by the laws of the State of Nebraska (State). The County is managed by county officials who are elected on a political ballot for four-year terms. As a political subdivision of the State, the County is exempt from State and Federal income taxes. The financial statements include all funds of the County that are not legally separate. The County has also considered all potential component units for which it is financially accountable, as well as other organizations which are either fiscally dependent on the County or maintain a significant relationship with the County such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by generally accepted accounting principles (GAAP), these financial statements present the County (the primary government). No component units were identified.

Joint Organization.

Behavioral Health Region I – The County has entered into an agreement with surrounding counties and the Nebraska Department of Health and Human Services to provide services to carry out the provisions of the Nebraska Behavioral Health Services Act (Act). Agreements were established under the authority of the Interlocal Cooperation Act for services to be provided under the Act. Region I (Region) consists of the following counties: Sioux, Dawes, Box Butte, Sheridan, Scotts Bluff, Morrill, Garden, Banner, Kimball, Cheyenne, and Deuel.

The governing board for the Region includes representatives from the participating county boards. Each county contributes to the financial support of the Region activities based on formulas developed by the Region governing board and as required by the Act. Funding is provided by a combination of Federal, State, local, and private funding. The County contributed \$4,151 toward the operation of the Region during fiscal year 2012. In

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

the event of the termination of the agreement, assets would be disposed of in accordance with the terms of the agreement. The Nebraska Department of Health and Human Services requires the Region to be audited annually in accordance with State statute. Financial information for the Region is available in those audit reports.

Health Department – The County has entered into an agreement with the Panhandle Public Health District (Department) to provide public health services. Agreements were established under authority of the Interlocal Cooperation Act for services to be provided per Neb. Rev. Stat. §§ 71-1626 to 71-1636 (Reissue 2009, Supp. 2011).

The Department's governing board is established by statute and includes representatives from the participating county boards and the health profession. Funding is provided by a combination of Federal, State, local, and private funding. The County did not contribute toward the operation of the Department during fiscal year 2012. In the event of the termination of the agreement, assets would be disposed of in accordance with the terms of the agreement. The Department is required to be audited annually in accordance with Neb. Rev. Stat. § 84-304(4) (Reissue 2008). Financial information for the Department is available in that report.

B. Basis of Presentation

Government-wide Financial Statements. The Statement of Net Assets - Cash Basis and Statement of Activities - Cash Basis display information about the activities of the County and are in the format of government-wide statements, as required by GASB Statement Number 34. These statements include all the financial activities of the County, except for fiduciary activities. Internal activities in these statements were considered immaterial and have not been eliminated. Governmental Generally Accepted Accounting Principles (GAAP) requires internal activity to be eliminated to minimize double counting. The County reports governmental activities only. Governmental activities are generally financed through taxes, intergovernmental receipts, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Fund Financial Statements. The fund financial statements provide information about the County's funds, including its fiduciary funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The County uses only the governmental and fiduciary fund categories. The County Board is the highest level of decision-making authority and has the authority, by resolution, to establish, modify or rescind the commitment or assignment of a fund balance to a specific purpose. When resources for a specific purpose are available in more than one fund balance classification, the County's policy is to use resources in the following order: restricted, committed, assigned, and unassigned. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

General Fund. This is the County's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

Road Fund. This fund is used to account for costs associated with the repair and maintenance of roads and bridges which is primarily funded by State tax receipts and property taxes.

Inheritance Fund. This fund is used to account for the receipts generated from inheritance taxes and is used for various projects.

Equipment Sinking Fund. This fund is used to account for property tax receipts and costs associated with the purchase of road equipment.

Bridge – WG Fund. This fund is used to account for costs specific to a particular bridge project; Wright's Gap.

The County reports the following additional non-major governmental fund types:

Special Revenue Funds. These funds account for the proceeds from a specific receipt source that is restricted to disbursements for a specified purpose.

Agency Funds. These funds account for assets held by the County as an agent for various local governments.

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

The County designates fund balances as:

Restricted. The fund balance is restricted by external impositions such as creditors, grantors, or laws or regulations of other governments.

Committed. The fund balance has been designated by the County Board for a specific purpose.

Assigned. The fund balances has not been designated by the County Board for a specific purpose, but has been separated based on the type of revenue.

Unassigned. The portion of the General Fund not restricted, committed, or assigned for a specific purpose.

C. **Measurement Focus, Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the County are maintained and the government-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets - Cash Basis and the Statement of Activities - Cash Basis. Receipts are recognized when received and disbursements are recognized when warrants are paid. This differs from governmental GAAP, which requires the government-wide and fiduciary fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting receipts are recorded when earned and disbursements are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used, as described above. This differs from governmental GAAP, which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, receipts are recognized as soon as they are both measurable and available. Receipts are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Disbursements generally are recorded when a liability is incurred, as under accrual accounting. However, disbursements related to compensated absences and claims and judgments are recorded only when payment is due.

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

D. Assets and Net Assets

Cash and Cash Equivalents. The County's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments. The types of investments in which the County is authorized to invest funds are enumerated in Neb. Rev. Stat. §§ 77-2315, 77-2340, and 77-2341 (Reissue 2009), and generally include U.S. Government obligations, certificates of deposit, and time deposits and securities, which are authorized by the Nebraska Investment Council.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Compensated Absences. Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as a disbursement of the County funds as paid. Upon termination, employees are paid for any unused vacation. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements and would be recorded in accordance with the County's policy, which is to recognize the expense and accrued liability when vacation and compensatory leave is earned.

Restricted Net Assets. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then the unrestricted resources, as they are needed. Net assets are reported as restricted when constraints placed on their use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$1,510 of restricted net assets, all of which is restricted by enabling legislation.

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies** (Concluded)

Budgetary Process. The County adopts an annual budget in accordance with the statutory requirements of the Nebraska Budget Act. The budget is prepared on the cash receipts and disbursements basis of accounting. The budget contains only those receipts actually received by the County Treasurer. The County does not utilize an encumbrance accounting system. All appropriated spending authority lapses at the end of the fiscal year.

On or before August 1, the county budget-making authority prepares and transmits a budget for each County fund to the County Board. The budget includes the requirements, the outstanding warrants, the operating reserves to be maintained, the cash on hand at the close of the preceding fiscal year, the receipts from sources other than taxation, and the amount to be raised by taxation. The County Board must hold at least one public hearing on the proposed budget. On or before September 20, the County Board adopts the budget and appropriates the amounts specified in the budget for the departments, offices, activities, and funds of the County.

The County Board is authorized to transfer budgeted amounts between departments within any fund through resolution; however, if revisions are made that alter the total disbursements of any fund, an additional public hearing must be held. The legal level of budgetary control for the General Fund is at the function level, and the special revenue fund types are at the fund level. The County Board is also authorized to budget for the transfer of money between County funds.

Excess of Disbursements Over Appropriations. For the year ended June 30, 2012, disbursements exceeded budgeted appropriations in the County Fair Operating Fund by \$1,358. These over-expenditures were funded by the available fund balance in the County Fair Operating Fund.

2. **Deposits and Investments**

The County has generally pooled the cash resources of the various funds for investment purposes. Interest earned on pooled funds is credited to the County General Fund in accordance with Neb. Rev. Stat. § 77-2315 (Reissue 2009).

At year end, the County's carrying amount of deposits was \$704,612 for County funds and \$39,087 for Fiduciary funds. The bank balances for all funds totaled \$740,656. For purposes of classifying categories of custodial risk, the bank balances of the County's deposits, as of June 30, 2012, were either entirely insured or collateralized with securities held by the County's agent in the County's name.

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Property Taxes

Property taxes are levied by the County Board on or before October 15 of each year for all political subdivisions in the County. Real estate and personal property taxes are due and attach as an enforceable lien on January 1 following the levy date, and become delinquent in two equal installments on May 1 and September 1. Motor vehicle taxes are due when application is made for registration of a motor vehicle.

Counties are permitted by the State Constitution to levy a tax of up to \$.50/\$100 of assessed valuation for general governmental services other than the payment of principal and interest on bonded debt. They may levy taxes in addition to the 50 cent limitation upon a vote of the people.

The levy set in October 2011, for the 2011 taxes, which will be materially collected in May and September 2012, was set at \$.439019/\$100 of assessed valuation. The levy set in October 2010, for the 2010 taxes, which were materially collected in May and September 2011, was set at \$.409293/\$100 of assessed valuation. The amount collected for motor vehicle tax is outlined in State statute.

Additionally, there is currently a statutory lid limitation, which limits taxation to the prior year's level, with provisions for growth. It may be increased by 1% by a three-fourths majority of the County Board.

4. Retirement System

The Retirement System for Nebraska Counties (the Plan) is a multiple-employer plan administered by the Public Employees Retirement Board in accordance with the provisions of the County Employees Retirement Act. The plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. The Plan provisions are established under Neb. Rev. Stat. §§ 23-2301 through 23-2335 (Reissue 2007, Cum. Supp. 2010, Supp. 2011) and may be amended through legislative action.

Participation in the Plan is required of all full-time employees. Part-time (working less than one-half of the regularly scheduled hours) employees may elect voluntary participation upon reaching age 18. Part-time elected officials may exercise the option to join.

County employees and elected officials contribute 4.5% of their total compensation. In addition, the County contributes an amount equal to 150% of the employee's contribution. The contribution rates are established by § 23-2307 and § 23-2308 and may be amended through legislative action. The employee's and employer's contributions are

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Retirement System** (Concluded)

kept in separate accounts. The employee's account is fully vested. The employer's account is fully vested after three years of participation in the system or credit for participation in another governmental plan prior to actual contribution to the Plan. Prior service benefits are paid directly by the County to the retired employee.

A supplemental retirement plan was established on January 1, 2003, for the benefit of all present and future commissioned law enforcement personnel employed by the County. Employees contribute 1% of their salary, and the County contributes an amount equal to 100% of the employee's contribution. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings.

For the year ended June 30, 2012, twenty-two employees contributed \$20,553, and the County contributed \$30,693. Contributions included \$364 in cash contributions towards the supplemental law enforcement plan for one law enforcement employee.

5. **Risk Management**

The County is exposed to various risks of loss related to the following: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County is a member of the Nebraska Intergovernmental Risk Management Association (NIRMA), a public entity risk pool currently operating as a common risk management and insurance program for 78 counties throughout Nebraska.

The County pays an annual deposit premium, as calculated by the administrator of the pool. The premium is based on the losses and exposures of each County and the entire pool. If the pool becomes insolvent or otherwise unable to discharge its legal liabilities and obligations, the County may be assessed by the Board for an additional contribution equal to its contribution for the current fiscal year, divided by the contribution of all participants for such year, times the amount of such deficiency. Each such assessment, and the manner of calculating the same, is sent to each county in writing, and each county has sixty days in which to pay the amount of such assessment. Each county remains liable for such assessments, regardless of such county's withdrawal from participation or the termination of the agreement, as well as for liabilities of the Pool incurred during such county's period of membership.

The agreement with NIRMA requires the risk pool to provide coverage for up to a maximum amount per occurrence and purchase commercial insurance for claims in excess of coverage provided. In the event of a liability exceeding the commercial insurance, the County would be responsible for funding the excess amount.

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Risk Management (Concluded)

	NIRMA Coverage	Maximum Coverage
General Liability Claim	\$ 300,000	\$ 5,000,000
Worker's Compensation Claim	\$ 500,000	Statutory Limits
Property Damage Claim	\$ 250,000	Insured Value at Replacement Cost

The County has not paid any additional assessments to the pool in the last three fiscal years, and no assessments are anticipated for fiscal year 2013. The County has not had to pay out any amounts that exceeded coverage provided by the pool in the last three fiscal years.

6. Interfund Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Transfers to</u>	Transfers from				Total
	General Fund	Inheritance Fund	Road Fund	Nonmajor Funds	
General Fund	\$ -	\$ 87,500	\$ 10,000	\$ 203,822	\$ 301,322
Road Fund	-	81,600	-	-	81,600
Bridge-WG Fund	203,782	-	-	2	203,784
Total	<u>\$ 203,782</u>	<u>\$ 169,100</u>	<u>\$ 10,000</u>	<u>\$ 203,824</u>	<u>\$ 586,706</u>

Transfers are used to move unrestricted receipts collected in the General Fund and Inheritance Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended June 30, 2012, the County closed the Hard Surface Road Fund and transferred the balance of the fund, \$203,822, to the General Fund and subsequently to the Bridge-WG Fund. Similarly, the Bridge Construction Fund was closed and the \$2 balance was transferred to the Bridge-WG Fund.

In the year ended June 30, 2012, the County transferred \$10,000 from the Road Fund to the General Fund for "weed spraying-roads." This transfer was not related to specific expenses incurred by the General Fund and did not contain a repayment schedule:

BANNER COUNTY

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **Capital Leases Payable**

Changes to the commitments under lease agreement for equipment and amounts to provide for annual rental payments are as follows:

	Caterpillar Motorgrader	Ford F250 Truck	Total
Balance July 1, 2011	\$ 124,759	\$ -	\$ 124,759
Purchases	-	29,878	29,878
Payments	26,836	-	26,836
Balance June 30, 2012	<u>\$ 97,923</u>	<u>\$ 29,878</u>	<u>\$ 127,801</u>
Future Payments:			
Year			
2013	\$ 30,165	\$ 10,425	\$ 40,590
2014	30,165	10,425	40,590
2015	30,165	10,390	40,555
2016	12,569	-	12,569
Total Payments	103,064	31,240	134,304
Less Interest	5,141	1,362	6,503
Present Value of Future Minimum Lease Payments	<u>\$ 97,923</u>	<u>\$ 29,878</u>	<u>\$ 127,801</u>
Carrying Value of the related Fixed Asset	<u>\$ 140,000</u>	<u>\$ 29,800</u>	<u>\$ 169,800</u>

BANNER COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 585,797	\$ 585,797	\$ 502,535	\$ (83,262)
Licenses and Permits	6,300	6,300	4,002	(2,298)
Interest	15,000	15,000	10,322	(4,678)
Intergovernmental	6,500	6,500	30,250	23,750
Charges for Services	87,487	87,487	51,715	(35,772)
Miscellaneous	13,000	13,000	29,906	16,906
TOTAL RECEIPTS	<u>714,084</u>	<u>714,084</u>	<u>628,730</u>	<u>(85,354)</u>
DISBURSEMENTS				
General Government:				
County Board	25,650	25,650	25,007	643
County Clerk	49,370	49,370	45,548	3,822
County Treasurer	54,450	57,000	54,965	2,035
County Assessor	59,790	59,790	56,472	3,318
Election Commissioner	12,290	12,290	5,952	6,338
Clerk of the District Court	4,890	4,890	4,249	641
County Court System	2,300	2,300	937	1,363
Building and Grounds	42,150	42,150	40,648	1,502
Agricultural Extension Agent	23,652	23,652	22,483	1,169
Miscellaneous	376,450	373,887	316,869	57,018
Public Safety:				
County Sheriff	82,540	82,540	55,531	27,009
County Attorney	41,100	41,100	30,853	10,247
Predatory Animal Control	8,200	8,213	8,213	-
Emergency Management	5,000	5,000	4,200	800
Public Works:				
Noxious Weed Control	44,300	44,300	29,740	14,560
Public Health:				
Miscellaneous	4,250	4,250	4,151	99
Public Assistance:				
Veterans' Service Officer	500	500	500	-
TOTAL DISBURSEMENTS	<u>836,882</u>	<u>836,882</u>	<u>706,318</u>	<u>130,564</u>

(Continued)

BANNER COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(122,798)	(122,798)	(77,588)	45,210
OTHER FINANCING SOURCES (USES)				
Transfers in	303,782	303,782	301,322	(2,460)
Transfers out	(203,782)	(203,782)	(203,782)	-
TOTAL OTHER FINANCING SOURCES (USES)	100,000	100,000	97,540	(2,460)
Net Change in Fund Balance	(22,798)	(22,798)	19,952	42,750
FUND BALANCE - BEGINNING	22,798	22,798	22,798	-
FUND BALANCE - ENDING	\$ -	\$ -	\$ 42,750	\$ 42,750

(Concluded)

BANNER COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
MAJOR FUNDS

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
ROAD FUND				
RECEIPTS				
Taxes	\$ 285,981	\$ 285,981	\$ 242,575	\$ (43,406)
Intergovernmental	324,750	324,750	351,060	26,310
Charges for Services	7,000	7,000	4,244	(2,756)
Miscellaneous	16,000	16,000	5,498	(10,502)
TOTAL RECEIPTS	633,731	633,731	603,377	(30,354)
DISBURSEMENTS	765,590	765,590	623,711	141,879
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(131,859)	(131,859)	(20,334)	111,525
OTHER FINANCING SOURCES (USES)				
Transfers in	123,152	123,152	81,600	(41,552)
Transfers out	-	-	(10,000)	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	123,152	123,152	71,600	(51,552)
Net Change in Fund Balance	(8,707)	(8,707)	51,266	59,973
FUND BALANCE - BEGINNING	8,707	8,707	8,707	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,973</u>	<u>\$ 59,973</u>
INHERITANCE FUND				
RECEIPTS				
Taxes	\$ -	\$ -	\$ 94,538	\$ 94,538
TOTAL RECEIPTS	-	-	94,538	94,538
DISBURSEMENTS	-	-	-	-
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	-	-	94,538	94,538
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(223,150)	(223,150)	(169,100)	54,050
TOTAL OTHER FINANCING SOURCES (USES)	(223,150)	(223,150)	(169,100)	54,050
Net Change in Fund Balance	(223,150)	(223,150)	(74,562)	148,588
FUND BALANCE - BEGINNING	373,150	373,150	373,150	-
FUND BALANCE - ENDING	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 298,588</u>	<u>\$ 148,588</u>

(Continued)

BANNER COUNTY
BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
MAJOR FUNDS

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>EQUIPMENT SINKING FUND</u>				
RECEIPTS				
Taxes	\$ -	\$ -	\$ 44	\$ 44
TOTAL RECEIPTS	-	-	44	44
DISBURSEMENTS				
	79,704	79,704	-	79,704
Net Change in Fund Balance	(79,704)	(79,704)	44	79,748
FUND BALANCE - BEGINNING	79,704	79,704	79,704	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,748</u>	<u>\$ 79,748</u>
<u>BRIDGE - WG FUND</u>				
RECEIPTS				
	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS				
	203,782	203,782	6,254	197,528
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(203,782)	(203,782)	(6,254)	197,528
OTHER FINANCING SOURCES (USES)				
Transfers in	203,782	203,782	203,784	2
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	203,782	203,782	203,784	2
Net Change in Fund Balance	-	-	197,530	197,530
FUND BALANCE - BEGINNING	-	-	-	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,530</u>	<u>\$ 197,530</u>

(Concluded)

BANNER COUNTY
**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
NONMAJOR FUNDS**

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
BRIDGE CONSTRUCTION FUND				
RECEIPTS	\$ -	\$ -	\$ -	\$ -
DISBURSEMENTS	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(2)	(2)	(2)	-
TOTAL OTHER FINANCING SOURCES (USES)	(2)	(2)	(2)	-
Net Change in Fund Balance	(2)	(2)	(2)	-
FUND BALANCE - BEGINNING	2	2	2	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COUNTY FAIR OPERATING FUND				
RECEIPTS	\$ 2,941	\$ 2,941	\$ 3,456	\$ 515
DISBURSEMENTS	5,302	5,302	3,740	1,562
Net Change in Fund Balance	(2,361)	(2,361)	(284)	2,077
FUND BALANCE - BEGINNING	6,281	6,281	3,361	\$ (2,920)
FUND BALANCE - ENDING	<u>\$ 3,920</u>	<u>\$ 3,920</u>	<u>\$ 3,077</u>	<u>\$ (843)</u>
FEDERAL DRUG LAW ENFORCEMENT FUND				
RECEIPTS	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
DISBURSEMENTS	11,510	11,510	-	11,510
Net Change in Fund Balance	(1,510)	(1,510)	-	1,510
FUND BALANCE - BEGINNING	1,510	1,510	1,510	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,510</u>	<u>\$ 1,510</u>
MUSEUM BOARD FUND				
RECEIPTS	\$ 9,530	\$ 9,530	\$ 8,960	\$ (570)
DISBURSEMENTS	26,018	26,018	4,012	22,006
Net Change in Fund Balance	(16,488)	(16,488)	4,948	21,436
FUND BALANCE - BEGINNING	16,488	16,488	16,488	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,436</u>	<u>\$ 21,436</u>

(Continued)

BANNER COUNTY
**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL
NONMAJOR FUNDS**

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
HARD SURFACE ROAD FUND				
RECEIPTS	\$ -	\$ -	\$ 40	\$ 40
DISBURSEMENTS	-	-	-	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(203,782)	(203,782)	(203,822)	(40)
TOTAL OTHER FINANCING SOURCES (USES)	(203,782)	(203,782)	(203,822)	(40)
Net Change in Fund Balance	(203,782)	(203,782)	(203,782)	-
FUND BALANCE - BEGINNING	203,782	203,782	203,782	-
FUND BALANCE - ENDING	\$ -	\$ -	\$ -	\$ -

(Concluded)

BANNER COUNTY
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	Bridge Construction Fund	County Fair Operating Fund	Federal Drug Law Enforcement Fund	Museum Board Fund	Hard Surface Road Fund	Total Nonmajor Governmental Funds
RECEIPTS						
Property Taxes	\$ -	\$ 3,292	\$ -	\$ 8,478	\$ 40	\$ 11,810
Intergovernmental	-	164	-	482	-	646
TOTAL RECEIPTS	<u>-</u>	<u>3,456</u>	<u>-</u>	<u>8,960</u>	<u>40</u>	<u>12,456</u>
DISBURSEMENTS						
Culture and Recreation	-	3,740	-	4,012	-	7,752
TOTAL DISBURSEMENTS	<u>-</u>	<u>3,740</u>	<u>-</u>	<u>4,012</u>	<u>-</u>	<u>7,752</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>-</u>	<u>(284)</u>	<u>-</u>	<u>4,948</u>	<u>40</u>	<u>4,704</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(2)	-	-	-	(203,822)	(203,824)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(203,822)</u>	<u>(203,824)</u>
Net Change in Fund Balances	(2)	(284)	-	4,948	(203,782)	(199,120)
FUND BALANCES - BEGINNING	<u>2</u>	<u>3,361</u>	<u>1,510</u>	<u>16,488</u>	<u>203,782</u>	<u>225,143</u>
FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ 3,077</u>	<u>\$ 1,510</u>	<u>\$ 21,436</u>	<u>\$ -</u>	<u>\$ 26,023</u>
FUND BALANCES:						
Restricted for:						
Law Enforcement	\$ -	\$ -	\$ 1,510	\$ -	\$ -	\$ 1,510
Committed to:						
Culture and Recreation	-	3,077	-	21,436	-	24,513
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 3,077</u>	<u>\$ 1,510</u>	<u>\$ 21,436</u>	<u>\$ -</u>	<u>\$ 26,023</u>

BANNER COUNTY
SCHEDULE OF OFFICE ACTIVITIES
For the Year Ended June 30, 2012

	County Clerk	Clerk of the District Court	County Sheriff	Highway Superintendent	Museum	Fair	Total
BALANCES JULY 1, 2011	\$ 3,061	\$ 9,133	\$ 134	\$ -	\$ 16,018	\$ 637	\$ 28,983
RECEIPTS							
Licenses and Permits	-	-	1,030	-	-	-	1,030
Intergovernmental	-	-	-	34,072	-	-	34,072
Charges for Services	18,835	3,747	1,412	1,663	-	-	25,657
Miscellaneous	-	-	-	10,539	9,167	5,168	24,874
State Fees	6,163	1,458	-	-	-	-	7,621
Other Liabilities	-	16,890	-	-	-	-	16,890
TOTAL RECEIPTS	24,998	22,095	2,442	46,274	9,167	5,168	110,144
DISBURSEMENTS							
Payments to County Treasurer	17,742	3,459	1,821	45,681	-	-	68,703
Payments to State Treasurer	7,087	1,520	-	-	-	-	8,607
Other Liabilities	-	22,287	-	-	7,079	2,885	32,251
TOTAL DISBURSEMENTS	24,829	27,266	1,821	45,681	7,079	2,885	109,561
BALANCES JUNE 30, 2012	<u>\$ 3,230</u>	<u>\$ 3,962</u>	<u>\$ 755</u>	<u>\$ 593</u>	<u>\$ 18,106</u>	<u>\$ 2,920</u>	<u>\$ 29,566</u>
BALANCES CONSIST OF:							
Due to County Treasurer	\$ 2,905	\$ 718	\$ 755	\$ 593	\$ 18,106	\$ 2,920	\$ 25,997
Petty Cash	50	-	-	-	-	-	50
Due to State Treasurer	275	385	-	-	-	-	660
Due to Others	-	2,859	-	-	-	-	2,859
BALANCES JUNE 30, 2012	<u>\$ 3,230</u>	<u>\$ 3,962</u>	<u>\$ 755</u>	<u>\$ 593</u>	<u>\$ 18,106</u>	<u>\$ 2,920</u>	<u>\$ 29,566</u>

BANNER COUNTY
SCHEDULE OF TAXES CERTIFIED AND COLLECTED FOR
ALL POLITICAL SUBDIVISIONS IN THE COUNTY
June 30, 2012

Item	2007	2008	2009	2010	2011
Tax Certified by Assessor					
Real Estate	\$ 1,925,226	\$ 2,175,373	\$ 2,195,749	\$ 2,416,030	\$ 2,839,895
Personal and Specials	177,722	170,897	200,182	214,405	206,479
Total	2,102,948	2,346,270	2,395,931	2,630,435	3,046,374
Corrections					
Additions	1,652	1,413	-	377	-
Deductions	(565)	(1,455)	(336)	(626)	(954)
Net Additions/ (Deductions)	1,087	(42)	(336)	(249)	(954)
Corrected Certified Tax	2,104,035	2,346,228	2,395,595	2,630,186	3,045,420
Net Tax Collected by County Treasurer during Fiscal Year Ending:					
June 30, 2008	1,313,505	-	-	-	-
June 30, 2009	779,156	1,508,555	-	-	-
June 30, 2010	4,618	823,638	1,480,956	-	-
June 30, 2011	2,837	568	907,154	1,723,869	-
June 30, 2012	-	1,031	1,199	905,681	1,848,149
Total Net Collections	2,100,116	2,333,792	2,389,309	2,629,550	1,848,149
Total Uncollected Tax	\$ 3,919	\$ 12,436	\$ 6,286	\$ 636	\$ 1,197,271
Percentage Uncollected Tax	0.19%	0.53%	0.26%	0.02%	39.31%



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BANNER COUNTY

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

Board of Commissioners
Banner County, Nebraska

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Banner County as of and for the year ended June 30, 2012, and have issued our report thereon dated February 6, 2013. The report notes the financial statements were prepared on the basis of cash receipts and disbursements. Except as noted above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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, detect, or correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, detected or corrected on a timely basis. We consider the following deficiency to be a material weakness:

- The County offices had a lack of segregation of duties since one person could handle all aspects of processing a transaction from beginning to end. Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Due to a limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

Compliance and Other Matters

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

We also noted certain matters that we reported to management of Banner County in a separate letter dated February 6, 2013.

This report is intended solely for the information and use of management, the County Board, others within the entity, the State Legislature, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

February 6, 2013

Deann Haeffner, CPA
Assistant Deputy Auditor



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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February 6, 2013

Board of Commissioners
Banner County, Nebraska

Dear Commissioners:

We have audited the basic financial statements of Banner County (County) for the fiscal year ended June 30, 2012, and have issued our report thereon dated February 6, 2013. In planning and performing our audit of the basic financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

COUNTY OVERALL

Segregation of Duties

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

We noted the offices of the County each had a lack of segregation of duties since one person could handle all aspects of processing a transaction from beginning to end. Due to a limited number of personnel, an adequate segregation of duties is not possible without additional cost. This was also noted in prior audits.

We recommend the County review this situation. As always, the County must weigh the cost of hiring additional personnel versus the benefit of a proper segregation of duties.

COUNTY BOARD

Expenditures in Excess of Budget

County Fair Operating Fund expenditures exceeded the adopted budget by \$1,358 with no budget amendments adopted by the County Board.

Neb. Rev. Stat. § 23-916 (Reissue 2012) regarding prohibition of contracts or liabilities in excess of budget, states,

“After the adoption of the county budget, no officer, department or other expending agency shall expend or contract to be expended any money, or incur any liability, or enter into any contract which, by its terms, involves the expenditure of money not provided for in the budget, or which involves the expenditure of any money for any of the purposes for which provision is made in the budget in excess of the amounts provided in said budget for such office, department or other expending agency, or purpose, for such fiscal year. Any contract, verbal or written, made in violation of this section shall be null and void as to the county, and no money belonging thereto shall be paid thereon.”

When expenditures are made in excess of the County’s adopted budget, the County is not in compliance with State statute.

We recommend the County implement procedures to closely monitor expenditures throughout the year and amend the County’s budget prior to the fiscal year end to avoid having expenditures in excess of the County’s adopted budget.

County Board’s Response: Expenditures were monitored throughout the year. The excess amount issued from the County Fair Fund was discovered shortly after the claim was submitted and approved. The County Board did not amend the budget because the claim was voided and the check was never cashed prior to the fiscal year end. However, the proper adjustments were not made, and the \$1,358 remained in the County General Fund instead of being returned to the Fair Fund.

The County will monitor expenditures more closely and use the correct procedures to assure that expenditures are not in excess of the County Budget.

Claim Procedures

During testing of vendor claims, the following was noted:

- Banner County utilizes a credit card program with two credit cards available to various County officials and/or departments. The use of credit cards was intended to improve the efficiency and cost effectiveness of some of the County’s purchasing processes. Individuals are responsible for submitting supporting documentation for their credit card

purchases to the office of the County Clerk. One of two credit card claims tested related to hotel lodging charged in Lincoln, Nebraska at the standard \$120 rate rather than the \$77 government rate. Also, because the lodging was not directly billed to Banner County, a total of \$20 in sales/lodging taxes were charged.

- Purchase of a Dell computer for the Highway Superintendent included \$67 in sales tax.
- Purchase of six tires, totaling \$6,191, for Road Department machinery did not have documentation of informal bids/quotes having been obtained from other available suppliers.
- Purchase of a \$368 scanner for the Sheriff's Office was not added to the Sheriff's Office inventory.

Neb. Rev. Stat. § 23-3108 (Reissue 2012) states,

“...purchases of personal property or services by the county board or purchasing agent shall be made: (a) Through the competitive sealed bidding process prescribed in section 23-3111 if the estimated value of the purchase is twenty thousand dollars or more; (b) By securing and recording at least three informal bids, if practicable, if the estimated value of the purchase is equal to or exceeds five thousand dollars, but is less than twenty thousand dollars; or (c) By purchasing in the open market if the estimated value of the purchase is less than five thousand dollars, subject to section 23-3112....”

In addition, a good internal control plan requires the County Board to ensure that adequate, original supporting documentation be maintained to support all expenditures approved by the County Board, including all credit card purchases. Such a plan would include adequate monitoring and review of supporting documentation for reasonableness and accuracy of charges and payments. Lastly, good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records.

When bidding requirements are not followed, the County is not in compliance with State statute. In addition, without complete and accurate purchase documentation and payment procedures, including inventory of capital outlay purchases in accordance with County Board guidelines, there is an increased risk for fraud, abuse, or misuse of funds.

We recommend the County Board ensure bidding procedures are followed on all purchases requiring bids. We also recommend the County Board review its overall purchasing policies and procedures, including credit card transactions, and implement procedures adequate to ensure proper documentation and credit card use to maximize all possible cost efficiencies. We also recommend the County Board reiterate to County Officials the importance of complete and accurate inventory filings.

County Board's Response: Bidding procedures will be followed on all purchases requiring bids. The County recognizes that items which have not required a bid in the past, may now require bids due to significant price increases.

Special Revenue Fund Transfer Authority

In the fiscal year ended June 30, 2012, the County Board transferred \$10,000 from the Road Fund (a Special Revenue fund of the County) to the General Fund related to "weed spraying-roads." The County 2011-2012 Road Fund budget included \$10,000 budgeted for "weed spraying-roads" as an operating expense of the Fund. However, the \$10,000 transferred to the General Fund was not related to specific expenses incurred by the General Fund and did not contain a repayment schedule.

The County adopts an annual budget in accordance with the statutory requirements of the Nebraska Budget Act. The County Board is authorized to budget for the transfer of money between County funds, however, this authorization does not extend to transferring monies out of Special Revenue funds into the County's General Fund without a repayment schedule. Such transfers are considered loans and must be repaid to the Special Revenue fund(s) making the transfer.

When transfers are made outside of the authority granted to the County Board by the Nebraska Budget Act, there is an increased risk of such transfers being challenged as legitimate expenditures of the County.

We recommend all monies transferred from Special Revenue Funds be considered loans which must contain a repayment schedule unless those amounts transferred are reimbursement for actual, documented expenses incurred in other County funds.

County Board's Response: In the future, money that has been budgeted in the Road Fund budget for weed spraying of roads will only be paid as specific expenses are incurred by the General Fund.

COUNTY TREASURER

Records Retention

The County Treasurer did not print and/or retain the County's monthly operating statements for the months of February 2012 and April 2012. The County Treasurer is unable to go back and reprint the operating statements, therefore, it is critical that these essential financial accounting records be printed and retained.

Nebraska Records Retention and Disposition Schedule 16, as issued by the Nebraska State Records Administrator, Section 16-6-5, regarding general ledger and subsidiary ledgers, requires complete record of collections, disbursements, and account balances for various county, school district, city, village, state, fire district, sanitary district, and other funds be disposed of after 10 years, provided an audit has been completed.

When essential financial accounting records of the County are not retained in accordance with the State's records retention guidelines and are not readily available for audit, there is an increased risk of loss or misuse of funds.

This was also noted in the prior audit.

We recommend the County Treasurer retain all financial accounting records, at a minimum, in accordance with the Nebraska Records Retention Schedule.

County Treasurer's Response: See County Treasurer's full response on page 8.

Bank Reconciliations

The County Treasurer did not reconcile the accounting records to the bank account, a fluctuating unidentified variance was noted each month; at June 30, 2012, the variance totaled \$393. This was also noted in the prior audit.

Sound accounting practices and good internal control require that comprehensive, detailed reconciliation procedures be in place, at least on a monthly basis, to ensure proper balancing and reconciliation of the County Treasurer's book and bank balances. County Treasurer reconciliation procedures should include timely identification and resolution of all variances noted.

Failure to identify variances between the County Treasurer's bank and book accounts and resolve those variances in a timely manner contributes to an increased risk of loss, theft, or misuse of funds.

We recommend the County Treasurer implement monthly bank reconciliation procedures, including the complete and accurate identification and resolution of all variances.

County Treasurer's Response: See County Treasurer's full response on page 8.

Semi-Annual Statements

Review of the December 31, 2011, and June 30, 2012, published semi-annual statements noted the following:

- The December 31, 2011, semi-annual statement as originally published reported only the financial activity for the month of December 2011 rather than the entire preceding six month period. Once this reporting error was brought to the County Treasurer's attention, a corrected semi-annual statement was subsequently published.

- The June 30, 2012, reported fund balances did not agree to County records for four funds with the General Fund under-reported by \$1,807 and three trust and agency funds over-reported by \$1,807. The trust and agency funds had negative balances at June 30, 2012, and rather than report negative balances in those funds, the County Treasurer adjusted the funds on the semi-annual statement to a positive status and correspondingly under-reported the General Fund to offset the adjustments.

Neb. Rev. Stat. § 23-1605 (Reissue 2012) requires the County Treasurer, during the months of July and January of each year, to publish in a legal newspaper a tabulated statement which shows the receipts and disbursements of the office for the last preceding six months ending June 30 and December 31. Neb. Rev. Stat. § 23-1606 (Reissue 2012), which further addresses the semi-annual statement contents, requires the statement to specifically show, in part, the amount of money received and for what fund, and the amount of money on hand in each fund.

Neb. Rev. Stat. § 23-1603 (Reissue 2012) states,

“If any county treasurer shall neglect or refuse to render any account or settlement required by law, or shall fail or neglect to account for any balance due the state, county, township, school district, or any other municipal subdivision, or is guilty of any other misconduct in office, the county board may forthwith remove him from office, and appoint some suitable person to perform the duties of treasurer until his successor is elected or appointed and qualified.”

When published semi-annual statements are not complete and accurate, the County Treasurer is not reporting to Banner County taxpayers the true financial affairs of the office.

We recommend the County Treasurer implement procedures to ensure publication of all semi-annual statements are complete and accurate. Furthermore, we recommend the County Attorney and County Board review this comment and determine if further action is deemed necessary.

County Treasurer’s Response: See County Treasurer’s full response on page 8.

Property Tax Credit Distribution

The property tax credit from the Nebraska State Treasurer was not completely and accurately distributed to the County’s political subdivisions due to the County Treasurer’s failure to distribute \$54 in centrally assessed tax credits received. The County Treasurer subsequently returned the undistributed \$54 to the State Treasurer on June 15, 2012, as part of the County’s tax credit overage balance.

Neb. Rev. Stat. § 77-4212(4) (Reissue 2009) states, in part,

“After retaining one percent of the receipts for costs, the county treasurer shall allocate the remaining receipts to each taxing unit levying taxes on taxable property in the tax district in which the real property is located in the same proportion that the levy of such taxing unit bears to the total levy on taxable property of all the taxing units in the tax distributed in which the real property is located.”

When property tax credit receipts are not completely and accurately distributed, the County's taxing political subdivisions do not receive the correct amount of property tax credit due them.

We recommend the County Treasurer implement procedures to ensure all property tax credit receipts are completely and accurately distributed to taxing political subdivisions.

County Treasurer's Response: See County Treasurer's full response on page 8.

Motor Vehicle ProRate Distribution

During review of motor vehicle prorated payments made by the Nebraska State Treasurer to Banner County, the following was noted:

- The County Treasurer manually calculates the distribution of motor vehicle prorated payments to taxing political subdivisions and retains no documentation of his manual calculations.
- Motor vehicle prorated payments received in April 2012 and June 2012, totaling \$4,485, were distributed based on 2010-2011 tax levies rather than on 2011-2012 tax levies. The distribution based on the wrong tax levies impacted the amounts distributed to each taxing political subdivision to varying degrees. For example, in relation to the incorrect June 2012 distribution the County's largest taxing political subdivision, Banner School District, received approximately \$23 more than it was entitled to.

Neb. Rev. Stat. § 60-3,202(3) (Cum. Supp. 2012) states, "Upon receipt of motor vehicle tax funds from the State Treasurer, the county treasurer shall distribute such funds to taxing agencies within the county in the same proportion that the levy of each such taxing agency bears to the total of such levies of all taxing agencies in the county."

When motor vehicle prorated receipts are not completely and accurately distributed, the County's taxing political subdivisions do not receive the correct amount of motor vehicle prorated taxes due them.

We recommend the County Treasurer implement procedures to ensure all motor vehicle prorated receipts are completely and accurately distributed to taxing political subdivisions.

County Treasurer's Response: See County Treasurer's full response on page 8.

Delinquent Tax List Publication

The County Treasurer did not publish for three consecutive weeks prior to the date of sale, the list of delinquent real property taxes to be sold. The County Treasurer, in error, only published the list for one week rather than the three weeks required by State statute.

Neb. Rev. Stat. § 77-1804 (Reissue 2009), regarding publication of the delinquent real property taxes, requires the county treasurer to publish once a week for three consecutive weeks prior to the date of sale a list of all real property subject to sale.

When a list of delinquent real property subject to sale is not advertised in accordance with State statute, there is an increased risk of dispute should the sale be challenged.

We recommend the County Treasurer implement procedures to ensure publication of delinquent real property tax lists for the three consecutive weeks prior to the date of sale as required by State statute.

County Treasurer's Response: See County Treasurer's full response on page 8.

Closed Fund Balance

At June 30, 2012, the County Treasurer's accounting records continued to include a closed Judgment Fund with a balance of \$64.

Good internal control and sound accounting practices require all County funds closed by the County Board be also closed in the County Treasurer's accounting records with no further activity and/or balances reflected in relation to those closed funds.

When closed funds continue to be used and exist in the County Treasurer's accounting records, there is an increased risk of theft or misuse of funds.

We recommend the County Treasurer discontinue the use of the Judgment Fund and transfer any remaining fund balance to the County's General Fund.

County Treasurer's Response: First of all, I will state, that after meeting with Sandy Steinbrecher, the member of the State Auditors staff whom completed our audit, I wish to state that I acknowledge all findings in her report. Additionally, certain procedures have already been put in place to assure that the findings in the audit report have and will continue to be completed in a timely and true matter according to state statutes and guidelines. The procedures include;

- 1. Proper records retention, including the monthly operating statement, which includes a simple checklist to insure its completion.*
- 2. Bank Statement reconciliation, has been rectified, and will be closely monitored by the county treasurer and relayed to the state auditor.*
- 3. Proper procedures and guidelines for semi-annual statements and delinquent tax list advertising requirements.*
- 4. Monthly checklist of fund balance listing to account for closed fund accounts.*
- 5. Spreadsheets and documentation for receipted state monies (Property Tax Credit and Motor Vehicle Prorate).*

HIGHWAY SUPERINTENDENT

Accounting Procedures

During review of the County Highway Superintendent's accounting procedures the following was noted:

- The County Highway Superintendent did not have procedures in place to adequately track billings and accounts receivable. As a result, the June 30, 2012, accounts receivable balance could not completely and accurately be determined.
- Service rates charged to customers could not be consistently traced to County Board authorization. A \$100/hour Caterpillar fee, while shown on the Highway Superintendent's rate sheet which outlined all rates charged, had not changed for many years and could not be traced to County Board authorization.

Sound accounting practices and good internal control requires adequate procedures be in place to account for all billings and related receivables and that rates charged to customers be properly authorized by the County Board.

When good controls and practices are not followed, there is an increased risk of loss or misuse of funds.

We recommend:

- the County Highway Superintendent's billing process be maintained in such a manner as to ensure accounts receivable can be easily identified and accounted for at all times; and
- the rates charged to customers be properly authorized by the County Board.

COUNTY FAIR

Accounting Procedures

Review of County Fair bank activity and related bank reconciliations, noted the following:

- At June 30, 2012, five outstanding checks, totaling \$44, had been outstanding in excess of three years yet have neither been reported and/or remitted to the State Treasurer as Unclaimed Property.
- A \$2,300 check issued on April 3, 2012, to the Fair from Banner County was not deposited to the Fair's bank account until July 3, 2012; a delay of approximately three months.

Neb. Rev. Stat. § 69-1307.01 (Reissue 2009) states that, except as otherwise provided by law, all intangible personal property held for the owner by a public officer of the State or a political subdivision thereof, that has remained unclaimed by the owner for more than three years is

presumed abandoned. Additionally, Neb. Rev. Stat. § 69-1310 (Reissue 2009) requires such items be reported to the Nebraska State Treasurer before November 1st of each year as of June 30 next preceding. In addition, sound accounting practices and good internal control require timely deposit of all monies received. Timely deposit of receipts would generally occur no more than one to two working days after the date of original receipt.

When unclaimed property is not reported and/or remitted to the State Treasurer in accordance with the Unclaimed Property Act and monies received are not deposited in a timely manner, there is an increased risk of loss, theft, or misuse.

We recommend the County Fair comply with the Unclaimed Property Act and report and/or remit all unclaimed property in its possession in accordance with State statute. We further recommend the County Fair implement procedures to ensure all monies received are deposited in a timely manner.

* * * * *

It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the County.

Draft copies of this report were furnished to the County to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the County declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next audit.

This report is intended solely for the information and use of the County, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

SIGNED ORIGINAL ON FILE

Deann Haeffner, CPA
Assistant Deputy Auditor