

**AUDIT REPORT
OF THE
CITY OF CROFTON**

OCTOBER 1, 2017, THROUGH SEPTEMBER 30, 2018

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Issued on March 13, 2019

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.

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

- Wendell Strom, Mayor (term expired December 2018)
- Tom Allen, Council Member (resigned December 2018)
- Ted Hillman, Council Member (term expired December 2018)
- Michael Guenther, Council Member (resigned May 2018)
- Don Meink, Council Member (started May 2018; term expired December 2018)
- Sharol Lawhead, Council Member (resigned December 2018)

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.

In January 2018, Marla Wortmann was hired as City Clerk (Clerk) with Diane Allen becoming the assistant to the Clerk. Subsequent to the audit period, Sharol Lawhead was sworn in as City Mayor, and Pam Berendsen and Larry Peitz were sworn in as new Council members in December 2018 replacing Ted Hillman and Don Meink, leaving two vacant seats on the Council at the current date. In January 2019, Marla Wortmann resigned from the Clerk position and, in the same month, the City Council hired Kathy Nohr to replace Marla Wortmann as the Clerk.



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CITY OF CROFTON

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Crofton, Nebraska

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, 2018, 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.

Opinions

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, 2018, 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, 2018, 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

Report on Supplementary Information

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

The budgetary comparison information on page 28 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Required Supplementary Information

The City has not presented the Management, Discussion, and Analysis, which accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basis financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019, 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 12, 2019



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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 96,018	\$ 244,320	\$ 340,338
Cash on Hand with County Treasurer	7,272	-	7,272
Accounts Receivable	-	52,189	52,189
Inventory	-	8,000	8,000
Restricted Cash and Cash Equivalents	229,181	-	229,181
Total Current Assets	<u>332,471</u>	<u>304,509</u>	<u>636,980</u>
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	21,850	21,850
Capital Assets			
Land	-	85,360	85,360
Depreciable Assets (Net)	-	238,791	238,791
Total Noncurrent Assets	<u>-</u>	<u>346,001</u>	<u>346,001</u>
TOTAL ASSETS	<u>332,471</u>	<u>650,510</u>	<u>982,981</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	-	1,847	1,847
Accrued Expenses	-	1,464	1,464
Total Current Liabilities	<u>-</u>	<u>3,311</u>	<u>3,311</u>
Noncurrent Liabilities			
Customer Deposits	-	21,850	21,850
TOTAL LIABILITIES	<u>-</u>	<u>25,161</u>	<u>25,161</u>
NET POSITION			
Net Investment in Capital Assets	-	324,151	324,151
Restricted for:			
Police	16,934	-	16,934
Street	18,035	-	18,035
Special Revenue	54,568	-	54,568
Debt Retirement	141,435	-	141,435
Unrestricted	<u>101,499</u>	<u>301,198</u>	<u>402,697</u>
TOTAL NET POSITION	<u>\$ 332,471</u>	<u>\$ 625,349</u>	<u>\$ 957,820</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, 2018

Functions/Programs:	Program Receipts/Revenues		Net (Disbursements/Expenses) Receipts/Revenue and Changes in Net Position		
	Disbursements/ Expenses	Charges for Services	Primary Government		
			Governmental Activities	Business-Type Activities	Total
Governmental Activities:					
General Government	\$ 117,210	\$ -	\$ (117,210)	\$ -	\$ (117,210)
Public Health and Safety	93,211	-	(93,211)	-	(93,211)
Public Works	133,610	-	(133,610)	-	(133,610)
Culture and Recreation	85,858	11,959	(73,899)	-	(73,899)
Community Development	15,845	-	(15,845)	-	(15,845)
Debt Service	61,065	-	(61,065)	-	(61,065)
Total Governmental Activities	<u>506,799</u>	<u>11,959</u>	<u>(494,840)</u>	<u>-</u>	<u>(494,840)</u>
Business-Type Activities:					
Water	212,105	224,514	-	12,409	12,409
Sewer	106,912	135,453	-	28,541	28,541
Sanitation	51,040	52,927	-	1,887	1,887
Total Business-Type Activities	<u>370,057</u>	<u>412,894</u>	<u>-</u>	<u>42,837</u>	<u>42,837</u>
Total Primary Government	<u>\$ 876,856</u>	<u>\$ 424,853</u>	<u>(494,840)</u>	<u>42,837</u>	<u>(452,003)</u>
General Receipts/Revenues:					
Debt/Loan Proceeds			17,000	-	17,000
Taxes:					
Property Taxes - General Purposes			180,937	-	180,937
City Sales Taxes			70,998	-	70,998
City Motor Vehicle Sales Taxes			31,098	-	31,098
Tax Increment Financing			3,877	-	3,877
Licenses and Permits			2,715	-	2,715
Intergovernmental			118,738	-	118,738
Use of Money and Property			111,174	-	111,174
Special Assessments			141,818	-	141,818
Other Miscellaneous Receipts/Revenues			51,547	8,869	60,416
Total General Receipts/Revenues			<u>729,902</u>	<u>8,869</u>	<u>738,771</u>
Increase in Net Position			235,062	51,706	286,768
Net Position - Beginning of year			97,409	573,643	671,052
Net Position - End of year			<u>\$ 332,471</u>	<u>\$ 625,349</u>	<u>\$ 957,820</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, 2018

	General Fund	Street Fund	Special Revenue Fund	Capital Projects Fund	Debt Retirement Fund	Total
ASSETS						
Cash and Cash Equivalents	\$ 96,018	\$ -	\$ -	\$ -	\$ -	\$ 96,018
Cash on Hand with County Treasurer	5,481	1,791	-	-	-	7,272
Restricted Cash and Cash Equivalents	16,934	16,244	54,568	-	141,435	229,181
TOTAL ASSETS	\$ 118,433	\$ 18,035	\$ 54,568	\$ -	\$ 141,435	\$ 332,471
FUND BALANCE						
Restricted	\$ 16,934	\$ 18,035	\$ 54,568	\$ -	\$ 141,435	\$ 230,972
Unassigned	101,499	-	-	-	-	101,499
TOTAL CASH BASIS FUND BALANCES	\$ 118,433	\$ 18,035	\$ 54,568	\$ -	\$ 141,435	\$ 332,471

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, 2018

	General Fund	Street Fund	Special Revenue Fund	Capital Projects Fund	Debt Retirement Fund	Total
RECEIPTS						
Taxes	\$ 209,535	\$ 45,099	\$ 32,276	\$ -	\$ -	\$ 286,910
Intergovernmental	23,506	95,232	-	-	-	118,738
Charges for Services	(175)	-	12,361	-	(227)	11,959
Use of Money and Property	108,434	35	2,705	-	-	111,174
Licenses and Permits	2,285	-	430	-	-	2,715
Special Assessments	-	-	-	-	141,818	141,818
Miscellaneous	10,630	215	40,702	-	-	51,547
TOTAL RECEIPTS	<u>354,215</u>	<u>140,581</u>	<u>88,474</u>	<u>-</u>	<u>141,591</u>	<u>724,861</u>
DISBURSEMENTS						
General Government	117,210	-	-	-	-	117,210
Public Health and Safety	93,211	-	-	-	-	93,211
Public Works	-	133,584	26	-	-	133,610
Culture and Recreation	90	-	85,768	-	-	85,858
Community Development	-	-	15,845	-	-	15,845
Debt Service						
Principal	-	-	-	-	25,000	25,000
Interest	-	-	-	-	35,835	35,835
Fees and Penalties	-	-	-	-	230	230
TOTAL DISBURSEMENTS	<u>210,511</u>	<u>133,584</u>	<u>101,639</u>	<u>-</u>	<u>61,065</u>	<u>506,799</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>143,704</u>	<u>6,997</u>	<u>(13,165)</u>	<u>-</u>	<u>80,526</u>	<u>218,062</u>
OTHER FINANCING SOURCES (USES)						
Debt Proceeds	-	-	-	-	-	-
Loan Proceeds	-	-	-	-	17,000	17,000
Transfers In	95,000	2,100	47,556	-	43,909	188,565
Transfers Out	(150,558)	-	-	(38,007)	-	(188,565)
TOTAL OTHER FINANCING SOURCES	<u>(55,558)</u>	<u>2,100</u>	<u>47,556</u>	<u>(38,007)</u>	<u>60,909</u>	<u>17,000</u>
Net Change in Cash Basis Fund Balances	<u>88,146</u>	<u>9,097</u>	<u>34,391</u>	<u>(38,007)</u>	<u>141,435</u>	<u>235,062</u>
CASH BASIS FUND BALANCES - BEGINNING	<u>30,287</u>	<u>8,938</u>	<u>20,177</u>	<u>38,007</u>	<u>-</u>	<u>97,409</u>
CASH BASIS FUND BALANCES - ENDING	<u>\$ 118,433</u>	<u>\$ 18,035</u>	<u>\$ 54,568</u>	<u>\$ -</u>	<u>\$ 141,435</u>	<u>\$ 332,471</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, 2018

	Sewer Fund	Water Fund	Sanitation Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 178,285	\$ 64,223	\$ 1,812	\$ 244,320
Accounts Receivable	15,927	30,193	6,069	52,189
Inventory	-	8,000	-	8,000
Total Current Assets	<u>194,212</u>	<u>102,416</u>	<u>7,881</u>	<u>304,509</u>
Noncurrent Assets				
Restricted Assets - Cash	-	21,850	-	21,850
Capital Assets				
Land	41,930	41,930	1,500	85,360
Depreciable Assets	220,093	908,457	-	1,128,550
Accumulated Depreciation	(185,534)	(704,225)	-	(889,759)
Total Noncurrent Assets	<u>76,489</u>	<u>268,012</u>	<u>1,500</u>	<u>346,001</u>
TOTAL ASSETS	<u>270,701</u>	<u>370,428</u>	<u>9,381</u>	<u>650,510</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	721	1,126	-	1,847
Payroll Liabilities	1,039	369	56	1,464
Total Current Liabilities	<u>1,760</u>	<u>1,495</u>	<u>56</u>	<u>3,311</u>
Noncurrent Liabilities				
Customer Deposits	-	21,850	-	21,850
TOTAL LIABILITIES	<u>1,760</u>	<u>23,345</u>	<u>56</u>	<u>25,161</u>
NET POSITION				
Net Investment in Capital Assets	76,489	246,162	1,500	324,151
Unrestricted	<u>192,452</u>	<u>100,921</u>	<u>7,825</u>	<u>301,198</u>
TOTAL NET POSITION	<u>\$ 268,941</u>	<u>\$ 347,083</u>	<u>\$ 9,325</u>	<u>\$ 625,349</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, 2018

	Sewer Fund	Water Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 135,453	\$ 224,514	\$ 52,927	\$ 412,894
Miscellaneous	8	8,861	-	8,869
TOTAL OPERATING REVENUES	<u>135,461</u>	<u>233,375</u>	<u>52,927</u>	<u>421,763</u>
OPERATING EXPENSES				
Personnel Services	67,755	26,540	3,281	97,576
Professional Fees	41	380	-	421
Materials and Supplies	3,067	4,247	-	7,314
Repairs and Maintenance	9,964	4,551	-	14,515
Utilities	10,287	370	-	10,657
Contracted Services	13,880	13,962	47,759	75,601
Cost of Goods Sold	-	135,435	-	135,435
Capital Improvements	-	7,807	-	7,807
Depreciation	1,356	18,151	-	19,507
Miscellaneous	562	662	-	1,224
TOTAL OPERATING EXPENSES	<u>106,912</u>	<u>212,105</u>	<u>51,040</u>	<u>370,057</u>
OPERATING INCOME (LOSS)	<u>28,549</u>	<u>21,270</u>	<u>1,887</u>	<u>51,706</u>
CHANGE IN NET POSITION	28,549	21,270	1,887	51,706
TOTAL NET POSITION, BEGINNING	<u>240,392</u>	<u>325,813</u>	<u>7,438</u>	<u>573,643</u>
TOTAL NET POSITION, ENDING	<u><u>\$ 268,941</u></u>	<u><u>\$ 347,083</u></u>	<u><u>\$ 9,325</u></u>	<u><u>\$ 625,349</u></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, 2018

	Sewer Fund	Water Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 137,238	\$ 229,089	\$ 62,837	\$ 429,164
Cash Paid For Contractual Services	(13,880)	(13,962)	(47,759)	(75,601)
Cash Paid For Personnel Services	(66,721)	(26,172)	(3,225)	(96,118)
Other Cash Expenses	(23,815)	(152,648)	-	(176,463)
Net Cash Provided by (Used in) Operating Activities	<u>32,822</u>	<u>36,307</u>	<u>11,853</u>	<u>80,982</u>
NET INCREASE (DECREASE) IN CASH	<u>32,822</u>	<u>36,307</u>	<u>11,853</u>	<u>80,982</u>
CASH AND CASH EQUIVALENTS - BEGINNING	145,463	49,766	(10,041)	185,188
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 178,285</u>	<u>\$ 86,073</u>	<u>\$ 1,812</u>	<u>\$ 266,170</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	28,549	21,270	1,887	51,706
Adjustments to Reconcile:				
Depreciation	1,356	18,151	-	19,507
Change in Assets & Liabilities:				
Decrease (Increase) in Accounts Receivable	1,777	(6,236)	9,910	5,451
Increase in Accounts Payable	106	804	-	910
Increase in Sales Tax Payable	-	-	-	-
Increase in Customer Deposits	-	1,950	-	1,950
Increase in Payroll Liabilities	1,034	368	56	1,458
Total Adjustments	<u>4,273</u>	<u>15,037</u>	<u>9,966</u>	<u>29,276</u>
Net Cash Provided by (Used in) Operating Activities	<u>32,822</u>	<u>36,307</u>	<u>11,853</u>	<u>80,982</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, 2018

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 (Council) members 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 it 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)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Governmental activities are generally 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 major 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.

Street Fund: The Street Fund is used to account for costs associated with repair and maintenance of City streets.

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

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)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (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)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (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)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (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 Council ordinance or resolution.

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

Unassigned – All amounts not included in other spendable classifications.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 are reduced. 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. 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: 1) levy taxes each year sufficient to pay any judgment existing against the City and the interest and principal on bonded debt; and 2) collect 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 2017-2018 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.

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Concluded)

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 activities 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.

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY** (Continued)

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 Council. These transactions are conducted in the ordinary course of business and were not material for the year ended September 30, 2018.

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 Council adopts the budget, which is then filed with the appropriate State and county officials.
- d. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end, and any revisions require board approval.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concluded)

- 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 that 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 being delinquent on May 1 and the second half being delinquent on 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.

At year end, the City's carrying amount of deposits was \$598,640. The bank balance for all funds was \$616,810. For purposes of classifying categories of custodial risk, the bank balances of the City's deposits, as of September 30, 2018, were either entirely insured or collateralized with securities held by the City's agent in the City's name.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. **DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS** (Continued)

The restricted assets as of September 30, 2018, were as follows:

Fund	Governmental Activities	Business-Type Activities	Total
General	\$ 16,934		\$ 16,934
Street	\$ 16,044		\$ 16,044
Special Revenue	\$ 54,568		\$ 54,568
Debt Retirement	\$ 141,635		\$ 141,635
Water		\$ 21,850	\$ 21,850
Total Cash and Cash Equivalents	\$ 229,181	\$ 21,850	\$ 251,031

C. **Accounts Receivable**

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2018, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 15,927
Water Fund	\$ 30,193
Sanitation Fund	\$ 6,069
Total	\$ 52,189

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. **DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS** (Continued)

Capital asset activity for the year ended September 30, 2018, was as follows:

Business-Type Activities:	Balance at October 1, 2017	Additions	Disposals	Balance at September 30, 2018
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	\$ (870,252)	\$ (19,507)	\$ -	\$ (889,759)
Total Accumulated Depreciation	\$ (870,252)	\$ (19,507)*	\$ -	\$ (889,759)
Depreciable Capital Assets, Net	\$ 258,298	\$ (19,507)	\$ -	\$ 238,791
Business-Type Capital Assets, Net	<u>\$ 343,658</u>	<u>\$ (19,507)</u>	<u>\$ -</u>	<u>\$ 324,151</u>

*Depreciation expense was charged to the functions as follows:

Sewer	\$ 1,356
Water	<u>\$18,151</u>
Total Depreciation Expense, for Business-Type Activities	\$19,507

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, 2018:

Business-Type Activities:	Balance at October 1, 2017	Additions	Deductions	Balance at September 30, 2018
Liabilities:				
Accounts Payable	\$ 937	\$ 1,847	\$ 937	\$ 1,847
Accrued Expenses	\$ 6	\$ 1,464	\$ 6	\$ 1,464
Customer Deposits	\$ 19,900	\$ 1,950	\$ 0	\$ 21,850
Total Liabilities	<u>\$ 20,843</u>	<u>\$ 5,261</u>	<u>\$ 943</u>	<u>\$ 25,161</u>

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. **DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS** (Concluded)

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	\$ 95,000
General-General	Special Revenue Fund - Parks and Recreation	\$ 47,556
Capital Projects	Debt Retirement	\$ 38,007
General-Infrastructure	Debt Retirement	\$ 5,858
General-Infrastructure	Street	\$ 2,100
General- General	Debt Retirement	\$ 44
Total		\$ 188,565

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 2018 was \$4,771, and the amount contributed by employees was \$7,003.

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

The Sharon Street Construction Project was completed during the prior fiscal year, and multiple assessments on that project are still outstanding as of September 30, 2018.

Short-Term Debt

On June 14, 2018, the City obtained a \$17,000 promissory note for the purpose of making a bond payment. The promissory note matures on June 12, 2019, and the interest rate on the outstanding balance is 3%. The City made no principal or interest payments during the fiscal year. The following represents the short-term debt activity for the fiscal year.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. **OTHER NOTES** (Continued)

Beginning Balance	Increases	Payments	Ending Balance
\$ 0	\$ 17,000	\$ 0	\$ 17,000

The City’s short-term debt is recorded in the governmental Debt Retirement Fund. Because this fund operates under the cash basis of accounting, a liability is not recorded in the government-wide financial statements or the governmental fund financial statements.

Long-Term Debt

The City’s long-term debt is recorded in the governmental Debt Retirement Fund. Because this fund operates under the cash basis of accounting, a liability is not recorded in the government-wide financial statements or the governmental fund 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 0.85% to 3.55%. During the fiscal year 2018, the City repaid \$25,000 in principal, plus \$2,537.50 in interest, related to this bond. On July 11, 2018, the City made an interest payment, totaling \$1,643.75, which contained an overpayment of \$375. This overpayment was later refunded to the City on August 24, 2018. The following represents future payments required on these bonds.

Fiscal Year	Principal	Interest	Total
2019	\$ 25,000	\$ 1,738	\$ 26,738
2020	\$ 25,000	\$ 887	\$ 25,887
Total Payments	\$ 50,000	\$ 2,625	\$ 52,625

- GO Various Purpose Bond, Series 2017, dated February 14, 2017, for \$1,115,000 was issued with the purpose of paying off the prior Series 2016 Street, Sewer, and Storm Water Sewer Improvement Bond. During the fiscal year 2018, the City paid interest, totaling \$33,297.50, related to this bond. No principal was paid during the fiscal year. The following represents future payments required on this bond.

Fiscal Year	Principal	Interest	Total
2019	\$ 50,000	\$ 32,935	\$ 82,935
2020	\$ 50,000	\$ 32,135	\$ 82,135
2021	\$ 50,000	\$ 31,222	\$ 81,222
2022	\$ 50,000	\$ 30,223	\$ 80,223
2023	\$ 50,000	\$ 29,135	\$ 79,135
2024-2028	\$ 270,000	\$ 125,621	\$ 395,621
2029-2033	\$ 310,000	\$ 82,469	\$ 392,469
2034-2037	\$ 285,000	\$ 22,619	\$ 307,619
Total Payments	\$ 1,115,000	\$ 386,359	\$ 1,501,359

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

4. **OTHER NOTES** (Concluded)

Tax Increment Financing

In 2014, the City utilized tax increment financing (TIF) to assist Cmart, LLC in acquiring property, demolishing an existing structure, and preparing the project site. 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 for up to 15 years or until the debt is paid off.

D. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2018:

<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.
Crofton Fire District	Fire protection services

E. Subsequent Events

Management has evaluated subsequent events through March 12, 2019, 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, 2018**

	General All-Purpose Fund		
	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS			
Property Taxes	\$ 152,933	\$ 180,937	\$ 28,004
Federal Receipts	10,000	-	(10,000)
State Highway Allocation	86,667	88,241	1,574
State Municipal Equalization	22,998	23,365	367
State Motor Vehicle	6,500	6,990	490
Other State Receipts	3,300	-	(3,300)
Local Motor Vehicle	15,000	31,098	16,098
City Sales Tax	75,000	70,998	(4,002)
Other Local Receipts	540,150	761,995	221,845
TOTAL RECEIPTS	912,548	1,163,624	251,076
DISBURSEMENTS			
General Government	115,000	117,210	(2,210)
Public Health and Safety	95,000	93,211	1,789
Public Works - Streets	217,000	133,610	83,390
Culture and Recreation	115,000	85,858	29,142
Community Development	22,000	15,845	6,155
Debt Service	-	61,065	(61,065)
Sanitation	45,000	51,040	(6,040)
Sewer	70,000	106,912	(36,912)
Water	200,000	212,105	(12,105)
TOTAL DISBURSEMENTS	\$ 879,000	876,856	\$ 2,144
Net Change in Cash Basis Fund Balance		286,768	
ACCRUAL/CASH BASIS FUND BALANCE - BEGINNING		671,052	
ACCRUAL/CASH BASIS FUND BALANCE - ENDING		\$ 957,820	

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.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 12, 2019. 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.

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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, 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. We consider the following deficiency to be a material weakness.

- The City lacked a segregation of duties, as one person could handle all aspects of processing a transaction from beginning to end. Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Inadequate segregation of duties could lead to the misappropriation of assets or improper reporting. Due to the limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Additional Items

We also noted certain matters that we reported to the management of the City of Crofton in a separate letter dated March 12, 2019.

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. The 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.

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 12, 2019



Craig Kubicek, CPA, CFE
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March 12, 2019

Mayor and City Council
City of Crofton, Nebraska

Dear Mayor and City Council Members:

We have audited the basic financial statements of The City of Crofton (City) for the fiscal year ended September 30, 2018, and have issued our report thereon dated March 12, 2019. In planning and performing our audit of the basic financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants.

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

1. Control Environment

The City of Crofton (City) 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 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:

- 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 \$12,336.

- 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. During testing of inventory items, the APA noted that two office computers and a generator were not appropriately reported on the inventory listings.
- Documentation supporting the Council's approval of fees charged for auditorium rental, burial plots, park rental, and garage sale entry was not provided.

Without a 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) the City implement a capitalization policy that provides the threshold for when items should be added to the inventory list; and 3) all fees charged by the City are approved, as well as documented, by the Council.

The lack of such procedures increases the risk of loss or misuse of public funds. 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:

- City pool revenues are recorded in the accounting system and deposited into to the City's bank account.
- A capitalization policy and inventory list are approved and maintained.
- All fees charged by the City are approved, as well as documented, by the Council.

City's Response: The City will undertake procedures to adequately account for all swimming pool funds received and disbursed. Such measures will provide for strict accounting of all cash receipts and cash disbursements.

The City is in the process of inventorying all equipment owned by the City and will establish policies for capitalization of equipment purchases in the future.

The City is in the process of initiating a fee schedule for all City services, rental of city property and use of city property. It is expected that such fee schedule will be adopted by the City within 90 days of this letter.

2. Receipt Process, Including Utility Procedures

The City lacked adequate procedures for receipt processes, including water deposits, the housing loan program, and assessing utility late fees. Additional details regarding these processes are provided below.

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 2018 to the amounts recorded in ClerkBooks. The results of that comparison, in addition to the uncorrected prior year understatement, revealed that the water deposits noted in the system were understated by \$1,950 at September 30, 2018. The amounts had been incorrectly coded to revenue accounts in the accounting system rather than a liability account. An adjustment was made to the financial statements.

Good internal control 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.

City’s Response: The city is in the process of establishing a record of all utility deposits and a policy for maintenance of such utility deposits. It is anticipated that the Ordinances of the City will be amended to set forth who is to pay a deposit and when such deposit may be used to offset utility charges or returned to the customer.

Housing Loan Program

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 the remaining resident participating in the loan program is more than nine years behind on his payments, and no late fees have ever been assessed or collected.

This individual 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, re-payments have been sporadic, resulting in only about a third of the required monthly amounts being paid over the last 10 years. 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
9/2009 to 9/2013	\$ 2,990.88	\$ 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
9/30/2018	\$ 894.63	\$ 23,260.39

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 most recent discussion with the City, no further contact has been made with this individual to obtain repayment, and the City noted that there appears to be no accountability for late payment on the loan.

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 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 for recovering amounts owed to it, as a significant number of such amounts are past due.

City's Response: The entire housing loan program will be reviewed to determine the parties who participated in the loans, the status of their loans and the actions taken to collect past due accounts. Action will be taken by the Council to enforce any delinquent payment which may ultimately involve legal action to foreclose the loans. Review of the Housing Loan Program documents to determine the proper enforcement procedures.

Utility Late Fees

The City lacked adequate procedures for ensuring that all customers were assessed appropriate late fees for tardy or non-payment of utility bills. The APA noted that two customers were not properly assessed the \$5 late fee during testing of utility receipts.

Good internal control requires procedures to ensure that all customers pay the proper utility fees, including late charges, each month. Without such procedures, there is an increased risk for the loss and/or misuse of City funds.

We recommend the City implement procedures to ensure all customers pay the proper utility fee, including late fees, each month.

City's Response: Procedures will be instituted to collect all late fees on utility bills as permitted by City Ordinances.

3. County Receipt Accounting

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

Source of Receipt	Amount in Error	APA Notes
County	\$ 13,526.59	For 12 of 12 receipts tested, motor vehicle pro-rate funds and collections related to the township levy were coded to the property taxes and interest earned accounts in the General Fund; however, these receipts should have been coded to the property taxes, interest earned, and motor vehicle sales tax accounts in the Special Revenue funds. An adjustment was made to the financial statements.
County	\$ 1,512.00	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 \$5,760, which was the prior year's cash on hand amount, instead of the correct amount of \$7,272. An adjustment was made to the financial statements.

Neb. Rev. Stat. § 60-3,190(6)(c) (Cum. Supp. 2018) states the following:

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

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.

Additionally, 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. Without such procedures, there is an increased 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.

City's Response: In the future all funds received as motor vehicle fees will be utilized in the City street and roads department as required by Nebraska Statute.

4. Impermissible Gratuities

During the fiscal year, the City received a grant from the Nebraska Department of Environmental Quality for litter reduction. Related to this grant, the City held a cleanup day and gave a “performance pay bonus” to four City employees, totaling \$112.50 each, from the grant funds for their efforts related to this cleanup day. After discussion with the Clerk, the APA determined that three of the employees received the bonus in addition to their regular pay for the same day. Also, one employee did not participate in the cleanup day but still received the supplementary pay.

The APA questions if these payments, totaling \$450, are allowable expenditures related to the grant agreement.

Per the grant application by the City, the City requested and received \$450 for roadside cleanup under the cleanup grant category. Per the Litter Reduction & Recycling Grant Application Guidance, updated November 2018, personnel expenses will not be reimbursed related to cleanup grants. As the entire \$450 was used for additional wages, it appears the City used the grant funding for unallowable expenditures.

The APA also questions if these payments were in accordance with governing statutory and constitutional provisions, as described below.

The City lacks a policy addressing extra compensation or bonus payments. Likewise, no agreement for the “performance pay bonus” was made with the employees prior to performance of the cleanup day work.

Article III, § 19, of the Nebraska Constitution contains the following prohibition against gratuitous payments to public employees:

The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered nor to any contractor after the contract has been entered into, except that retirement benefits of retired public officers and employees may be adjusted to reflect changes in the cost of living and wage levels that have occurred subsequent to the date of retirement.

According to the Nebraska Supreme Court, this constitutional prohibition is applicable to both the State and its many political subdivisions. Retired City Civilian Employees Club of City of Omaha v. City of Omaha Employees' Retirement System et al., 199 Neb. 507, 512, 260 N.W.2d 472, 475 (1977).

The Nebraska Attorney General has commented upon the prohibition in Article III, § 19, as follows:

[T]he purpose of state constitutional provisions such as Art. III, § 19 which prohibit extra compensation to public employees after services are rendered is to prevent payments in the nature of gratuities for past services.

Regarding that constitutional prohibition, the Nebraska Attorney General has also offered the following observation:

Nebraska law generally requires work be performed in order for payment to be received.

Op. Att’y Gen. No. 95071 (Sept. 13, 1995). Based upon all of the information noted above, the APA questions whether the “performance pay bonus” disbursements were permissible – especially since the employees were already receiving their regular pay, and the last employee contributed nothing to the cleanup effort.

Good internal control requires procedures to ensure that any payments, including bonuses and other forms of remuneration, to City employees are made in strict accordance with governing statutory, constitutional provisions, and any applicable grant agreements. Without such procedures, there is an increased risk of improper remittances being made.

We recommend the City consult with the City Attorney, the County Attorney, or the Nebraska Attorney General regarding the permissibility of giving supplementary pay or bonuses to public employees. We also recommend the City contact the Department of Environmental Quality to resolve the apparent noncompliance with the grant agreement.

City’s Response: The City will review it’s policies in regard to “bonus” payments to employees. Its policies will be reviewed and the City will contact DEQ to determine whether the impermissible payments may need to be reimbursed to DEQ. If reimbursement is required the City intends to make such reimbursement. The Cities’ policies in regard to “bonus” payments to employees will be reviewed.

5. Disbursement Processes

The APA identified certain issues pertaining to the City’s disbursement process, including a duplicate payment and a lack of documentation.

The City paid \$1,403 for engineering services in December 2017; however, the \$1,403 was also paid in April 2018, as it was included with the payment of two other invoices. The APA observed that, due to the duplicate payment, the City received a credit of \$1,403 on a subsequent invoice, which was applied to future invoices. A summary of the duplicate payment is provided below:

Date	Check #	Name	Memo	Amount
12/4/2017	2489	Kirkham Michael	[E]ngineering services for wastewater treatment plant	\$ 1,403.00
4/10/2018	2713	Kirkham Michael	11-3-2017 Established design criteria. Met with NDEQ staff to review design criteria to ensure	\$ 1,403.00
4/10/2018	2713	Kirkham Michael	10-6-2017 Kick-off meeting with City staff to develop project understanding and define design c	\$ 1,342.00
4/10/2018	2713	Kirkham Michael	12-29-2017 Prepared funding application for Water/Wastewater Advisory Committee	\$ 732.00
Total for Check 2713				\$ 3,477.00

Additionally, the following disbursement lacked adequate documentation:

Date	Name	Memo	Amount	Description
11/1/2017	First Bankcard	Fuel	\$ 51.58	The City had no receipt for a credit card charge; therefore, the APA could not determine if the purchase was reasonable and necessary.

Good internal control requires procedures not only to prevent duplicate payments but also to recoup them properly when they do occur. Those procedures should also ensure adequate supporting documentation is maintained for all fund disbursements. Without such procedures, there is an increased risk for the loss of City funds.

We recommend the City implement procedures to prevent duplicate payments, and recoup them properly when they do occur. The City should maintain adequate supporting documentation for all monies disbursed.

City's Response: The City acknowledges that a duplicate payment was made for engineering services. It is our thought that the duplicate payment was the result of double billing by the Engineer who later discovered the error and credited the Cities' account for such overpayment. In the experience of the City this error is fairly common in regard to engineering projects since most of such projects are billed as the project is ongoing and it is difficult for the City to tie any payment to that particular part of the project. An effort will certainly be made to eliminate this in the future.

6. Interfund Loan

During the audit, the APA determined that the Council did not approve a \$50,000 interfund loan from the Water Fund to the General Fund made in March 2018. In addition, the Council did not approve the June 2018 repayment of this interfund loan.

Neb. Rev. Stat. § 13-510 (Reissue 2012) states, in relevant part, the following:

Whenever during the current fiscal year or biennial period it becomes apparent to a governing body that due to unforeseen emergencies there is temporarily insufficient money in a particular fund to meet the requirements of the adopted budget of expenditures for that fund, the governing body may by a majority vote, unless otherwise provided by state law, transfer money from other funds to such fund.

(Emphasis added.) Furthermore, Neb. Rev. Stat. § 17-609 (Cum. Supp. 2018) provides the following:

The mayor and city council of a city of the second class or village board of trustees may, by resolution, direct and authorize the city treasurer or village treasurer to dispose of the surplus electric light, water, or gas funds, or the funds arising from the sale of electric light, water, or natural gas distribution properties, by the payment of outstanding electric light, water, or gas distribution bonds or water warrants then due. The excess, if any, after such payments may be transferred to the general fund of such city or village.

Neb. Rev. Stat. § 18-2808 (Reissue 2012) states the following:

If the budget of a proprietary function is included in the municipal budget statement created pursuant to the Nebraska Budget Act, the Municipal Proprietary Function Act need not be followed for that proprietary function. Any income from a proprietary function which is transferred to the general fund of the municipality shall be shown as a source of revenue in the municipal budget statement created pursuant to the Nebraska Budget Act.

Good internal control requires procedures to ensure the following: 1) all interfund loans, along with the terms thereof, are approved by the Council, as required by State statute; 2) all repayments of such loans are also approved by that same governing body; and 3) interfund loans are adequately tracked and documented, especially for budget purposes. Without such procedures, there is an increased risk for the misuse of City funds, as well as noncompliance with State statute.

We recommend the City implement procedures to ensure the following: 1) all interfund loans, along with the terms thereof, are approved by the Council, as required by State statute; 2) all repayments of such loans are also approved by the same governing body; and 3) interfund loans are adequately tracked and documented, especially for budget purposes.

City's Response: All future interfund loans will be properly documented by Council action.

7. Unauthorized Bank Signer

During the audit, the APA identified one City bank account whose authorized signature card had not been properly updated. The account’s signature card still listed a Council member who had resigned in May 2018.

Good internal control requires procedures to ensure that authorized signature cards for City bank accounts are updated timely when a designated signer is changed. Such prompt action is needed to ensure that only current officials or employees are authorized to access City bank accounts.

Without such procedures, there is an increased risk for theft, loss, and/or misuse of City funds.

We recommend the City implement procedures to ensure all City bank account signature cards are updated regularly, using the names of current officers and employees only.

City’s Response: The City will in the future keep all Bank signature cards and other bank documents current as to the elected or appointed officials of the City.

8. Payroll Issues

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

- For one employee tested, the Council approved a revised cost allocation that was not accurately coded until two pay periods after its approval.
- One employee tested had an additional \$250 withheld from his wages for income taxes, which did not agree to the employee’s W-4 on file for the pay period tested.

Good internal control requires procedures to ensure that payroll costs are accurately coded within the City’s accounting system, and any additional income taxes withheld agree to the employee W-4 forms on file. 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 payroll costs are accurately coded within the City’s accounting system, and any additional income taxes withheld agree to the employee W-4 forms on file.

City’s Response: The City will implement procedures to insure that all withholding from employee’s wages are in conformity with the employees W-4 on file with the City Clerk.

9. Dual Signatures

During the audit, the APA noted that one City check, totaling \$3,957, did not contain dual signatures, as required by State statute.

Neb. Rev. Stat. § 17-711 (Cum. Supp. 2018) provides the following:

All warrants drawn upon the city treasurer of a city of the second class or village treasurer must be signed by the mayor or chairperson of the village board of trustees and countersigned by the city clerk or village clerk, stating the particular fund to which the same is chargeable, the person to whom payable, and for what particular object. No money shall be otherwise paid than upon such warrants so drawn. Each warrant shall specify the amount included in the adopted budget statement for such fund upon which it is drawn and the amount already expended of such fund.

Good internal control requires procedures to ensure that all City checks contain the two signatures mandated by State statute. Without such procedures, there is an increased risk for not only the violation of law but also the loss and/or misuse of City funds.

We recommend the City implement procedures to ensure all of its checks contain the two signatures mandated by State statute.

City's Response: The City will implement procedures to insure that dual signatures are present on all warrants or drafts disbursing City funds.

10. Tax Increment Financing

In 2014, the City utilized tax increment financing (TIF) to assist a local developer, Cmart, LLC, in acquiring property, demolishing an existing structure, and preparing the project site. 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 2017 audit, the City lacked procedures for tracking the ad valorem taxes received and paid to Cmart, LLC, to ensure conformity with the bond payments or bond amortization schedule. Unless the debt is paid off earlier, the ad valorem taxes should be remitted for only 15 years.

In addition, 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; and 3) the existence of required redevelopment plans. The City has worked to obtain such supporting documents to ensure full compliance with the requirements of the Community Development Law, which is set out at Neb. Rev. Stat. §§ 18-2101 to 18-2154 (Reissue 2012, Cum. Supp. 2018). However, the City has not been able to obtain all of the required items, and it appears unlikely that these items will become available.

Good internal control requires procedures for ensuring the maintenance of sufficient documentation to support compliance with applicable provisions of the Community Development Law. Such procedures should also provide for the tracking of ad valorem tax amounts to ensure their proper distribution. Without such procedures, there is an increased risk for not only noncompliance with the State law but also the loss or misuse of public funds. A similar finding was noted in the prior year's audit report.

We recommend the City implement procedures for ensuring both the maintenance of sufficient documentation to support compliance with applicable provisions of the Community Development Law and the tracking of ad valorem tax amounts to ensure their proper distribution.

City's Response: This matter is concerning to the City Officials. The Tax Increment Financing activities were conducted several years ago and the present city officials are trying to follow the paper chain to determine the present status of the matter. Every effort will be made to determine that the guidelines for TIF financing have been followed and that the recipient of such funds is making payments as required.

11. Apparent Lack of Quorum

Pursuant to a review of subsequent events, the APA questions whether the Council obtained a quorum for meetings in late December 2018 and January 2019, during which formal action was taken on agenda items. The following table summarizes these meeting dates and the officials who attended the meetings.

Meeting Date	Attendees
12/12/18	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
1/9/19	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
1/14/19	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
1/23/19	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz

The City operates under a four-member Council with an elected Mayor; however, two council members resigned in December 2018, which resulted in two vacant seats on the Council. For cities of the second class, State statute requires a “majority of all the members elected to the city council” to obtain a quorum for conducting city business.

Neb. Rev. Stat. § 17-105 (Cum. Supp. 2018) states the following:

Regular meetings of the city council of a city of the second class shall be held at such times as the city council may provide by ordinance. A majority of all the members elected to the city council shall constitute a quorum for the transaction of any business, but a fewer number of members may adjourn from time to time and compel the attendance of absent members. Unless a greater vote is required by law, an affirmative vote of at least one-half of the elected members shall be required for the transaction of any business.

(Emphasis added.) Furthermore, Neb. Rev. Stat. § 17-110 (Cum. Supp. 2018) provides the following:

The mayor shall preside at all meetings of the city council of a city of the second class. The mayor may vote when his or her vote would provide the additional vote required to attain the number of votes equal to a majority of the number of members elected to the city council on any pending matter, legislation, or transaction, and the mayor shall, for the purpose of such vote, be deemed to be a member of the city council. He or she shall have superintendence and control of all the officers and affairs of the city and shall take care that the ordinances of the city and all laws governing cities of the second class are complied with.

Section 17-105 states clearly that a “majority of all the members elected to the city council” is required by the Council to conduct business. While § 17-110 authorizes the Mayor to cast a vote when doing so would be necessary to achieve the requisite majority, it does not say expressly that such official would be counted for purposes of establishing a quorum under § 17-105. In fact, referencing a headnote found in Schauer v. Grooms, 280 Neb. 426, 786 N.W.2d 909 (2010), a case decided by the Nebraska Supreme Court, the legal encyclopedia “Corpus Juris Secundum” states the following:

The fact that a statute gives a certain official the right to cast the deciding vote in case of a tie in a governmental body does not, of itself, make that official a member of that body for the purposes of ascertaining a quorum or majority or for any other purpose.

62 C.J.S., Municipal Corporations, § 303, p. 310. As a result, it appears that a majority of the elected members of the Council is required to establish a quorum to conduct City business, and the Mayor may vote when that governing body is equally divided on a pending issue and in need of a decisive vote; however, the Mayor’s presence would not result in the statutorily required quorum.

Good internal control requires procedures to ensure that the Council does not transact City business unless the mandatory quorum is present. Without such procedures, there is an increased risk of noncompliance with State statute and the attendant consequences thereof.

We recommend the Council implement procedures to ensure City business is conducted only when the statutorily required quorum is present. We also recommend the City consult with the City Attorney, the County Attorney, or the Nebraska Attorney General for guidance regarding this matter, including the legal status of any items approved at meetings where a quorum may have been lacking.

City's Response: The city has consulted legal counsel in regard to a quorum to conduct business. It is their opinion that Neb. Rev. Stat. §17-105 controls the matter of a quorum when it says;

...A majority of the members elected to the city council shall constitute a quorum for the transaction of any business...

There were two member elected to the City Council at the 2018 November election. Those two members have been conducting the business of the City since their election and constitute a quorum pursuant to 17-105 cited above. The comments stated by you assume that the City has been acting with the Mayor being used a member of the Council, thus constituting a three person quorum in a four member council. This is in error in that the mayor, in this instance, would only vote as a member if one of the two elected members failed to vote or if the vote was split between the two elected members. In this event, under Nebraska law the Mayor would be entitled to vote.

It is immaterial that the council normally would have four members. The law is clear that the elected members constitute a quorum and the elected members have constitute a quorum and have and will officially conduct the Cities business until the special election is conducted to elect two more members.

The Citing of 62 C.J.S., Municipal Corporation, §303, p.310 is misplaced since it assumes that Mayor is acting as a member of the Council.

While the City agrees that there is a difference of opinion in this matter it has used due diligence in seeking legal guidance by relying on the opinion of the law firm of Baird/Holm of Omaha Nebraska who have represented numerous cities and villages in the State of Nebraska for more than 100 years and its own City Attorney, James McNally who has represented cities and towns in Nebraska for more than 54 years.

It is anticipated that at the March 20th meeting of the Crofton City Council a resolution will be proposed and adopted to affirm and ratify all action of the Mayor and City Council from and after December 12, 2018.

APA Response: The APA's understanding of the controlling statutory language is that the City would need to count the entire elected membership of the Board (i.e., "all the members elected"), not merely the remaining two Board members, to constitute a quorum. To resolve this issue conclusively, we recommend that the City obtain a formal legal opinion from the Nebraska Attorney General.

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

Draft copies of this report were furnished to the City to provide management with an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

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

Sincerely,

A handwritten signature in blue ink that reads "Craig Kubicek". The signature is written in a cursive style with a long horizontal flourish at the end.

Craig Kubicek, CPA, CFE
Assistant Deputy Auditor