

**AUDIT REPORT
OF THE
CITY OF CROFTON**

OCTOBER 1, 2016, THROUGH SEPTEMBER 30, 2017

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Issued on March 27, 2018

CITY OF CROFTON

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CITY OF CROFTON

BACKGROUND

The City of Crofton (City) is located in Knox County, Nebraska. The City Council (Council) is the governmental body that exercises financial accountability and control over activities relevant to the operations of the City. The Council receives funding from State and local government sources and must comply with the requirements of these funding sources. Council members are elected by the public and have broad decision-making authority, including the power to levy taxes and to designate management, the ability to exert significant influence over all City operations, and the primary responsibility for related fiscal matters.

Based upon the issues identified in the Auditor of Public Accounts' (APA) audit of the City for the year ended September 30, 2016, the City was notified that the APA would be performing the year-end September 30, 2017, audit as well.

The APA visited the City on February 6 and 7, 2018, to obtain relevant information for the audit.

During the audit period, the Council was comprised of the following members:

- Wendell Strom, Mayor
- Steve Kuehler, Council Member
(resigned September 2017)
- Michael Guenther, Council Member
- Tom Allen, Council Member
- Chad Reifenrath, Council Member
(until November 2016)
- Sharol Lawhead, Council Member
(started November 2016)

Diane Allen was appointed temporary City Clerk (Clerk) on February 3, 2016, and held the position of Clerk during the audit period. Subsequent to the audit period Ted Hillman was appointed to fill Steve Kuehler's vacant seat and Marla Wortmann was hired as a Clerk with Diane Allen becoming the assistant to the Clerk.

In July 2015, the Council appointed a temporary City Manager, Charlie Hendrix, whose husband Daniel served as the City's attorney. In October 2015, the Council approved a contract with Hendrix Consulting and Law, a local general practice law firm belonging to Charlie and Daniel Hendrix, which made the temporary appointment of the City Manager a permanent position.

CITY OF CROFTON

SUMMARY OF COMMENTS

During our audit of the City of Crofton (City), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***Control Environment:*** The City lacked a proper segregation of duties. Additionally, several other issues were noted, including a lack of controls, a lack of a capitalization policy, inadequate records for pool receipts, and a check not being restrictively endorsed.
2. ***Receipt Processes, Including Utility Billing and Collection:*** The City lacked proper procedures to ensure that all customers paid for the correct monthly water, sewer, and sanitation utilities. The City did not have an adequate method to track customer water deposits on hand, resulting in a \$450 understatement. The City did not have sufficient documentation to support the sales tax remitted to the State of Nebraska. The City's collection procedures for a loan program were insufficient, with \$22,366 due on one account as of September 30, 2017.
3. ***State and County Receipt Accounting:*** The City miscoded several State and County receipts.
4. ***Disbursement Processes:*** The Auditor of Public Accounts (APA) identified certain issues pertaining to the City's disbursement process, including a lack of documentation, the improper payment of taxes, and a claim not being properly approved.
5. ***Sales Tax Allocation:*** The City did not have a detailed record of which expenses during the fiscal year were paid for with the proceeds of sales taxes to ensure that the City was in accordance with ballot language. Also, the City did not have a written policy to advise City staff as to which expenses were allowable per the ballot language.
6. ***Payroll Issues:*** The APA identified that I-9 forms were not correctly completed, and W-4 forms on file did not agree to the employees' paystubs.
7. ***Tax Increment Financing:*** The City lacked adequate documentation to support full compliance with State statutes governing tax increment financing.

More detailed information regarding the above items is provided hereinafter. It should be noted this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement.

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

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

1. Control Environment

The City of Crofton lacked a sufficient segregation of duties. Specifically, one person was capable of handling all aspects of processing transactions from beginning to end. Due to the limited size of the City of Crofton's (City) staff, an adequate segregation of duties was not possible without additional costs. The City Clerk (Clerk) was able to process unilaterally all accounting transactions, such as receiving money owed to the City, making bank deposits, writing checks, receiving bank statements, preparing the claims listing for City Council (Council) approval, and entering financial information into the City's accounting system.

Additionally, the Auditor of Public Accounts (APA) identified the following control environment issues:

- During the fiscal year, the total disbursements exceeded the adopted budget by \$10,038, net of depreciation. Neb. Rev. Stat. § 13-510 (Reissue 2012) states, in relevant part, "No expenditure during any fiscal year or biennial period shall be made in excess of the amounts indicated in the adopted budget statement, except as authorized in section 13-511, or by state law." That same statute adds, "Any officer or officers of any governing body who obligates funds contrary to the provisions of this section shall be guilty of a Class V misdemeanor." Neb. Rev. Stat. § 13-511 (Supp. 2017), as referenced above, sets out the procedures for amending the adopted budget accordingly.
- As a result of last year's audit, the APA had requested the City provide QuickBooks files periodically to help ensure the accounting records were complete, consistent, and accurate as compared to years past. The APA did not receive any files or reports until after the fiscal year end; however, the City had contracted with ClerkBooks to provide support and use of their municipal accounting tools. The ClerkBooks fund tracking and other reporting modules were not implemented until the end of fiscal year 2017.
- The City did not maintain adequate records detailing all amounts collected at the City pool. The City tracked pool receipts using a spreadsheet that noted user names and whether the individual purchased a Family Pass, Single Pass, Youth Pass, or Lessons. For daily passes, the spreadsheet included only a count by date. Procedures were insufficient to ensure that all pool receipts were accounted for, deposited at the bank, and properly recorded in the accounting system. The majority of pool receipts are cash, which increases the risk that monies could be misappropriated. Per the City's accounting system, the pool receipts for the fiscal year totaled \$12,324.
- During a cash count performed at the City office on February 6, 2018, it was noted that 1 of 18 checks on hand, totaling \$88, was not restrictively endorsed.
- The City did not have a capitalization policy that provided the threshold for when items should be added to the inventory list. Per discussion with the City Manager, the City's policy was to capitalize items with a value over \$500. In addition, formal written procedures did not exist for when items should be added to or removed from the inventory list or how often that list should be reviewed.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Control Environment (Concluded)

Without proper segregation of duties and controls in place, there is an increased risk of misuse or misappropriation of City funds. Additionally, good internal control procedures require that: 1) adequate records be maintained for all amounts collected at the City pool; 2) checks received by the City be restrictively endorsed; and 3) the City implement a capitalization policy that provides the threshold for when items should be added to the inventory list.

The lack of such procedures heightens even further the risk of loss or misuse of public funds. When expenditures are made in excess of the City's adopted budget without proper amendatory action being taken, the City is in violation of State statute. This finding was included in the prior audit and continues to be a material weakness.

We recommend the City consider the need for a proper segregation of duties. As always, the cost of hiring additional personnel versus the benefit of a segregation of duties must be weighed. We also recommend the Council implement procedures to ensure the following:

- We recommend the City monitor expenditures to ensure the set budget is not exceeded.
- City pool revenues are recorded in the accounting system and deposited into to the City's bank account.
- Checks are restrictively endorsed immediately upon receipt.
- A capitalization policy and inventory list are approved and maintained.

City's Response: We appreciate the APA's assistance in identifying areas of continued focus. The City of Crofton continues to educate staff, council, and volunteers. In particular we work to educate on the importance of cash and accrual accounting and budgeting. The City endeavors to administer GAAP policies and controls within a very limited financial and technological framework.

2. Receipt Processes, Including Utility Billing and Collection

The City lacked adequate procedures for receipt processes, including utility billing and collection, water deposits, sales tax remittances, and the housing loan program. Additional details regarding these processes is provided below.

Utility Billing and Collection

The City lacked adequate procedures to ensure that monthly utilities, including water, sewer, and sanitation services, were billed and collected correctly, as well as entered accurately into the City's accounting system.

City employees read water meters with a wand and hand-write each customer's reading onto a spreadsheet, which is then used to calculate the water usage to be charged for each customer. In the past, the readings have been handwritten onto a spreadsheet, giving rise to a significant risk of

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Receipt Processes, Including Utility Billing and Collection (Continued)

human error that might have resulted in the City not collecting all monies due from the utility customers. More recently, however, the City has begun utilizing a software program to record the readings, reducing the risk of transcriber errors.

The APA’s review of this manual process revealed a number of problems with the utility fee billing and collection process. In particular, there appears to have been a failure to abide by the provisions of the City’s own Resolution 16-2, which sets out procedures for handling late or missed payments. That resolution is copied below:

Late Fees – Resolution 16-2	
•	Utility payments are due on the first day of each month. Utility bill payments are past due after the 10 th of the month. If the payment is not received by the City Office by the 10 th of the month, the customer is required to add a \$5.00 delinquent fee.
•	After two months of non-payment, a customer should receive a delinquent shut-off notice. The cost of this notice and service fee is \$50.00. The customer is required to pay this fee. If a customer does not pay this fee in 10 days the water will be shut-off.
•	Once water has been shut off, a reconnection of fee of \$75.00 is required. This fee, plus all delinquent monies, must be paid prior to the water reconnection.

The APA noted the following failures to comply with the resolution:

- For 5 of 25 accounts selected for testing, \$5 late fees were not charged on late payments.

	Date Billed	Date Paid
Customer 1	11/15/2016	12/20/2016
Customer 2	3/15/2017	4/12/2017
Customer 3	3/15/2017	4/18/2017
Customer 4	7/15/2017	8/30/2017
Customer 5	3/15/2017	4/11/2017

- For 5 of 25 accounts, payments were not made for multiple months; however, the water was never shut off.

	Months Late Ranged From
Customer 1	May 2017 through July 2017
Customer 2	October through December 2016 & March through August 2017
Customer 3	October through November 2016 & January through August 2017
Customer 4	December 2016 through February 2017 & April 2017 through July 2017
Customer 5	October 2016, December 2016, February 2017, March 2017, & May through July 2017

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Receipt Processes, Including Utility Billing and Collection (Continued)

Additionally, the APA found that 3 of 25 accounts were not charged sales taxes totaling \$14, which was not collected by the City.

It is important to note that the above information is based upon a sample of months and accounts tested during the fiscal year; therefore, additional issues with the customer utility billings may exist that are not addressed herein.

Without adequate procedures to ensure that all customers pay the proper utility fee each month, there is an increased risk for the loss of City funds. A similar finding was noted in the prior year's audit report and continues to be a material weakness.

We recommend the City continue to implement procedures to ensure that it bills all utility customers properly each month, and the correct amounts, including late fees, are duly collected. Furthermore, the City should continue using a software program to maintain the utility accounts.

Customer Water Deposits

The City lacked an adequate method for tracking customer water deposits on hand.

When starting water service, customers are required to pay the City a \$50 deposit. Amounts on hand at the City were shown as a liability, as these amounts are paid back to the customers when they no longer need water service. The APA compared the Water Meter Deposit Forms completed during fiscal year 2017 to the amounts recorded in QuickBooks. The results of that comparison revealed that the water deposits noted in the system were understated by \$450 at September 30, 2017. The amounts had been incorrectly coded to other revenue accounts in the accounting system.

A good internal control plan requires procedures for tracking customer water deposits to ensure their proper financial presentation. Without such procedures, there is an increased risk for both inaccurate financial presentation and the loss of City funds. A similar finding was noted in the prior year's audit report.

We recommend the City implement procedures for the accurate tracking of customer water deposits.

Sales Tax Remittance

The APA selected for testing two Form 10 ("Nebraska and Local Sales and Use Tax Return" forms issued by the Nebraska Department of Revenue) documents and found that the gross sales and services and net taxable sales reported on those forms could not be traced to the City's accounting system.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

2. **Receipt Processes, Including Utility Billing and Collection** (Continued)

The City’s former accounting firm carried out the Form 10 filings until July 2017, when the City Clerk took over that responsibility. One Form 10 selected for the period of December 2016 was completed by the firm, and the amounts stated therein could not be traced to the accounting system. Another Form 10 selected for testing for the period of June 2017 was completed by the City Clerk, and the amounts for that document were similarly unable to be traced to the accounting system. Per the APA’s calculations it appeared that the City was paying more than what was required, however; amounts could not be confirmed due to the lack of documentation.

Good internal control requires procedures to ensure that all amounts reported on a Form 10 are adequately documented and entered into the City’s accounting system. A similar finding was noted in the prior year’s audit report.

We recommend the City take appropriate steps to ensure that sales tax amounts collected and remitted are accurate, and documentation supporting the amounts remitted to the Nebraska Department of Revenue are kept on file.

Housing Loan Program Receipts

In the past, the City had attempted to operate a housing rehabilitation loan program, which offered 20-year loans to residents at a fixed annual interest rate of 4.00%. However, the City’s collection procedures continue to be insufficient, as one of the two residents participating in the loan program is more than eight years behind on repayment, and no late fees have ever been assessed or collected.

This individual in arrears received a loan in the amount of \$18,126 in April 2006 and was scheduled to pay the City \$109.84 per month for 240 months. However, those repayments have been sporadic, resulting in approximately only one-third of the required monthly amounts being paid over the last 10 years. Loan amounts received during last fiscal year were being applied to payments due from 2008 and 2009. As a result, the interest due on this loan has increased significantly. The following chart depicts the interest and loan balances that have accrued since 2009.

Fiscal Year End	Interest	Total Amount Due
Balance at May 2009		\$16,127.46
9/30/2009	\$214.98	\$16,342.44
9/30/2010	\$653.70	\$16,996.14
9/30/2011	\$679.85	\$17,675.98
9/30/2012	\$707.04	\$18,383.02
9/30/2013	\$735.32	\$19,118.34
9/30/2014	\$764.73	\$19,883.08
9/30/2015	\$795.32	\$20,678.40
9/30/2016	\$827.14	\$21,505.54
9/30/2017	\$860.22	\$22,365.76

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Receipt Processes, Including Utility Billing and Collection (Concluded)

According to the City Administrator, this individual was “under the impression that they were not obligated to pay the loan back until the final payment comes due in 2026.” Per the APA’s discussion with the City, no further contact has been made with this individual to obtain repayment of the funds owed.

Good business practice requires sufficient collection procedures to ensure that amounts owed to the City are collected in accordance with payment schedules. Without such procedures, there is an increased risk of loss or misuse of City funds. A similar finding was noted in the prior year’s audit report.

We recommend the City implement procedures for recovering amounts owed to it, as a significant number of such amounts are past due.

City’s Response: The City Council did formally suspend late fees, during the transition to the new software accounting system. This was so that utility customers would not be penalized for difficulties associated with implementation. In addition, delinquent water accounts are reviewed by the council on a monthly basis, to determine whether sufficient progress has been made in accordance with city policy. The city council is the ultimate arbiter of delinquent water accounts.

3. State and County Receipt Accounting

During testing of State and County receipts, the following errors were noted:

Source of Receipt	Amount in Error	APA Notes
State	\$15,566	Two receipts for Municipal Equalization Aid were coded to the Highway Allocation & Incentives account in the Special Revenue Funds instead of the Municipal Equalization Aid account in the General Fund. An adjustment was made to the financial statements.
State	\$8,228	Ten receipts for sales tax income were not distributed properly in accordance with State statutes and City ballot language. Motor Vehicle Sales tax was not first distributed into the Street sub-fund included in the Special Revenue Funds, in accordance with Neb. Rev. Stat. § 60-3,190(6)(c) (Cum. Supp. 2016), before being distributed to the Infrastructure, Economic Development, and Parks and Recreation sub-funds. An adjustment was made to the financials for this error.
State	\$5,123	Three Highway Allocation receipts also included Motor Vehicle Fees that were incorrectly coded to the Highway Allocation & Incentives account instead of the Motor Vehicle Fees account.
County	\$30,148	For 12 of 12 receipts tested, funds were coded to the Current Property Taxes account in the General Fund, but they should have been coded to multiple other accounts and funds. An adjustment was made to the financial statements.
County	\$1,198	The City did not account properly for the amount of cash on deposit with the County Treasurer at the end of the fiscal year. The City’s accounting system still showed \$6,958, which was the prior year’s cash on hand amount, instead of the correct amount of \$5,760. An adjustment was made to the financial statements.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

3. State and County Receipt Accounting (Concluded)

Neb. Rev. Stat. § 60-3,190(6)(c) (Cum. Supp. 2016) states the following:

All receipts by counties and municipalities from the Motor Vehicle Fee Fund shall be used for road, bridge, and street purposes.

Neb. Rev. Stat. § 39-2510(1) (Reissue 2016) states the following:

All money derived from fees, excises, or license fees relating to registration, operation, or use of vehicles on the public highways, or to fuels used for the propulsion of such vehicles, shall be expended for payment of highway obligations, cost of construction, reconstruction, maintenance, and repair of public highways and bridges and county, city, township, and village roads, streets, and bridges, and all facilities, appurtenances, and structures deemed necessary in connection with such highways, bridges, roads, and streets, or may be pledged to secure bonded indebtedness issued for such purposes, except for (a) the cost of administering laws under which such money is derived, (b) statutory refunds and adjustments provided therein, and (c) money derived from the motor vehicle operators' license fees or money received from parking meter proceeds, fines, and penalties.

Also, per Neb. Rev. Stat. § 39-1522 (Reissue 2016), collections from the township levy are to be used for the maintenance and repair of streets and alleys in the City.

In addition, good internal control requires procedures to allow for the proper recording of receipts into various funds to ensure that financial reporting is complete and accurate.

When transactions are not properly recorded and allocated, there is a risk for not only noncompliance with State statute but also material misstatement of the financial statements and misuse of City funds. A similar finding was noted in the prior year's audit report.

We recommend the City implement procedures, including a periodic review of the accounting records for receipts, to ensure all amounts are accurately recorded and properly allocated to the various City funds and functions. We also recommend the City maintain documentation to support the method of allocating costs to various funds.

4. Disbursement Processes

The APA identified certain issues pertaining to the City's disbursement process, including a lack of documentation, the improper payment of sales tax, and a claim not being properly approved.

The following table describes disbursements that lacked adequate documentation or did not appear reasonable or necessary for the City.

Date	Name	Memo	Amount	Description
10/03/2016	Christensen, Brozek, Faltys PC		\$1,670.00	The contracted rates for accounting and consulting services did not agree to what was invoiced. For example, \$168.60 per hour was billed for "Work on Budget." However, per the documentation received, the maximum rate to be charged was \$160 per hour. Hourly rates charged ranged from \$76.21 to \$168.60.

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COMMENTS AND RECOMMENDATIONS
(Continued)

4. **Disbursement Processes** (Continued)

Date	Name	Memo	Amount	Description
12/06/2016	Jason Porter	Consulting Re Nancy Foxhoven	\$1,072.00	The City did not have a contract or agreement in place to ensure the charges were agreeable to both parties. In addition, the rates were inconsistent, as one was for \$50 per hour, and another was for \$49.33. It appears also that the individual charged the wrong IRS rate for 2016. He appears to have charged \$0.575, when the rate should have been \$0.54.
04/04/2017	First Bankcard	Zoning training at Kearney, NE	\$479.56	The credit card charge to Holiday Inn Express included lodging tax of \$59.76. Also, the amount charged was over the government lodging rate of \$55.80, which does not appear reasonable and necessary for the City.
12/28/2016	First Bankcard	Walmart	\$104.37	The City had no receipt for a credit card charge; therefore, the APA could not determine if the purchase was reasonable and necessary.

Additionally, the following disbursement issues were identified:

- The City approved the Ameritas bond payment of \$1,100,886.11 through an ordinance and not through the normal claims process, as required by statute.
- One \$1,147.75 invoice for prepaid postage envelopes appears not to have been paid timely. The invoice was dated July 8, 2016; however, the payment to First Bankcard did not occur until February 8, 2017.
- During the fiscal year 2016 audit, the APA identified the Lakeview Golf Association, Inc. (Association) owed the City for insurance costs paid from March and April 2016. Per discussions with the City Manager, the Association agreed to pay the City; however, the payment of \$798 was never finalized.

Good internal control requires procedures for ensuring that adequate supporting documentation is maintained for all fund disbursements and to ensure that amounts due to the City are appropriately pursued.

Per Neb. Rev. Stat. § 77-2704.15(1)(a) (Cum. Supp. 2016), purchases made by the State or its political subdivisions are exempt from sales tax, as follows:

Sales and use taxes shall not be imposed on the gross receipts from the sale, lease, or rental of and the storage, use, or other consumption in this state of purchases by the state, including public educational institutions recognized or established under the provisions of Chapter 85, or by any county, township, city, village

Neb. Rev. Stat. § 17-714(1) (Supp. 2017) provides, in relevant part, the following:

All liquidated and unliquidated claims and accounts payable against a city of the second class or village shall (a) be presented in writing, (b) state the name and address of the claimant and the amount of the claim, and (c) fully and accurately identify the items or services for which payment is claimed or the time, place, nature, and circumstances giving rise to the claim.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Disbursement Processes** (Concluded)

When City expenditures are not supported or approved in the appropriate manner, there is an increased risk for the loss or misuse of public funds. When the City does not direct bill for lodging, moreover, there is an increased risk of improperly paying sales tax or not utilizing the appropriate government rate.

We recommend the City implement procedures to ensure all disbursements are adequately supported and paid in a timely manner. We also recommend the City direct bill for lodging within the State of Nebraska and ensure the City is reimbursed for any insurance paid on behalf of the Association. We recommend all claims be properly approved prior to payment.

5. **Sales Tax Allocation**

In November 2008, the City's residents voted to impose a municipal sales and use tax. The APA received concerns from taxpayers that the percentage of the sales and use tax allocated to City parks and pools might not have been used in compliance with the ballot language. One of the concerns was that funds were used to pay pool employee salaries, as opposed to only the "repair and/or replacement" costs authorized by the ballot language.

The ballot language approved by the voters stated the following:

Shall the Mayor and City Council of Crofton, Nebraska impose a sales and use tax in the amount of one percent (1%) within the City of Crofton, Nebraska, upon the same transactions with the City of Crofton on which the State of Nebraska is authorized to impose a tax: (1) with the proceeds of twenty percent being allocated to fund the City Economic Development Plan; (2) with the proceeds of twenty percent being allocated to repair and/or replacement of City parks and swimming pool; (3) with the proceeds of sixty percent being allocated to improving infrastructure, including streets, water and sewer facilities and property tax relief; and shall the City increase its budgeted restricted funds for fiscal year 2008-2009 by \$70,000.00 (22%) over the current year's restricted funds?

(Emphasis added.) Sales and use tax proceeds were entered into the Parks and Recreation sub-funds along with other revenues within the accounting system. The City did not have a separate sub-fund to designate which monies were allocated from the sales and use tax. During fiscal year 2017, the City should have allocated \$15,402 to parks and pools for the purposes of "repair and/or replacement." The APA reviewed line items in the City's accounting system to determine if, at least, that amount had been spent for such purposes. It appears that over \$32,000 of expenditures could have qualified as "repair and/or replacement" expenses, including improvements for the baseball and softball parks, a 10% allocation of salaries for the two full-time maintenance workers, and a small portion for payment of the Hendrix Law contract.

Per discussion with City staff, it was explained that the APA did not consider the salaries of pool employees to fall within the meaning of "repair and/or replacement" expenses; consequently, those expenses were not included in the APA's calculation. However, it was noted that the City lacked a written policy or any other directive defining what constitutes "repair and/or replacement" expenses, permitting a fairly broad objective interpretation of that language.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Sales Tax Allocation (Concluded)

When not tracked in detail, restricted funds are at risk of being used for unallowable purposes. Also, without a formal policy or directive to define the meaning of “repair and/or replacement” expenses, as found in the sales and use tax ballot language, there is a risk that such revenues will be expended improperly.

We recommend the City track restricted funds in detail to ensure those amounts are only used for allowable purposes. Also, we recommend the City develop a written policy or directive to define the meaning of “repair and/or replacement,” as found in the sales and use tax ballot language.

6. Payroll Issues

The APA noted the following issues with the City’s payroll process:

- The City completed the federally required “Employment Eligibility Verification” (I-9) forms for the five employees tested; however, none of those forms were filled out correctly to include the employer’s review and verification portion therein.
- For two employees tested, the information entered on the Internal Revenue Service’s W-4 form did not agree to that listed on their paystubs for marital status and number of allowances.

Good internal control requires procedures to ensure that both the I-9 and W-4 forms for its employees are completed correctly. Without such procedures, there is an increased risk for the loss or misuse of City funds. A similar finding was noted in the prior year’s audit report.

We recommend the City implement procedures to ensure that both the I-9 and W-4 forms for its employees are completed correctly.

7. Tax Increment Financing

In 2014, the City of Crofton (City) utilized tax increment financing (TIF) to assist a local developer, Cmart, LLC, in acquiring property, demolishing an existing structure, and site preparation. At that time, the City’s Community Redevelopment Authority issued bonds in the amount of \$62,000 for this TIF project.

As identified in the fiscal year 2016 audit, the City did not have documentation to support: 1) the veracity of related project expenses; 2) the proper performance of mandatory substandard and blight studies; 3) the existence of required redevelopment plans; or 4) the conducting of a necessary cost-benefit analysis. Since last year’s audit, the City has worked to obtain such supporting documents to ensure full compliance with the Community Development Law, which is set out at Neb. Rev. Stat. §§ 18-2101 to 18-2144 (Reissue 2012, Cum. Supp. 2016, Supp. 2017), and certain supplemental statutes. However, several of the required items still have not been obtained.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Concluded)

7. Tax Increment Financing (Concluded)

The City also did not have procedures in place to track the ad valorem taxes received and paid to Cmart, as compared to the bond payments or bond amortization schedule. The ad valorem taxes should only be remitted for 15 years unless the debt is paid off earlier.

In addition, it appears that the Knox County Treasurer's Office remitted the incorrect amount of ad valorem tax to the City in 2017. The County paid the full amount of the tax credit \$263; however, this amount should have been split between the base tax (\$56) and the excess tax (\$207).

Good internal control requires procedures for the maintenance of proper documentation to ensure compliance with applicable provisions of the Community Development Law. Such procedures should also ensure the proper distribution of ad valorem tax amounts. A similar finding was noted in the prior year's audit report.

We recommend the City implement procedures for the maintenance of proper documentation to ensure not only compliance with applicable provisions of the Community Development Law but also the proper distribution of ad valorem tax amounts.



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CITY OF CROFTON

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Crofton, NE

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities – cash basis, the business-type activities – accrual basis, and each major fund – cash basis for the governmental funds and accrual basis for the proprietary funds, – of the City of Crofton, Nebraska, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America for the business-type activities and in accordance with the cash basis of accounting for the governmental activities described in Note 1 for the governmental activities. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements of the governmental activities and the major governmental funds in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and each major governmental fund of the City of Crofton, as of September 30, 2017, and the respective changes in cash-basis financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the City of Crofton, as of September 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements of the governmental activities and the major governmental funds of the City of Crofton are prepared on the cash basis of accounting, which is a basis of accounting other than the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements, which collectively comprise the City of Crofton's basic financial statements. Other information on page 40 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other information on page 40 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the City of Crofton'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, not to provide an opinion on 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 of Crofton's internal control over financial reporting and compliance.

March 26, 2018



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor

CITY OF CROFTON
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS
September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 10,576	\$ 165,288	\$ 175,864
Cash on Hand with County Treasurer	5,760	-	5,760
Accounts Receivable	-	57,640	57,640
Inventory	-	8,000	8,000
Restricted Cash and Cash Equivalents	81,073	-	81,073
Total Current Assets	<u>97,409</u>	<u>230,928</u>	<u>328,337</u>
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	19,900	19,900
Capital Assets			
Land	-	85,360	85,360
Depreciable Assets (Net)	-	258,298	258,298
Total Noncurrent Assets	<u>-</u>	<u>363,558</u>	<u>363,558</u>
TOTAL ASSETS	<u>97,409</u>	<u>594,486</u>	<u>691,895</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	-	937	937
Accrued Expenses	-	6	6
Total Current Liabilities	<u>-</u>	<u>943</u>	<u>943</u>
Noncurrent Liabilities			
Customer Deposits	-	19,900	19,900
TOTAL LIABILITIES	<u>-</u>	<u>20,843</u>	<u>20,843</u>
NET POSITION			
Net Investment in Capital Assets	-	343,658	343,658
Restricted for:			
Police	14,927	-	14,927
Special Revenue	29,115	-	29,115
Capital Improvements	38,007	-	38,007
Unrestricted	<u>15,360</u>	<u>229,985</u>	<u>245,345</u>
TOTAL NET POSITION	<u>\$ 97,409</u>	<u>\$ 573,643</u>	<u>\$ 671,052</u>

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

CITY OF CROFTON
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF ACTIVITIES - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS

For the Year Ended September 30, 2017

Functions/Programs:	Disbursements/ Expenses	Program	Net (Disbursements/Expenses)		
		Receipts/Revenues	Receipts/Revenue and Changes in Net Position		
		Charges for Services	Primary Government		
			Governmental Activities	Business-Type Activities	Total
Governmental Activities:					
General Government	\$ 170,139	\$ -	\$ (170,139)	\$ -	\$ (170,139)
Public Health and Safety	95,321	-	(95,321)	-	(95,321)
Public Works	77,787	-	(77,787)	-	(77,787)
Culture and Recreation	108,452	12,324	(96,128)	-	(96,128)
Community Development	68,473	-	(68,473)	-	(68,473)
Capital Projects	142,358	-	(142,358)	-	(142,358)
Debt Service	1,150,976	-	(1,150,976)	-	(1,150,976)
Total Governmental Activities	<u>1,813,506</u>	<u>12,324</u>	<u>(1,801,182)</u>	<u>-</u>	<u>(1,801,182)</u>
Business-Type Activities:					
Water	217,208	193,049	-	(24,159)	(24,159)
Sewer	85,965	123,588	-	37,623	37,623
Sanitation	45,365	43,423	-	(1,942)	(1,942)
Total Business-Type Activities	<u>348,538</u>	<u>360,060</u>	<u>-</u>	<u>11,522</u>	<u>11,522</u>
Total Primary Government	<u>\$ 2,162,044</u>	<u>\$ 372,384</u>	<u>(1,801,182)</u>	<u>11,522</u>	<u>(1,789,660)</u>
General Receipts/Revenues:					
Debt Proceeds			1,101,886	-	1,101,886
Taxes:					
Property Taxes - General Purposes			162,896	-	162,896
City Sales Taxes			77,011	-	77,011
City Motor Vehicle Sales Taxes			29,035	-	29,035
Tax Increment Financing			4,002	-	4,002
Licenses and Permits			3,652	-	3,652
Intergovernmental			128,925	-	128,925
Use of Money and Property			105,899	-	105,899
Other Miscellaneous Receipts/Revenues			25,174	107	25,281
Total General Receipts/Revenues			<u>1,638,480</u>	<u>107</u>	<u>1,638,587</u>
Increase in Net Position			(162,702)	11,629	(151,073)
Net Position - Beginning of year			<u>260,111</u>	<u>562,014</u>	<u>822,125</u>
Net Position - End of year			<u>\$ 97,409</u>	<u>\$ 573,643</u>	<u>\$ 671,052</u>

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

CITY OF CROFTON
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS - CASH BASIS
September 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Retirement Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ 10,576	\$ -	\$ -	\$ -	\$ 10,576
Cash on Hand with County Treasurer	4,784	976	-	-	5,760
Restricted Cash and Cash Equivalents	14,927	28,139	38,007	-	81,073
TOTAL ASSETS	\$ 30,287	\$ 29,115	\$ 38,007	\$ -	\$ 97,409
FUND BALANCE					
Restricted	\$ 14,927	\$ 29,115	\$ 38,007	\$ -	\$ 82,049
Unassigned	15,360	-	-	-	15,360
TOTAL CASH BASIS FUND BALANCES	\$ 30,287	\$ 29,115	\$ 38,007	\$ -	\$ 97,409

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

CITY OF CROFTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS - CASH BASIS
For the Year Ended September 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Retirement Fund	Total
RECEIPTS					
Taxes	\$ 195,788	\$ 77,156	\$ -	\$ -	\$ 272,944
Intergovernmental	35,372	93,553	-	-	128,925
Charges for Services	-	12,324	-	-	12,324
Use of Money and Property	103,494	2,405	-	-	105,899
Licenses and Permits	3,510	142	-	-	3,652
Miscellaneous	8,648	16,526	-	-	25,174
TOTAL RECEIPTS	<u>346,812</u>	<u>202,106</u>	<u>-</u>	<u>-</u>	<u>548,918</u>
DISBURSEMENTS					
General Government	170,139	-	-	-	170,139
Public Health and Safety	95,321	-	-	-	95,321
Public Works	-	77,787	-	-	77,787
Culture and Recreation	70	108,382	-	-	108,452
Community Development	655	67,818	-	-	68,473
Capital Projects	-	-	142,358	-	142,358
Debt Service					
Principal	-	-	-	1,125,886	1,125,886
Interest	-	-	-	20,179	20,179
Fees and Penalties	-	-	-	4,911	4,911
TOTAL DISBURSEMENTS	<u>266,185</u>	<u>253,987</u>	<u>142,358</u>	<u>1,150,976</u>	<u>1,813,506</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>80,627</u>	<u>(51,881)</u>	<u>(142,358)</u>	<u>(1,150,976)</u>	<u>(1,264,588)</u>
OTHER FINANCING SOURCES (USES)					
Debt Proceeds	-	-	-	1,100,886	1,100,886
Loan Proceeds	1,000	-	-	-	1,000
Transfers In	106,530	171,730	65,247	50,090	393,597
Transfers Out	(338,247)	(55,350)	-	-	(393,597)
TOTAL OTHER FINANCING SOURCES	<u>(230,717)</u>	<u>116,380</u>	<u>65,247</u>	<u>1,150,976</u>	<u>1,101,886</u>
Net Change in Cash Basis Fund Balances	<u>(150,090)</u>	<u>64,499</u>	<u>(77,111)</u>	<u>-</u>	<u>(162,702)</u>
CASH BASIS FUND BALANCES - BEGINNING	<u>180,377</u>	<u>(35,384)</u>	<u>115,118</u>	<u>-</u>	<u>260,111</u>
CASH BASIS FUND BALANCES - ENDING	<u>\$ 30,287</u>	<u>\$ 29,115</u>	<u>\$ 38,007</u>	<u>\$ -</u>	<u>\$ 97,409</u>

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

CITY OF CROFTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ACCRUAL BASIS
September 30, 2017

	Sewer Fund	Water Fund	Sanitation Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 145,463	\$ 29,866	\$ (10,041)	\$ 165,288
Accounts Receivable	17,704	23,957	15,979	57,640
Inventory	-	8,000	-	8,000
Total Current Assets	<u>163,167</u>	<u>61,823</u>	<u>5,938</u>	<u>230,928</u>
Noncurrent Assets				
Restricted Assets - Cash	-	19,900	-	19,900
Capital Assets				
Land	41,930	41,930	1,500	85,360
Depreciable Assets	220,093	908,457	-	1,128,550
Accumulated Depreciation	(184,178)	(686,074)	-	(870,252)
Total Noncurrent Assets	<u>77,845</u>	<u>284,213</u>	<u>1,500</u>	<u>363,558</u>
TOTAL ASSETS	<u>241,012</u>	<u>346,036</u>	<u>7,438</u>	<u>594,486</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	615	322	-	937
Payroll Liabilities	5	1	-	6
Total Current Liabilities	<u>620</u>	<u>323</u>	<u>-</u>	<u>943</u>
Noncurrent Liabilities				
Customer Deposits	-	19,900	-	19,900
TOTAL LIABILITIES	<u>620</u>	<u>20,223</u>	<u>-</u>	<u>20,843</u>
NET POSITION				
Net Investment in Capital Assets	77,845	264,313	1,500	343,658
Unrestricted	<u>162,547</u>	<u>61,500</u>	<u>5,938</u>	<u>229,985</u>
TOTAL NET POSITION	<u>\$ 240,392</u>	<u>\$ 325,813</u>	<u>\$ 7,438</u>	<u>\$ 573,643</u>

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

CITY OF CROFTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS - ACCRUAL BASIS
For the Year Ended September 30, 2017

	Sewer Fund	Water Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 123,588	\$ 193,049	\$ 43,423	\$ 360,060
Miscellaneous	-	107	-	107
TOTAL OPERATING REVENUES	<u>123,588</u>	<u>193,156</u>	<u>43,423</u>	<u>360,167</u>
OPERATING EXPENSES:				
Personnel Services	58,333	18,711	-	77,044
Professional Fees	150	1,700	-	1,850
Materials and Supplies	1,889	9,371	-	11,260
Repairs and Maintenance	1,570	1,603	-	3,173
Utilities	10,225	194	-	10,419
Contracted Services	11,660	18,609	45,365	75,634
Cost of Goods Sold	-	148,614	-	148,614
Depreciation	1,355	18,151	-	19,506
Miscellaneous	783	255	-	1,038
TOTAL OPERATING EXPENSES	<u>85,965</u>	<u>217,208</u>	<u>45,365</u>	<u>348,538</u>
OPERATING INCOME (LOSS)	<u>37,623</u>	<u>(24,052)</u>	<u>(1,942)</u>	<u>11,629</u>
CHANGE IN NET POSITION	37,623	(24,052)	(1,942)	11,629
TOTAL NET POSITION, BEGINNING	<u>202,769</u>	<u>349,865</u>	<u>9,380</u>	<u>562,014</u>
TOTAL NET POSITION, ENDING	<u>\$ 240,392</u>	<u>\$ 325,813</u>	<u>\$ 7,438</u>	<u>\$ 573,643</u>

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

CITY OF CROFTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ACCRUAL BASIS
For the Year Ended September 30, 2017

	Sewer Fund	Water Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 128,935	\$ 216,062	\$ 35,535	\$ 380,532
Cash Paid For Contractual Services	(11,660)	(30,927)	(45,365)	(87,952)
Cash Paid For Personnel Services	(58,575)	(18,957)	-	(77,532)
Other Cash Expenses	(17,066)	(166,354)	-	(183,420)
Net Cash Provided by (Used in) Operating Activities	<u>41,634</u>	<u>(176)</u>	<u>(9,830)</u>	<u>31,628</u>
NET INCREASE (DECREASE) IN CASH	<u>41,634</u>	<u>(176)</u>	<u>(9,830)</u>	<u>31,628</u>
CASH AND CASH EQUIVALENTS - BEGINNING	103,829	49,942	(211)	153,560
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 145,463</u>	<u>\$ 49,766</u>	<u>\$ (10,041)</u>	<u>\$ 185,188</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	37,623	(24,052)	(1,942)	11,629
Adjustments to Reconcile:				
Depreciation	1,355	18,151	-	19,506
Change in Assets & Liabilities:				
Decrease in Accounts Receivable	5,347	22,206	(7,888)	19,665
(Decrease) in Accounts Payable	(1,703)	(15,657)	-	(17,360)
(Decrease) in Sales Tax Payable	(746)	(1,278)	-	(2,024)
Increase in Customer Deposits	-	700	-	700
(Decrease) in Payroll Liabilities	(242)	(246)	-	(488)
Total Adjustments	<u>4,011</u>	<u>23,876</u>	<u>(7,888)</u>	<u>19,999</u>
Net Cash Provided by (Used in) Operating Activities	<u>41,634</u>	<u>(176)</u>	<u>(9,830)</u>	<u>31,628</u>

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Crofton, Nebraska (City) are prepared in accordance with the cash basis of accounting for governmental funds and the accrual basis for the proprietary funds. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note.

A. Reporting Entity

The City is a political subdivision of the State of Nebraska. The City is incorporated as a City of the second class. The City operates under a Mayor and City Council form of government. Both the Mayor and the City Council are elected officials. The administration of the City government is performed under the direction of the Council by the Mayor. Services provided to residents include public safety, highways and streets, parks, recreation, water and sanitary sewer systems, garbage collection, and general administrative services.

The financial reporting entity consists of the City, which is the primary government.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 61, and has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable, and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on these criteria, the City has no component units.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the City. The statements distinguish between governmental and business-type activities. The effects of interfund activity have been removed from these statements.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

B. Basis of Presentation (Continued)

Governmental activities generally are financed through taxes, intergovernmental receipts, and other nonexchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct disbursements/expenses of a given function or segment is offset by program receipts/revenues. Direct disbursements/expenses are those that are clearly identifiable with a specific function or segment. Program receipts/revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods or 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/revenues are reported instead as general receipts/revenues.

The City does not allocate indirect costs.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, receipts/revenues, and disbursements/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. Major funds are funds whose receipts/revenues, disbursements/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds. Any other fund may be reported as a major fund if the City's officials believe that fund is particularly important to financial statement users.

The City reports the following types of governmental funds:

General Fund: The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund: Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Projects Fund: The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects.

Debt Retirement Fund: The Debt Retirement Fund is used to account for resources restricted for debt retirement expenditures.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

B. Basis of Presentation (Concluded)

The City reports the following types of proprietary funds:

Enterprise Funds: Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City has the following major enterprise funds:

Sewer Fund: This fund accounts for the revenues and expenses related to the City-owned and operated sewer system. Revenues primarily include charges for sewer services and expenses are generally for system maintenance and testing.

Water Fund: This fund accounts for the revenues and expenses related to the City owned and operated water system. Revenues primarily include charges for water services and expenses are generally for purchasing water.

Sanitation Fund: This fund accounts for the revenues and expenses related to garbage collection services. Revenues primarily include charges for services and expenses are generally paid to the City's contracted garbage hauler.

C. Measurement Focus, Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, and in the fund financial statements, governmental and business-type activities are presented using the measurement focus defined below.

- a. All governmental activities on the Statement of Net Position and the Statement of Activities, as well as the governmental fund financial statements, utilize the cash basis of accounting. As such, the measurement focus includes only those assets and net position/fund balances arising from cash transactions. This differs from governmental GAAP, which requires the government-wide financial statements to be reported using the "economic resources" measurement focus and the governmental fund financial statements to be reported using the "current financial resources" measurement focus.
- b. The business-type activities on the Statement of Net Position and Statement of Activities, as well as the proprietary fund financial statements, utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

C. **Measurement Focus, Basis of Accounting** (Concluded)

Basis of Accounting

Governmental activities in the government-wide Statement of Net Position and Statement of Activities and governmental fund financial statements are presented using the cash basis of accounting. Under this basis receipts are recognized when received, and disbursements are recognized when paid. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

Business-type activities in the government-wide Statement of Net Position and Statement of Activities, and proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

D. **Assets, Liabilities, and Equity**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts/revenues and disbursements/expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City's "cash and cash equivalents" include all demand accounts and savings accounts, including certificates of deposit. The County Treasurer's cash represents revenues collected not yet remitted to the City.

Receivables

In the business-type activities of the governmental-wide statements and the proprietary fund financial statements, receivables consist of all revenues earned at year end and not yet received. An allowance for bad debt has not been set up, as the amount is not considered material. Utility accounts receivable compose the majority of the receivables.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Assets, Liabilities, and Equity (Continued)

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to proceeds of specific revenue sources that are legally restricted to disbursements/expenses for certain purposes.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations.

Governmental Fund Operations

Capital assets are not capitalized, but instead are reflected as capital outlay disbursements upon acquisition in the governmental activities of the Statement of Net Position and the governmental fund financials. This differs from GAAP, which 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 in accordance with the cash basis of accounting. Under GAAP, depreciation expenses would be recorded and only the cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Proprietary Fund Operations

For the business-type activities of the Statement of Net Position and the proprietary fund financial statements, property and equipment are accounted for as capital assets. The City has a \$2,500 capitalization threshold for its machinery, equipment, and vehicles, and a threshold of \$10,000 for buildings and improvements, land improvements, and infrastructure. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation for capital assets is recorded as an allocated expense for business-type activities in the Statement of Activities and the proprietary fund financial statements, while accumulated depreciation is reflected in the net depreciable assets on the Statement of Net Position – Business-Type Activities.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The ranges of estimated useful lives by type of asset are as follows:

Buildings	10-40 years
Infrastructure	33-50 years
Machinery and Equipment	5-10 years

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

D. Assets, Liabilities, and Equity (Continued)

The assets have been valued at cost. The cost of normal maintenance, preservation, and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized.

Accounts Payable

In the business-type activities of the government-wide statements and the proprietary fund financial statements, accounts payables consist of amounts billed to but not yet paid by the City.

Accrued Expenses

In the business-type activities of the government-wide statements and the proprietary fund financial statements, accrued expenses represent amounts that have been collected but not yet remitted to other parties. The City's accrued expenses include payroll liabilities, such as income taxes and other payroll withholdings that have not yet been remitted to the appropriate State or Federal agencies and sales taxes that have been collected on water and sewer services, but not yet remitted to the State.

Customer Deposits

In the business-type activities of the government-wide statements and the proprietary fund financial statements, customer deposits represent the amounts paid by water customers per City ordinance for new water service. The amount is owed to the customer when the service is discontinued.

Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as a disbursement of the City funds as paid. Upon termination, employees are paid for any unused vacation. Under the cash 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.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations.

Governmental Fund Operations

Under the cash basis of accounting, proceeds from the issuance of long-term debt increase receipts and payment of long-term debt increases disbursements.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

D. Assets, Liabilities, and Equity (Continued)

Proprietary Fund Operations

Long-term debt for business-type activities and proprietary fund financials would be reported as liabilities; however, the City did not have any long-term debt in these types of activities/funds.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

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

Effective October 1, 2010, the City adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Assets, Liabilities, and Equity (Concluded)

Assigned—Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by the City Council.

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Statement of Cash Basis Assets and Fund Balances. Restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the City Council or the Assignment has been changed by the Mayor. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund. Balances are used in that order.

E. Receipts/Revenues and Disbursements/Expenses

Sales and Use Tax

The City presently levies a 1% sales tax on taxable sales within the City. The sales tax is collected by the Nebraska Department of Revenue and remitted to the City in the month following receipt. The Nebraska Department of Revenue receives the sales tax approximately one month after collection by vendors. The sales tax is allocated according to the original ballot language that approved the tax: 20% to the repair and/or replacement of City parks and swimming pool, 20% to the City's economic development plan; and 60% to improving infrastructure, including streets, water and sewer facilities, and property tax relief. As of October 1, 2006, sales tax collected on the sale of motor vehicles is recorded in the Street Fund as required by Neb. Rev. Stat. § 39-2510 (Reissue 2016).

Property Taxes

The City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest and principal on bonded debt, as well as taxes authorized by state law.

The tax levies for all political subdivisions in Knox County are certified by the County Board on or before October 15. Real estate taxes are due on December 31 and attach as an enforceable lien and become delinquent in two equal installments on May 1 and September 1. Personal property taxes are due in the same manner as real estate taxes. Delinquent taxes bear 14 percent interest.

Property taxes levied for 2016-2017 are recorded as receipts when received by the County.

Electrical Distribution System Lease

The City recognizes receipts under a net lease of the electric distribution system. Rental payments are equal to 12 percent of the adjusted gross revenues received during the preceding three months from sales to customers purchasing electricity from the distribution system.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

E. Receipts/Revenues and Disbursements/Expenses (Concluded)

The lease, entered into on September 1, 2005, continues until December 31, 2024. On or before December 31, 2019, the City shall declare its intention to renew the agreement or to allow it to expire as scheduled.

Operating Revenues and Expenses

Operating income reported in the proprietary funds financial statements include revenues and expenses related to the primary continuing operation of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenue and expenses are classified as nonoperating in the financial statements.

Disbursements/Expenses

In the government-wide financial statements, disbursements/expenses are classified by function for governmental and by fund for business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – by Character and Function
Proprietary Funds – by Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

A. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include Special Revenue and Capital Projects Funds.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

B. Deposit Laws and Regulations

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The City's demand deposits are insured up to \$250,000 and certificates of deposit/savings accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the FDIC limits are insured by collateral held by the pledging institution in the City's name.

C. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources are described in Note 1B for the various funds.

D. Related Party Transactions

The City conducts business with various members of the City Council. These transactions are conducted in the ordinary course of business and were not material for the year ended September 30, 2017.

E. Budgetary Data

The City is required by state laws to adopt annual budgets for all fund types. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the Nebraska Budget Act.

The Nebraska Budget Act provides the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various expenditure and/or tax levy limitations.

The City follows these procedures in establishing the budgetary data reflected in the accompanying financial statements.

- a. On or before August 1, the City prepares a budget for the fiscal year commencing October 1. The budget includes proposed expenditures and resources available.
- b. The budget is published with subsequent public hearings to obtain taxpayer comments.
- c. Prior to September 20, the City Council adopts the budget, which is then filed with the appropriate state and county officials.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

E. Budgetary Data (Concluded)

- d. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require board approval.
- e. Appropriations lapse at the end of the fiscal year, except for capital improvement appropriations and certain encumbrances against operating budgets.
- f. The County Clerk certifies a preliminary property tax levy for each fund of the City which levied property taxes in the county the previous year based on the combined valuation and amount required for the City the prior year. The preliminary levy becomes the final levy unless the governing board passes, by a majority vote, a resolution setting the levy at a different amount.
- g. The property tax requirements resulting from the budget process are utilized by the County Assessor to establish the tax levy. Taxes are levied annually on or before October 15. Real property taxes and personal property taxes are due December 31 with the first half delinquent May 1 and the second half delinquent September 1.
- h. The City adopts a budget by ordinance for all funds.

3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the financial statements for the City's various assets, liabilities, equity, receipts/revenues, and disbursements/expenses.

A. Cash

Deposits

The City's policies regarding deposits of cash are discussed in Note 1D. The categories of collateral are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the City (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name; or collateralized with no written or approved collateral agreement.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

A. Cash (Concluded)

At year end, the City’s carrying amount of deposits was \$273,788. The bank balance for all funds was \$315,248. For purposes of classifying categories of custodial risk, the bank balances of the City’s deposits, as of September 30, 2017, were either entirely insured or collateralized with securities held by the City’s agent in the City’s name.

B. Restricted Assets

The restricted assets as of September 30, 2017, are as follows:

Type of Restricted Assets	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$81,073	\$19,900	\$100,973

The General Fund has \$14,927 of cash restricted for police. The Special Revenue Fund has \$28,139 of cash restricted for streets, parks and recreation, economic development, and housing rehabilitation. The Capital Projects Fund has \$38,007 of cash restricted for capital projects. The Water Fund has \$19,900 of cash restricted for customer deposits.

C. Accounts Receivable

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2017, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 17,704
Water Fund	\$ 23,957
Sanitation Fund	\$ 15,979
Total	\$ 57,640

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

Business-type Activities:	Balance at October 1, 2016	Additions	Disposals	Balance at September 30, 2017
Capital Assets Not Depreciated:				
Land	\$85,360	\$ -	\$ -	\$85,360
Depreciable Capital Assets:				
Infrastructure	\$1,128,550	\$ -	\$ -	\$1,128,550
Total Depreciable Capital Assets, at historical cost	\$1,128,550	\$ -	\$ -	\$1,128,550
Less Accumulated Depreciation for:				
Infrastructure	(\$850,746)	(\$19,506)	\$ -	(\$870,252)
Total Accumulated Depreciation	(\$850,746)	(\$19,506)*	\$ -	(\$870,252)
Depreciable Capital Assets, Net	\$277,804	(\$19,506)	\$ -	\$258,298
Business-type Capital Assets, Net	\$363,163	(\$19,506)	\$ -	\$343,658

*Depreciation expense was charged to the functions as follows:

Sewer	\$ 1,355
Water	<u>\$18,151</u>
Total Depreciation Expense, for Business-type Activities	\$19,506

E. Liabilities

The City records liabilities only for its business-type activities or proprietary funds.

The following is a summary of changes in the City's liabilities, including accounts payable, accrued expenses, and customer deposits for the year ended September 30, 2017:

Business-type Activities:	Balance at October 1, 2016	Additions	Deductions	Balance at September 30, 2017
Liabilities:				
Accounts Payable	\$18,297	\$937	\$18,297	\$937
Accrued Expenses	\$2,518	\$6	\$2,518	\$6
Customer Deposits	\$19,200	\$700	\$0	\$19,900
Total Liabilities	\$40,015	\$1,643	\$20,815	\$20,843

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

F. Interfund Transactions

The City had the following operating transfers among funds and sub-funds during the fiscal year.

Transfer Out	Transfer In	Amount
General-General	General-Police	\$ 106,530
General-Infrastructure	Special Revenue Fund- Street	\$ 60,000
General-Infrastructure	Special Revenue Fund- Economic Development	\$ 49,555
General-Infrastructure	Capital Projects	\$ 48,430
General- General	Special Revenue Fund- Parks and Recreation	\$ 21,525
General- General	Special Revenue Fund- Parks and Recreation	\$ 18,718
General- General	Capital Projects	\$ 11,556
General- General	Special Revenue Fund- Parks and Recreation	\$ 7,855
General- General	Special Revenue Fund- Parks and Recreation	\$ 7,575
General- General	Special Revenue Fund- Parks and Recreation	\$ 5,763
General- General	Special Revenue Fund- Parks and Recreation	\$ 371
General- General	Special Revenue Fund- Economic Development	\$ 369
Special Revenue Fund- Street	Debt Retirement Fund	\$ 50,090
Special Revenue Fund- Street	Capital Projects	\$ 5,260
Total		\$ 393,597

4. OTHER NOTES

A. Employee Retirement Plan

Beginning January 1, 1999, the City started a retirement plan for its full-time employees. The plan calls for payments to be made by the City into a Simple IRA account for each full-time employee up to a maximum of 3% of the employee's gross wage. The employee may also contribute within limits set by IRS codes. The amount contributed by the City during fiscal year 2017 was \$4,339 and the amount contributed by employees was \$5,915.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to minimize the effect of possible exposure to these risks. There have been no significant reductions in insurance coverage from coverage in the prior year. During the past three fiscal years, there have been no settlements exceeding the amount of the City's insurance coverage.

C. Commitments and Contingencies

Construction and Commitments

As of September 30, 2017, the City no longer had construction obligations. However, the Sharon Street Construction Project was completed during the fiscal year and assessments on that project are still outstanding as of September 30, 2017.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

C. **Commitments and Contingencies** (Concluded)

Short-Term Debt

The City had no short term debt during the fiscal year.

Long-Term Debt

The City’s long-term debt is recorded in the Capital Projects Fund and the Debt Retirement Fund, which are all governmental activities. Because these funds operate under the cash basis of accounting, a liability is not recorded in the government-wide financial statements. The debt service payments were recorded as disbursements and the bond and loan proceeds were recorded as Other Financing Sources. The following is a brief description of each debt instrument:

- Various purpose bonds, Series 2010, dated August 10, 2010, for \$240,000 were issued to provide funding for a street project. The bonds are due July 15, 2020, with interest rates ranging from .85% to 3.55%. During the fiscal year, the City repaid \$25,000 in principal, plus \$3,288 in interest, related to this bond.
- GO Various Purpose Bond, Series 2017, dated February 14, 2017, for \$1,115,000 par value was issued during the fiscal year. The City paid interest of \$11,192 and fees of \$200 during the fiscal year. The Series 2016 Street, Sewer, and Storm Water Sewer Improvement Bond was paid off during the fiscal year, principle of \$1,100,000 and interest payments of \$ 6,386 were paid.

The following represents future payments required on the outstanding debt instruments:

	2010 Bond Payable		2017 Bond Payable	
	Principal	Interest	Principal	Interest
2018	\$ 25,000	\$ 2,538	\$ -	\$ 33,298
2019	\$ 25,000	\$ 1,737	\$ 50,000	\$ 32,935
2020	\$ 25,000	\$ 888	\$ 50,000	\$ 32,135
2021	\$ -	\$ -	\$ 50,000	\$ 31,222
2022	\$ -	\$ -	\$ 50,000	\$ 30,222
FY 2023-2037	\$ -	\$ -	\$ 915,000	\$ 259,844
Totals	\$ 75,000	\$ 5,163	\$ 1,115,000	\$ 419,656

Tax Increment Financing

In 2014, the City of Crofton utilized tax increment financing (TIF) to assist Cmart, LLC in acquiring property, demolition of an existing structure, and site preparation. At that time, the City’s Community Redevelopment Authority issued TIF indebtedness totaling \$62,000. This debt is a limited obligation of the City, where revenues received by the City, via the County Treasurer, are used to repay the debt up to 15 years or until the debt is paid off.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

D. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2017:

<u>Parties to Agreement</u>	<u>Description</u>
Knox County	Assistance for oil road repairs along City roads and joint use of City property for a cold mix preparation and storage site.
Knox County Development Agency	Coordination, education, and service to increase the knowledge of economic development and help preserve Knox County community's economic growth.
Knox and Madison County	Services related to the Juvenile Justice Grant.
Ponca Tribe of Nebraska	Clarify authority of City and services to be provided for City property held in trust for the benefit of the Ponca Tribe.

E. Subsequent Events

Management has evaluated subsequent events through March 26, 2018, the date on which the financial statements were available for issue.

CITY OF CROFTON

OTHER INFORMATION

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE**

BUDGET AND ACTUAL - GENERAL ALL-PURPOSE FUND

For the Year Ended September 30, 2017

	General All-Purpose Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS				
Property Taxes	\$ 148,628	\$ 148,628	\$ 162,896	\$ 14,268
State Highway Allocation	84,134	84,134	90,958	6,824
State Municipal Equalization	21,125	21,125	21,428	303
State Motor Vehicle	6,500	6,500	2,216	(4,284)
Other State Receipts	3,000	3,000	14,323	11,323
Local Motor Vehicle	15,000	15,000	29,035	14,035
City Sales Tax	77,000	77,000	77,011	11
Other Local Receipts	1,450,000	1,450,000	1,613,104	163,104
Transfers In Other Than Surplus	30,000	-	-	-
TOTAL RECEIPTS	<u>1,835,387</u>	<u>1,805,387</u>	<u>2,010,971</u>	<u>205,584</u>
DISBURSEMENTS				
General Government	155,000	195,000	170,139	24,861
Public Health and Safety	85,000	85,000	95,321	(10,321)
Public Works - Streets	1,380,288	1,392,500	77,787	1,314,713
Culture and Recreation	75,000	70,000	108,452	(38,452)
Community Development	67,500	79,000	68,473	10,527
Capital Projects	-	-	142,358	(142,358)
Debt Service	-	-	1,150,976	(1,150,976)
Sanitation	53,000	53,000	45,365	7,635
Sewer	48,000	63,000	85,965	(22,965)
Water	158,000	195,000	217,208	(22,208)
TOTAL DISBURSEMENTS	<u>\$ 2,021,788</u>	<u>\$ 2,132,500</u>	<u>2,162,044</u>	<u>\$ (29,544)</u>
Net Change in Cash Basis Fund Balance			<u>(151,073)</u>	
ACCRUAL/CASH BASIS FUND BALANCE - BEGINNING			<u>822,125</u>	
ACCRUAL/CASH BASIS FUND BALANCE - ENDING			<u><u>\$ 671,052</u></u>	

Notes to the Budgetary Comparison Schedule

As described in Note 2 to the financial statements, an all-purpose budget is adopted on the cash basis of accounting which is consistent with the financial reporting basis for governmental funds in the fund financial statements. The proprietary funds differ from this budgetary basis because of their "economic resource" measurement focus.



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CITY OF CROFTON
**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***

Independent Auditor's Report

Mayor and City Council
City of Crofton, Nebraska

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 statements of the governmental activities – cash basis, the business type activities – accrual basis, and each major fund – cash basis for governmental funds and accrual basis for proprietary funds of the City of Crofton, Nebraska (City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated March 26, 2018. Our report on the basic financial statements disclosed that, as described in Note 1, the City prepares its financial statements for the governmental funds on the cash basis of accounting, which is a comprehensive basis of accounting other 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 statements, 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 opinions on the financial statements, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a 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 Comments Section that we consider to be material weaknesses: Comment Number 1 (Control Environment), Comment Number 2 (Receipt Processes, Including Utility Billing and Collection), and Comment Number 3 (State and County Receipt Accounting).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 Comments Section of our report as Comment Number 3 (State and County Receipt Accounting) and Comment Number 4 (Disbursement Processes).

Additional Items

We also noted certain additional items that we reported to management of the City in the accompanying Comments Section of this report as Comment Number 5 (Sales Tax Allocation), Comment Number 6 (Payroll Issues), and Comment Number 7 (Tax Increment Financing).

City's Response to Findings

The City's response to the findings identified in our audit are described in the Comments Section of the report. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, the City declined to respond.

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 result of that testing, 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.

March 26, 2018



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor