

**CITY OF WAVERLY, NEBRASKA**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2015**

# CITY OF WAVERLY, NEBRASKA

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**MARVIN E. JEWELL & CO., P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and City Council  
City of Waverly, Nebraska

**Report on the Financial Statements**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the City of Waverly, Nebraska (the City), as of and for the year ended September 30, 2015, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements 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 of 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 entity'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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of September 30, 2015, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

## **Basis of Accounting**

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

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statements of proprietary funds are presented in the supplementary information for purposes of additional analysis as required by Nebraska Revised Statute 19-2903 and are also not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements.

The budgetary comparison schedule, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The statements of proprietary funds and the schedule of expenditures of federal awards in the supplementary information are the responsibility of management and were derived from and relate 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 statements of proprietary funds and the schedule of expenditures of federal awards presented in the supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole, on the bases of accounting described in Notes to Statements of Proprietary Funds, Note A and Schedule of Expenditures of Federal Awards, Note A, respectively.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Marvin E. Jewell & Co., P.C.*

Lincoln, Nebraska  
February 16, 2016

**CITY OF WAVERLY, NEBRASKA**

**Statement of Net Position – Modified Cash Basis**

**September 30, 2015**

	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash	\$ 3,250,974	1,968,986	5,219,960
Cash held by County Treasurer	12,563	-	12,563
Restricted cash	2,401,831	393,687	2,795,518
Restricted cash held by County Treasurer	5,075	-	5,075
Investments	35,617	26,151	61,768
Restricted investments	<u>314,097</u>	<u>-</u>	<u>314,097</u>
 Total assets	 <u>6,020,157</u>	 <u>2,388,824</u>	 <u>8,408,981</u>
<b>LIABILITIES</b>			
Due to Waverly Foundation	<u>101</u>	<u>-</u>	<u>101</u>
 Total liabilities	 <u>101</u>	 <u>-</u>	 <u>101</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	-	-
Restricted for:			
Debt service	2,076,953	393,687	2,470,640
Community betterment	495,637	-	495,637
Public safety	148,413	-	148,413
Unrestricted	<u>3,299,053</u>	<u>1,995,137</u>	<u>5,294,190</u>
Total net position	<u>\$ 6,020,056</u>	<u>2,388,824</u>	<u>8,408,880</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WAVERLY, NEBRASKA**

**Statement of Activities – Modified Cash Basis**

**For the Year Ended September 30, 2015**

	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Functions/Programs</b>							
Governmental Activities							
General Government	\$ (990,350)	161,007	-	270,820	(558,523)	-	(558,523)
Public Safety	(576,841)	75,698	49,012	6,774	(445,357)	-	(445,357)
Streets	(397,435)	24,817	350,726	-	(21,892)	-	(21,892)
Culture and Recreation	(635,761)	84,784	-	16,394	(534,583)	-	(534,583)
Public Welfare	(44,852)	2,650	-	-	(42,202)	-	(42,202)
Assessments	-	9,171	-	-	9,171	-	9,171
Lottery	(1,249,155)	1,459,345	-	-	210,190	-	210,190
TIF Revenues	(646,794)	692,935	-	-	46,141	-	46,141
Principal, interest and charges on debt	(595,319)	-	-	-	(595,319)	-	(595,319)
Total Governmental Activities	<u>(5,136,507)</u>	<u>2,510,407</u>	<u>399,738</u>	<u>293,988</u>	<u>(1,932,374)</u>	<u>-</u>	<u>(1,932,374)</u>
Business-Type Activities							
Water	(2,663,758)	605,736	-	-	-	(2,058,022)	(2,058,022)
Sewer	(603,636)	1,040,721	-	-	-	437,085	437,085
Total Business-Type Activities	<u>(3,267,394)</u>	<u>1,646,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,620,937)</u>	<u>(1,620,937)</u>
<b>Total Primary Government</b>	<b>\$ (8,403,901)</b>	<b>4,156,864</b>	<b>399,738</b>	<b>293,988</b>	<b>(1,932,374)</b>	<b>(1,620,937)</b>	<b>(3,553,311)</b>
General Receipts:							
Property Tax					1,035,818	-	1,035,818
Property Tax Credit					33,601	-	33,601
Motor Vehicle Tax					89,218	-	89,218
Sales and Use Tax					427,012	-	427,012
In Lieu and Other Tax					9,078	-	9,078
Occupation Tax					459,329	-	459,329
Unrestricted Investment Earnings					2,319	478	2,797
Restricted Investment Earnings					2,382	-	2,382
Miscellaneous General Receipts					656	-	656
Total General Receipts					<u>2,059,413</u>	<u>478</u>	<u>2,059,891</u>
Bond and Note Proceeds, net					<u>1,590,421</u>	<u>2,056,127</u>	<u>3,646,548</u>
Total General Receipts and Net Bond Proceeds					<u>3,649,834</u>	<u>2,056,605</u>	<u>5,706,439</u>
Change in Net Position					1,717,460	435,668	2,153,128
Net Position - Beginning					4,302,596	1,953,156	6,255,752
Net Position - Ending					<u>\$ 6,020,056</u>	<u>2,388,824</u>	<u>8,408,880</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WAVERLY, NEBRASKA**

**Balance Sheet – Modified Cash Basis  
Governmental Funds**

**September 30, 2015**

	<b>General Fund</b>	<b>Debt Service</b>	<b>City Sales Tax</b>	<b>Streets</b>	<b>Lottery</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash	\$ 884,702	-	1,723,977	313,085	-	32,210	2,953,974
Restricted cash	-	1,631,059	-	-	181,540	886,232	2,698,831
Cash held by County Treasurer	12,563	-	-	-	-	-	12,563
Restricted cash held by County Treasurer	-	4,685	-	-	-	390	5,075
Internal balances	297,000	-	-	-	-	-	297,000
Restricted internal balances	-	2,283	-	-	-	-	2,283
<b>TOTAL CURRENT ASSETS</b>	<b>1,194,265</b>	<b>1,638,027</b>	<b>1,723,977</b>	<b>313,085</b>	<b>181,540</b>	<b>918,832</b>	<b>5,969,726</b>
<b>OTHER ASSETS</b>							
Investments	-	-	-	-	-	35,617	35,617
Restricted investments	-	-	-	-	314,097	-	314,097
<b>TOTAL OTHER ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>314,097</b>	<b>35,617</b>	<b>349,714</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,194,265</b>	<b>1,638,027</b>	<b>1,723,977</b>	<b>313,085</b>	<b>495,637</b>	<b>954,449</b>	<b>6,319,440</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>CURRENT LIABILITIES</b>							
Due to Waverly Community Foundation	\$ 101	-	-	-	-	-	101
Internal balances, payable from restricted assets	-	-	-	-	-	299,283	299,283
<b>TOTAL CURRENT LIABILITIES</b>	<b>101</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>299,283</b>	<b>299,384</b>
<b>FUND BALANCE</b>							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	1,638,027	-	-	495,637	587,339	2,721,003
Committed	-	-	1,723,977	-	-	-	1,723,977
Assigned	118,661	-	-	313,085	-	67,827	499,573
Unassigned	1,075,503	-	-	-	-	-	1,075,503
<b>TOTAL FUND BALANCE</b>	<b>1,194,164</b>	<b>1,638,027</b>	<b>1,723,977</b>	<b>313,085</b>	<b>495,637</b>	<b>655,166</b>	<b>6,020,056</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,194,265</b>	<b>1,638,027</b>	<b>1,723,977</b>	<b>313,085</b>	<b>495,637</b>	<b>954,449</b>	<b>6,319,440</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF WAVERLY, NEBRASKA**

**Statement of Receipts, Disbursements and Changes in Fund Balances – Modified Cash Basis  
Governmental Funds**

**For the Year Ended September 30, 2015**

	<b>General Fund</b>	<b>Debt Service</b>	<b>City Sales Tax</b>	<b>Streets</b>	<b>Lottery</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>RECEIPTS</b>							
Taxes	\$ 1,168,467	458,577	427,012	-	-	-	2,054,056
Intergovernmental	270,820	-	-	350,726	-	43,400	664,946
Charges for services	248,441	9,171	-	24,817	1,459,345	768,633	2,510,407
Investment income	2,157	1,105	-	-	729	710	4,701
Grants and donations	16,394	-	-	-	-	12,386	28,780
Miscellaneous	656	-	-	-	-	-	656
<b>TOTAL RECEIPTS</b>	<u>1,706,935</u>	<u>468,853</u>	<u>427,012</u>	<u>375,543</u>	<u>1,460,074</u>	<u>825,129</u>	<u>5,263,546</u>
<b>DISBURSEMENTS</b>							
Current:							
General Government	373,826	-	-	-	-	-	373,826
Public Safety	296,121	-	-	-	-	201,530	497,651
Streets	-	-	-	295,937	-	-	295,937
Public Welfare	41,752	-	-	-	-	-	41,752
Culture and Recreation	271,714	-	-	-	-	-	271,714
Lottery	-	-	-	-	1,249,155	-	1,249,155
Debt Service	-	595,319	-	-	-	646,794	1,242,113
Capital Outlay	90,783	-	-	62,212	173,506	79,190	405,691
Capital Projects	719,382	-	-	39,286	-	-	758,668
<b>TOTAL DISBURSEMENTS</b>	<u>1,793,578</u>	<u>595,319</u>	<u>-</u>	<u>397,435</u>	<u>1,422,661</u>	<u>927,514</u>	<u>5,136,507</u>
<b>EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u>(86,643)</u>	<u>(126,466)</u>	<u>427,012</u>	<u>(21,892)</u>	<u>37,413</u>	<u>(102,385)</u>	<u>127,039</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	437,598	2,283	1,296,965	80,000	99,349	90,000	2,006,195
Transfers out	(1,466,965)	(239,947)	-	-	-	(299,283)	(2,006,195)
Issuance of debt (net)	-	1,293,421	-	-	-	297,000	1,590,421
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,029,367)</u>	<u>1,055,757</u>	<u>1,296,965</u>	<u>80,000</u>	<u>99,349</u>	<u>87,717</u>	<u>1,590,421</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(1,116,010)</u>	<u>929,291</u>	<u>1,723,977</u>	<u>58,108</u>	<u>136,762</u>	<u>(14,668)</u>	<u>1,717,460</u>
<b>FUND BALANCES - BEGINNING</b>	<u>2,310,174</u>	<u>708,736</u>	<u>-</u>	<u>254,977</u>	<u>358,875</u>	<u>669,834</u>	<u>4,302,596</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,194,164</u>	<u>1,638,027</u>	<u>1,723,977</u>	<u>313,085</u>	<u>495,637</u>	<u>655,166</u>	<u>6,020,056</u>

The accompanying notes are an integral part of these financial statements.



**CITY OF WAVERLY, NEBRASKA**

**Statement of Net Position – Modified Cash Basis  
Proprietary Funds**

**September 30, 2015**

	<u>Business-Type Activities -- Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 771,373	1,197,613	1,968,986
Restricted cash	-	393,687	393,687
<b>TOTAL CURRENT ASSETS</b>	<u>771,373</u>	<u>1,591,300</u>	<u>2,362,673</u>
<b>OTHER ASSETS</b>			
Investments	-	26,151	26,151
<b>TOTAL ASSETS</b>	<u>771,373</u>	<u>1,617,451</u>	<u>2,388,824</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	-	-
Restricted	-	393,687	393,687
Unrestricted	771,373	1,223,764	1,995,137
<b>TOTAL NET POSITION</b>	<u>\$ 771,373</u>	<u>1,617,451</u>	<u>2,388,824</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WAVERLY, NEBRASKA**

**Statement of Receipts, Disbursements, and Changes in Net Position – Modified Cash Basis  
Proprietary Funds**

**For the Year Ended September 30, 2015**

	<b>Business-Type Activities -- Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING RECEIPTS</b>			
User fees	\$ 580,835	1,039,627	1,620,462
Other income	24,901	1,094	25,995
<b>TOTAL OPERATING RECEIPTS</b>	<u>605,736</u>	<u>1,040,721</u>	<u>1,646,457</u>
<b>OPERATING DISBURSEMENTS</b>			
Salaries	67,601	61,752	129,353
Payroll taxes	5,172	4,724	9,896
Employee benefits	20,747	18,602	39,349
Retirement	3,396	3,179	6,575
Repairs and maintenance	18,825	43,755	62,580
Utilities	33,297	50,043	83,340
Telephone	348	1,499	1,847
Insurance	24,562	21,287	45,849
Operating supplies	48,309	8,785	57,094
Office supplies	3,761	3,257	7,018
Legal and professional services	6,678	3,451	10,129
Meetings and training	1,993	878	2,871
Travel and mileage	627	103	730
Gas and oil	986	4,619	5,605
Rent	306	467	773
<b>TOTAL OPERATING DISBURSEMENTS</b>	<u>236,608</u>	<u>226,401</u>	<u>463,009</u>
<b>OPERATING INCOME</b>	<u>369,128</u>	<u>814,320</u>	<u>1,183,448</u>
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>			
Investment income	-	478	478
Loan proceeds	2,056,127	-	2,056,127
Loan payments, principal, interest and fees	(29,272)	(342,440)	(371,712)
Capital outlay	(2,397,878)	(34,795)	(2,432,673)
<b>TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>	<u>(371,023)</u>	<u>(376,757)</u>	<u>(747,780)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	(1,895)	437,563	435,668
<b>CAPITAL CONTRIBUTIONS</b>	-	-	-
<b>CHANGE IN NET POSITION</b>	(1,895)	437,563	435,668
<b>NET POSITION - BEGINNING</b>	<u>773,268</u>	<u>1,179,888</u>	<u>1,953,156</u>
<b>NET POSITION - ENDING</b>	<u>\$ 771,373</u>	<u>1,617,451</u>	<u>2,388,824</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** – The City of Waverly, Nebraska (the City) is a governmental entity established under and governed by the laws of the State of Nebraska. As a political subdivision of the State, the City is exempt from State and Federal income taxes. The City has considered all potential component units for which it is financially accountable and other organizations which are fiscally dependent on the City or the significance of their relationship with the City is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. The Waverly Community Redevelopment Authority (CRA) was identified as a component unit. The CRA serves all the citizens of the City and is governed by a board comprised of the City's elected council and Mayor. Budgeting, accounting and administrative functions are performed by the City. The CRA is a duly and validly existing redevelopment agency created pursuant to Nebraska Revenue Statute Section 18-2101.01. Although a separate legal entity, it is in substance, part of the City's operations and therefore the CRA's debt service funds are reported with the non-major funds in Other Governmental Funds in the accompanying financial statements. The City is not includable as a component unit within another reporting entity.

**Basis of Presentation** – The accompanying basic financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by GASB. These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds, and component units that are fiduciary in nature, if applicable. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

### 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 constitutes its assets, liabilities, net position or fund balance, receipts and expenditures. The City's funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City, is determined by the Board to be major, or meets the following criteria:

- (a) Total assets, liabilities, receipts or disbursements of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total for all funds of that category or type.

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (b) Total assets, liabilities, receipts or disbursements of the individual governmental fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

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

Special Revenue Funds – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The reporting entity includes the following special revenue funds:

<u>Fund</u>	<u>Brief Description</u>
<i>Major Funds</i>	
City Sales Tax	Accounts for the receipt of city sales tax committed to community improvement projects of the City and expenditures paid for community improvement projects.
Street	Accounts for motor vehicle fees and state highway allocations received and expenditures paid for street maintenance, construction and improvements.
Lottery	Accounts for the City's percentage of Keno receipts and the gross Keno receipts (net of cash prizes) and the expenditures paid for the Keno operator commission, Keno winner payouts, Lottery tax and community betterment activities/projects financed with Keno receipts.
<i>Non-major Funds</i>	
Fire	Accounts for receipts from service calls, rural fire department payments, and donations and the expenditures paid for related costs.

**Debt Service Funds**

The debt service funds are used to account for financial resources that are restricted, committed, or assigned to expenditures for the payment of general long-term principal, interest, and related costs.

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

<u>Fund</u>	<u>Brief Description</u>
<i>Major Fund</i>	
Debt Service Fund	Accounts for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.
<i>Non-major Funds</i>	
Community Redevelopment Revenue Notes, Series A (CRRN A)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Tractor Supply Company Project.
Community Redevelopment Revenue Notes, Series B (CRRN B)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Tractor Supply Company Project.
Community Redevelopment Revenue Notes, Series C (CRRN C)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Tecumseh Poultry LLC Project.
Community Redevelopment Revenue Notes, Series D (CRRN D)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Tecumseh Poultry LLC Project.
Community Redevelopment Revenue Notes, Series 2008A (CRRN E)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Watts Electric Project.
Community Redevelopment Revenue Notes, Series 2009A (CRRN F)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Kamterter Project.
Community Redevelopment Revenue Notes, TIF G (CRRN G)	Accounts for the accumulation of TIF revenues and the payment of TIF indebtedness comprised of long-term principal, interest and related costs related to the Waverly Area B Redevelopment Project.

**Proprietary Funds**

**Enterprise Funds** – Enterprise funds are used to account for business-type 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 reporting entity includes the following enterprise funds that are reported as major funds:

<u>Fund</u>	<u>Brief Description</u>
<i>Major Funds</i>	
Water	Accounts for the activities of the City's water distribution operations.
Sewer	Accounts for the activities of the City's sewer system and treatment operations.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Basis of Accounting, Measurement Focus*** – Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions are recorded regardless of the measurement focus applied.

#### MEASUREMENT FOCUS

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item (b) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- (a) All governmental funds utilize a “current financial resources” measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- (b) The proprietary fund utilizes an “economic resources” measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and net financial position. Proprietary fund equity is classified as net position

#### BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting recognizes assets, liabilities, net position/fund balance, receipts and expenditures when they result from cash transactions. This modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Cash-based interfund receivables and payables
- Investments
- Cash-based payroll liabilities

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) *are not recorded* in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the City utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

#### **ASSETS, LIABILITIES AND EQUITY**

**Cash and Cash Equivalents** – For purposes of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposits or short-term investments with an original maturity of three months or less.

**Investments** – Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

**Capital Assets** – Capital assets resulting from cash transactions are accounted for as capital outlay disbursements of the respective fund upon acquisition. Maintenance and repairs are expended as incurred and are reported as program operating disbursements in the governmental funds and as a separate expense in the proprietary funds.

**Long-term Debt** – Long-term debt of governmental and proprietary funds are not reported as liabilities in the financial statements. In the governmental funds, the issuance of debt is reported net of premiums or discounts, as other financing sources. Payments of principal and interest are reported as debt service disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are also reported as current debt service disbursements. In the proprietary funds, the issuance of debt is reported net of premiums or discounts, as non-operating receipts. Payments of principal, interest, fees, and issuance costs are reported as current non-operating disbursements.

Conduit debt arrangements of governmental funds are not reported as liabilities in the fund financial statements. The face amount of the bond, as well as the related redevelopment costs are not reported in the fund financial statements. While the notes are in the City's name, they are secured by TIF revenues and are not a debt obligation of the City. See Note 10 regarding the conduit debt arrangement disclosures.

**Equity Classification** – In the 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 improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt. As the City utilizes the modified cash basis of accounting, there is no resulting net investment in capital assets.
- (b) Restricted – Consists of restricted assets with constraints placed on the use either by: (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- (c) Unrestricted – Net amount of assets that are not included in the determination of net investment in capital assets or the restricted component of net position.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expenditure is incurred for purposes for which both restricted and unrestricted net resources are available.

Governmental fund equity is reported as a fund balance and classified as nonspendable, restricted, committed, assigned and unassigned based on the respective level of constraint. These classifications are defined as follows:

- (a) Nonspendable - Amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- (b) Restricted - Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or by restrictions imposed by law through constitutional provisions or enabling legislation.
- (c) Committed - Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the City's highest level of decision making authority. The City's highest level of decision making authority is made by ordinance or resolution.
- (d) Assigned - Amounts constrained by the City's intent to be used for specific purposes but that are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority.
- (e) Unassigned - The residual classification of the general fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the City's policy to first use restricted funds prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also City policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

Proprietary fund equity is reported as net position and classified in the same manner as the government-wide statements, as previously described.

### ***Receipts and Disbursements –***

#### PROGRAM RECEIPTS

In the Statement of Activities, modified cash basis receipts that are derived directly from each governmental activity or from parties outside the City's taxpayers are reported as program receipts. The City has the following program receipts in each activity:

General Government	Fees, rents, permits, licenses, and grants
Public Safety	Fire and rescue service calls and Rural Fire District payments
Streets	Highway allocation and incentive payments, reimbursements and labor and materials sold
Public Welfare	Grave opening/closing fees, lot sales and donations
Culture and Recreation	Park and pool admission, lesson and registration fees; grants and donations



# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lottery	Gross Keno receipts, net of cash prizes, and the City's share of gross proceeds as paid according to the Lottery Operator Agreement
TIF Revenues	Ad valorem property taxes and monies received from redevelopment companies directed to TIF Indebtedness

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose. Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are payable in two installments on May 1<sup>st</sup> and September 1<sup>st</sup>. The County bills and collects property taxes and remits to the City monthly. City property tax receipts are recognized when received by the County Treasurer.

### OPERATING RECEIPTS AND DISBURSEMENTS

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods and/or services in connection with the proprietary fund's principle ongoing operations. The principle operating receipts are user fees. The principle operating expenses include the cost of sales and services, administrative expenses and overhead charges. Operating receipts and disbursements also include other transactions not related to capital and related financing, non-capital financing or investing activities. Interest expense, financing costs and capital outlays are reported as non-operating expenses.

***Internal and Interfund Balances and Activities*** – In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

### FUND FINANCIAL STATEMENTS

Interfund activity resulting from cash transactions or events, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- (a) Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- (b) Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
- (c) Interfund reimbursements – Repayments from funds responsible for certain expenditures to the funds that initially paid for them are not reported as reimbursements, but as adjustments to disbursements in the respective funds.
- (d) Interfund transfers – Flow of assets from one fund to another when repayment is not expected are reported as transfers in and out.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances resulting from cash transactions or events, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- (a) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
- (b) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Contributions – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

**Use of Estimates** – The preparation of financial statements in conformity with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as commitments and contingencies disclosures). Accordingly, actual results could differ from those estimates.

**Accounting Changes** – In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. This Statement is not expected to have a material effect on the City's statement of net position or activities.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Most of the requirements of this Statement are effective for fiscal years beginning after June 15, 2015. Some provisions are not effective until fiscal years beginning after June 15, 2016. This Statement is not expected to have a material effect on the City's statement of net position or activities.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of Statement 74 are effective for fiscal years beginning after June 15, 2016, Statement 75 is effective for fiscal years beginning after June 15, 2017, and Statement 76 is effective for fiscal years beginning after June 15, 2015. None of these Statements are expected to have a material effect on the City's statement of net position or activities.

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. The requirements of this Statement are effective for fiscal years beginning after December 15, 2015. This Statement is not expected to have a material effect on the City's statement of net position or activities.

### NOTE 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. Other than the issue of noncompliance discussed in Note 3, no other instances of noncompliance considered material to the financial statements were noted.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 3 – CASH AND INVESTMENTS

The statutes of the State of Nebraska authorize the City to invest in certificates of deposit and time deposits of banks or capital stock financial institutions, obligations of the United States government and agencies thereof any securities as provided in the Public Funds Deposit Security Act. The City's funds were invested in demand checking accounts, money market checking accounts, Negotiable Order of Withdrawal (NOW) accounts, government security money market funds and certificates of deposit.

Investments at year end consisted solely of certificates of deposit. The fair market value of these investments is the same as cost.

At September 30, 2015, the City held the following deposits and investments:

	Carrying Value	Credit Rating
Demand deposits	\$ 5,305,160	n/a
Time deposits - certificates of deposit (< 1 year )	375,865	n/a
Negotiable Order of Withdrawal accounts	174,160	n/a
Money market accounts	1,388,734	n/a
Money market funds	1,147,424	Aaa
Total deposits and investments	<u>\$ 8,391,343</u>	
Reconciliation to Statement of Net Position		
Cash	\$ 5,219,960	
Restricted Cash	2,795,518	
Investments	61,768	
Restricted Investments	314,097	
	<u>\$ 8,391,343</u>	

**Custodial Credit Risk** -- 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. No deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) shall be allowed to accumulate in the bank unless 1) the bank gives a surety bond; 2) the bank can give the City securities as collateral on the excess funds; 3) the bank can issue a joint custody receipt to the benefit of the City where a third party bank actually holds the security.

As of September 30, 2015, the City's funds were not entirely insured or collateralized by the depository banks. The City had unsecured deposits at September 30, 2015 of \$308,467 at Pinnacle Bank. According to State legislation, the City is required to secure 102% of the deposits over the FDIC coverage. Therefore during the fiscal year ending September 30, 2015 the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy due to these amounts.

The City also held \$1,147,424 at BOK Financial in a government security money market fund. This fund is invested in U.S. Treasury bills, notes and securities backed by the full faith and credit of the U.S. Government, some of which may be subject to repurchase agreements. Repurchase agreements are collateralized with securities backed by the full faith and credit of the U.S. Government at 102% of maturity value. .

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

**Investment Interest Rate Risk** -- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable. At September 30, 2015, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

**Credit Risk** -- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Moody's has assigned the money market funds (Caval Hill U.S. Treasury), which consist of government securities, a rating of Aaa.

**Concentration of Investment Credit Risk** -- Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investment in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. At September 30, 2015, the City had no concentration of credit risk as defined above.

### NOTE 4 – RESTRICTED ASSETS

Restricted assets of \$3,114,690 are composed of the following amounts:

- a) \$1,638,027 held by the debt service fund for the payment of capital outlay and general long-term principal, interest and related costs.
- b) \$438,926 held by the Community Redevelopment debt service funds for the payment of TIF Indebtedness.
- c) \$495,637 held by the lottery fund to be used for community betterment. Community betterment is defined in the Nebraska County and City Lottery Act to include a) improving individual's education, health, sense of citizenship b) providing and maintaining public works and public structures c) supplementing governmental services and d) providing tax relief.
- d) \$148,413 held by the fire fund for the purchase of personal property or equipment for fire or emergency rescue services.
- e) \$393,687 held by the sewer fund for the payment of principal and interest on long-term bonds.

### NOTE 5 – RECEIVABLES

#### Operating Leases – City as Lessor

The City is the lessor of several operating leases with various expiration dates. The rent income is reported in the General Fund as it is received. No receivables are recognized in accordance with the modified cash basis of accounting.

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 6 – INTERFUND BALANCES AND ACTIVITY**

Interfund loans are expected to be repaid within one year. At September 30, 2015, the Community Redevelopment TIF G fund (non-major fund) owed the General Fund and Debt Service Fund \$297,000 and \$2,283, respectively.

Transfers between funds of the primary government for the year ended September 30, 2015 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Funds</b>		
General Fund	\$ 437,598	1,466,965
Street	80,000	-
City Sales Tax	1,296,965	-
Lottery	99,349	-
Debt Service	2,283	239,947
<b>Non-major Funds</b>		
Fire	90,000	-
Community Redevelopment TIF G	<u>-</u>	<u>299,283</u>
Total	<u>\$ 2,006,195</u>	<u>2,006,195</u>

The flow of assets from one fund to another where repayment is not expected is reported as transfers. Transfers are used to (1) move receipts from the fund that statute or budget requires collect them to the fund that statute or budget requires to expend them and (2) use unrestricted receipts in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. General fund internal transfers have been eliminated.

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 7 - FUND BALANCE – GOVERNMENTAL FUNDS**

	General Fund	Debt Service	City Sales Tax	Streets	Lottery	Non-Major Funds	Total
<b>Fund balances</b>							
<b>Nonspendable</b>	\$ -	-	-	-	-	-	-
<b>Restricted</b>							
Debt service	-	1,638,027	-	-	-	438,926	2,076,953
Community betterment	-	-	-	-	495,637	-	495,637
Public safety	-	-	-	-	-	148,413	148,413
<b>Committed</b>							
Capital projects	-	-	1,723,977	-	-	-	1,723,977
<b>Assigned</b>							
Public welfare	26,141	-	-	-	-	-	26,141
Culture and recreation	92,520	-	-	-	-	-	92,520
Public safety	-	-	-	-	-	67,827	67,827
Streets	-	-	-	313,085	-	-	313,085
<b>Unassigned</b>	<u>1,075,503</u>	-	-	-	-	-	<u>1,075,503</u>
<b>Total fund balances</b>	<u>\$ 1,194,164</u>	<u>1,638,027</u>	<u>1,723,977</u>	<u>313,085</u>	<u>495,637</u>	<u>655,166</u>	<u>6,020,056</u>

**NOTE 8 – RETIREMENT PLANS**

The City of Waverly Nebraska Deferred Compensation Plan, a defined contribution plan, provides pension benefits for all its full-time employees. The plan, administered by Northwestern Mutual, was established and may be amended by Board resolution. Enrollment in the plan is mandatory. Employees are eligible to participate on their date of hire, after reaching age 19. The plan requires that the employee contribute at least 4% and the City contribute 5½% of the employee's base salary each month. The City's contributions for each employee (and interest allocated to the employee's account) are vested immediately.

The City's total payroll in the fiscal year ended September 31, 2015 was \$501,443. The City's required 5½% contribution amounted to \$21,503 and the employee contributions totaled \$22,999 for the year ended September 30, 2015. All employer and employee contributions required have been transferred to the plan's trustee for the year ended September 30, 2015.

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 9 – RISK MANAGEMENT**

The City is exposed to various risks of loss from torts; theft of; damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. The City manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
(a) Torts, errors and omissions	Purchased commercial insurance	None
(b) Workers compensation and health	Purchased commercial insurance	None
(c) Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three years.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Operating Leases** – The City has entered into lease agreements for the purpose of leasing land. These lease agreements qualify as operating leases for accounting purposes. Leases are recorded as they are paid in accordance with the modified cash basis of accounting.

Rent paid during the fiscal year ended September 30, 2015 was \$773 in the proprietary funds. The lottery fund paid rent of \$96,000 relating to the financing for the Lawson Park improvements.

Minimum future obligations on operating leases in effect September 30, 2015 are:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
2016	\$ -	482	482
2017	-	482	482
2018	-	482	482
2019	-	482	482
2020	-	482	482
	<u>\$ -</u>	<u>2,410</u>	<u>2,410</u>

2021 and after: \$482 per year (Business-Type Activities)

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Lease Purchase Agreement** – On August 10, 2015, the City entered into a license and easement agreement and a lease purchase agreement that continues until September 15, 2030, under a declaration of trust with BOKF, National Association (BOKF). The City is granting BOKF the license and easement rights regarding the real property known as Lawson Park, along with related improvements and personal property. BOKF is financing the cost of the project through the issuance of certificates of participation, par value of \$1,300,000, and then leasing the project to the City. The project consists of a 4-field softball/baseball facility together with a centrally located building housing an admission counter, restrooms, storage, offices, announcer's stand, field lighting, scoreboards, dugouts, fencing, and other related improvements and personal property. As of September 30, 2015, construction has not yet begun.

Under the lease, The City is required to pay basic rent due on each March 15 and September 15, commencing March 15, 2016. Basic rent is composed of an interest component and a principal component and mirrors the redemption of the certificates of participation, which carry interest rates in the range of 2.0% to 3.45%. The obligations of the certificates of participation are included in the long-term debt payable schedule displayed later in this note.

Future Minimum Lease Payments: Future minimum lease payments for the fiscal year under the lease purchase agreement along with the present value of the minimum lease payments as of September 30, 2015 are:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 106,347
2017	107,675
2018	106,175
2019	109,675
2020	108,075
2021-2025	543,605
2026-2030	<u>540,382</u>
Total minimum lease payments	1,621,934
Less amount represent interest	<u>321,934</u>
Present value of lease payments	<u>\$ 1,300,000</u>



**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Long Term Liabilities** -- As of September 30, 2015, the long-term debt payable from governmental fund resources consisted of the following:

	<u>Balance</u> <u>Sept. 30, 2014</u>	<u>Debt</u> <u>Issued</u>	<u>Debt</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2015</u>	<u>Amount Due</u> <u>Within One Year</u>
General obligation highway bond: Dated June 2009, interest 2.00-4.40%. Final payment due December 2024.	\$ 420,000	-	(30,000)	390,000	30,000
General obligation sewer bond: Dated March 2010, interest 1.15-4.625%. Final payment due June 2029.	4,445,000	-	(185,000)	4,260,000	190,000
General obligation highway refunding bond: Dated April 2011, interest 2.35- 3.65%. Final payment due December 2021.	380,000	-	(30,000)	350,000	30,000
General obligation water refunding bond: Dated April 2011, interest 0.90- 2.65%. Final payment due December 2017.	140,000	-	(65,000)	75,000	30,000
General obligation sewer refunding bond: Dated April 2013, interest 0.70- 2.2%. Final payment due June 2023.	335,000	-	(35,000)	300,000	35,000
General obligation highway allocation bond: Dated September 2013, interest 1.65-4.0%. Final payment due December 2027.	640,000	-	-	640,000	25,000
Bond anticipation note (street improvement): Dated September 2013, interest 1.00%. Final payment due August 2016.	415,000	-	-	415,000	415,000
Bond anticipation note (storm sewer drainage): Dated November 2014, interest .9%. Final payment due November 2017.	-	300,000	-	300,000	-
Certificates of Participation, Dated August 2015, interest 2.00% to 3.45%. Final payment due September 2030	-	1,300,000	-	1,300,000	70,000
	<u>\$ 6,775,000</u>	<u>1,600,000</u>	<u>(345,000)</u>	<u>8,030,000</u>	<u>825,000</u>

**CITY OF WAVERLY, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2015**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

As of September 30, 2015, the bonds and notes payable from proprietary funds resources consisted of the following:

	<u>Balance</u> <u>Sept. 30, 2014</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2015</u>	<u>Amount Due</u> <u>Within 1 Year</u>
Combined utility revenue bond: Dated March 2010, interest 1.25- 4.75%, final payment due June 2030.	\$ 2,550,000	-	(120,000)	2,430,000	120,000
Combined utility revenue bond: Dated July 2012, interest 0.7- 3.00%, final payment due June 2025.	1,500,000		(80,000)	1,420,000	80,000
Loan agreement with NDEQ: Dated April 2014, interest 2.00%, final payment due December 2034	-	<u>2,056,127</u>	-	<u>2,056,127</u>	<u>87,168</u>
	<u>\$ 4,050,000</u>	<u>2,056,127</u>	<u>(200,000)</u>	<u>5,906,127</u>	<u>287,168</u>

The aggregate schedule of maturities of long-term liabilities (including principal, interest, and fees) for the five years subsequent to September 30, 2015 is as follows:

<u>Year ending</u> <u>Sept. 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	
2016	\$ 825,000	273,067	287,168	179,329	20,344	1,584,908
2017	435,000	256,091	293,920	172,937	19,468	1,177,416
2018	745,000	242,808	305,707	165,980	18,575	1,478,070
2019	440,000	228,413	312,530	157,944	17,663	1,156,550
2020	465,000	214,524	319,390	149,416	16,733	1,165,063
2021-2025	2,935,000	779,511	2,296,183	594,677	69,050	6,674,421
2026-2030	2,185,000	233,768	1,543,618	231,964	42,832	4,237,182
2031-2035	-	-	547,611	27,744	13,872	589,227
	<u>\$ 8,030,000</u>	<u>2,228,182</u>	<u>5,906,127</u>	<u>1,679,991</u>	<u>218,537</u>	<u>18,062,837</u>

Interest of \$243,119, \$18,991, and \$142,440 was paid by the debt service, water, and sewer fund, respectively, during the year.

# CITY OF WAVERLY, NEBRASKA

## Notes to Financial Statements

September 30, 2015

### NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

**Contracts and Agreements** –The City has entered into conduit debt arrangements as follows.

In May 2005, the City authorized the issuance of various Community Redevelopment Revenue Notes (TIF Indebtedness) amounting to \$4,707,145. These notes are a limited obligation of the City, payable solely from the Tax Increment Revenues pledged as security for the notes. In May 2005, the City also entered into redevelopment contracts with Tractor Supply Company and Tecumseh Poultry LLC (Redevelopers). According to the redevelopment contracts, the Redevelopers agree to operate 15 years and pay the real estate taxes, including any in lieu amounts (TIF Revenues). The TIF Revenues are received by the City, via the County Treasurer, and are restricted to the payment of the TIF Indebtedness, including any interest.

In January 2014, decisions by the Nebraska Tax Equalization and Review Commissions to lower the value of the TIF parcels involving the above redevelopers resulted in tax refunds due by the City to Tractor Supply Company of \$165,224 for the 2010, 2011, and 2012 tax years. The City plans to pay this refund over a five year period beginning this fiscal year. During the fiscal year ending September 30, 2015, the City paid back \$33,000 towards this obligation. This expenditure has been netted against the current TIF revenues.

In October 2008, the City authorized the issuance of TIF Indebtedness amounting to \$764,573. These notes are a limited obligation of the City, payable solely from the Tax Increment Revenues pledged as security for the notes. In October 2008, the City also entered into redevelopment contracts with Watermark Investments, LLC (Redevelopers). According to the redevelopment contracts, the Redevelopers agree to operate 15 years and pay the real estate taxes, including any in lieu amounts (TIF Revenues). The TIF Revenues are received by the City, via the County Treasurer, and are restricted to the payment of the TIF Indebtedness, including any interest.

In December 2009, the City authorized the issuance of TIF Indebtedness amounting to \$505,435. These notes are a limited obligation of the City, payable solely from the Tax Increment Revenues pledged as security for the notes. In December 2009, the City also entered into redevelopment contracts with PJN, LLC (Redevelopers). According to the redevelopment contracts, the Redevelopers agree to operate 15 years and pay the real estate taxes, including any in lieu amounts (TIF Revenues). The TIF Revenues are received by the City, primarily via the County Treasurer, and are restricted to the payment of the TIF Indebtedness, including any interest.

As of September 30, 2015 the total TIF Indebtedness was \$2,588,781.

**Concentration of Credit Risk** – The City provides water and sewer services to residents of the City of Waverly, Nebraska. In the course of providing these services, the City extends credit to its customers, which is uncollateralized.

**Compliance Audits** – In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**Litigation** – The City is subject to claims and other actions arising in the ordinary course of business. Some of these claims and actions have resulted in lawsuits where the City is a defendant. Management believes that the ultimate obligations if any, which may result from unfavorable outcomes of such lawsuits, will not have a material adverse effect on the financial position, results of operations or cash flows of the City and such obligations, if any, would be adequately covered by insurance.

**CITY OF WAVERLY, NEBRASKA**

**Statement of Net Position  
Proprietary Funds  
(Supplementary Information)**

**September 30, 2015**

	<u>Business-Type Activities -- Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 771,373	1,197,613	1,968,986
Restricted cash	-	393,687	393,687
Accounts receivable, less allowance for doubtful accounts	67,479	111,401	178,880
Prepaid expenses	12,714	12,174	24,888
<b>TOTAL CURRENT ASSETS</b>	<u>851,566</u>	<u>1,714,875</u>	<u>2,566,441</u>
<b>NET PROPERTY AND EQUIPMENT</b>	5,445,134	8,591,991	14,037,125
<b>OTHER ASSETS</b>			
Investments	-	26,151	26,151
<b>TOTAL ASSETS</b>	<u>6,296,700</u>	<u>10,333,017</u>	<u>16,629,717</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of bonds payable	-	200,000	200,000
Current portion of loan payable	87,168	-	87,168
Accounts payable	17,632	6,714	24,346
Accrued expenses	23,625	52,979	76,604
<b>TOTAL CURRENT LIABILITIES</b>	<u>128,425</u>	<u>259,693</u>	<u>388,118</u>
<b>LONG-TERM LIABILITIES</b>			
Loan payable, net of current portion	1,968,959	-	1,968,959
Bonds payable, net of current portion	-	3,650,000	3,650,000
<b>TOTAL LIABILITIES</b>	<u>2,097,384</u>	<u>3,909,693</u>	<u>6,007,077</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,385,557	4,740,246	8,125,803
Restricted	-	393,687	393,687
Unrestricted	813,759	1,289,391	2,103,150
<b>TOTAL NET POSITION</b>	<u>\$ 4,199,316</u>	<u>6,423,324</u>	<u>10,622,640</u>

**CITY OF WAVERLY, NEBRASKA**

**Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
(Supplementary Information)**

**For the Year Ended September 30, 2015**

	<b>Business-Type Activities – Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING RECEIPTS</b>			
User fees	\$ 593,327	1,048,083	1,641,410
Other income	24,901	1,094	25,995
<b>TOTAL OPERATING RECEIPTS</b>	<u>618,228</u>	<u>1,049,177</u>	<u>1,667,405</u>
<b>OPERATING DISBURSEMENTS</b>			
Salaries	69,777	62,316	132,093
Payroll taxes	5,338	4,767	10,105
Employee benefits	20,359	18,302	38,661
Retirement	3,396	3,179	6,575
Repairs and maintenance	18,393	42,840	61,233
Utilities	32,728	48,562	81,290
Telephone	321	1,499	1,820
Insurance	12,551	9,768	22,319
Operating supplies	50,236	9,274	59,510
Office supplies	3,733	3,229	6,962
Legal and professional services	7,509	3,429	10,938
Meetings and training	1,993	878	2,871
Travel and mileage	610	-	610
Gas and oil	892	3,478	4,370
Rent	306	467	773
Depreciation	112,920	266,215	379,135
<b>TOTAL OPERATING DISBURSEMENTS</b>	<u>341,062</u>	<u>478,203</u>	<u>819,265</u>
<b>OPERATING INCOME</b>	<u>277,166</u>	<u>570,974</u>	<u>848,140</u>
<b>NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>			
Investment income	-	478	478
Loan fees	(10,281)	-	(10,281)
Interest expense	(31,013)	(141,329)	(172,342)
<b>TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)</b>	<u>(41,294)</u>	<u>(140,851)</u>	<u>(182,145)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	235,872	430,123	665,995
<b>CAPITAL CONTRIBUTIONS</b>	-	-	-
<b>CHANGE IN NET POSITION</b>	235,872	430,123	665,995
<b>NET POSITION - BEGINNING</b>	<u>3,963,444</u>	<u>5,993,201</u>	<u>9,956,645</u>
<b>NET POSITION - ENDING</b>	<u>\$ 4,199,316</u>	<u>6,423,324</u>	<u>10,622,640</u>

# CITY OF WAVERLY, NEBRASKA

## Notes to Statements of Proprietary Funds (Supplementary Information)

September 30, 2015

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – The statements of proprietary funds (supplementary information) have been included and prepared in conformity with generally accepted accounting principles to satisfy Nebraska Revised Statute 19-2903.

**Measurement Focus** – The statements of proprietary funds utilize an "economic resources". The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and net financial position. All assets, deferred outflows, liabilities and deferred inflows (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported.

**Basis of Accounting** – Revenues from user fees and sale of labor, material and water are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the proprietary funds are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

**Use of Estimates** – In preparing the statements of proprietary funds in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that will affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ASSETS, LIABILITIES AND EQUITY

**Cash, Cash Equivalents, and Investments** - These items are presented in the same manner as in the modified cash basis financial statements.

**Allowance for Doubtful Accounts** – Estimated allowances for uncollectible amounts are determined based upon past collection experience and current economic conditions.

**Prepaid Expenses** – Prepaid expenses consist of insurance costs that have been prepaid for the next fiscal year. These costs will be recognized as expenditures in the subsequent year.

**Accrued Expenses** – Accrued expenses represent the liability for accrued salaries, vacation, sick leave, payroll taxes as well as the liability for accrued interest on long-term debt obligations. The City pays wages bi-monthly on the 15<sup>th</sup> and last day of the month. Accordingly, there are no accrued salaries. Full-time employees earn vacation leave which may be accumulated by employees to a maximum of 30 working days. Sick pay benefits may be accumulated by employees to a maximum of 120 working days. Payment for unused sick leave shall be paid on the basis of one-third of the accumulated time after the employee has reached ten years of employment with the City. Accumulated leave that is liquidated with expendable available financial resources is reported as an expenditure of the City funds as paid. No liability is recorded for non-vesting accumulating rights to receive vacation and sick leave benefits.

**Long-Term Debt** – Long-term debts are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are reported as non operating current expenses or revenues.

**CITY OF WAVERLY, NEBRASKA**

**Notes to Statements of Proprietary Funds  
(Supplementary Information)**

**September 30, 2015**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows/Inflows of Resources** – In addition to assets, the statement of net position-proprietary funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. At this time, the City has no transactions that meet the definition of deferred outflows of resources.

In addition to liabilities, the statement of net position-proprietary funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. At this time, the City has no transactions that meet the definition of deferred inflows of resources.

**Equity Classification** -- Equity is classified as net position and displayed in three components as in the government-wide statements: net investment in capital assets, restricted and unrestricted.

**NOTE B – RECEIVABLES**

Management considers all business-type funds accounts receivable to be collectible, accordingly, no allowance for doubtful accounts has been deemed necessary.

**NOTE C – PROPERTY AND EQUIPMENT**

**Capital Assets** – Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value on the date received. Support received from federal and state grants and from the municipality and others to pay for a portion of the utility plant are considered contributions in aid of construction and are classified in the income statement as contributions and recognized when earned.

Maintenance and repairs are expended as incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to a revenue or charged to an expense.

Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Buildings and improvements.....	10-40 years
Equipment.....	3-10 years

**CITY OF WAVERLY, NEBRASKA**

**Notes to Statements of Proprietary Funds  
(Supplementary Information)**

**September 30, 2015**

**NOTE C – PROPERTY AND EQUIPMENT (CONTINUED)**

Major classes of property and equipment in the proprietary funds at September 30, 2015 consist of the following:

	CAPITAL ASSETS, NOT DEPRECIATED		CAPITAL ASSETS, DEPRECIATED		
	Land	Construction in Progress	Equipment	Systems	Totals
Business-type activities					
<b>Water</b>					
Balance September 30, 2014	\$ 567,500	1,597,752	277,363	3,024,633	5,467,248
Increases	83,750	1,798,871	39,350	3,396,623	5,318,594
Decreases	-	3,396,623	-	-	3,396,623
Balance September 30, 2015	<u>651,250</u>	<u>-</u>	<u>316,713</u>	<u>6,421,256</u>	<u>7,389,219</u>
Accumulated Depreciation					
Balance September 30, 2014	-	-	227,279	1,603,886	1,831,165
Increases	-	-	16,935	95,985	112,920
Decreases	-	-	-	-	-
Balance September 30, 2015	<u>-</u>	<u>-</u>	<u>244,214</u>	<u>1,699,871</u>	<u>1,944,085</u>
Capital assets, net	<u>651,250</u>	<u>-</u>	<u>72,499</u>	<u>4,721,385</u>	<u>5,445,134</u>
<b>Sewer</b>					
Balance September 30, 2014	98,110	13,750	245,211	10,362,584	10,719,655
Increases	-	-	50,290	-	50,290
Decreases	-	13,750	-	-	13,750
Balance September 30, 2015	<u>98,110</u>	<u>-</u>	<u>295,501</u>	<u>10,362,584</u>	<u>10,756,195</u>
Accumulated Depreciation					
Balance September 30, 2014	-	-	206,820	1,691,169	1,897,989
Increases	-	-	10,529	255,686	266,215
Decreases	-	-	-	-	-
Balance September 30, 2015	<u>-</u>	<u>-</u>	<u>217,349</u>	<u>1,946,855</u>	<u>2,164,204</u>
Capital assets, net	<u>98,110</u>	<u>-</u>	<u>78,152</u>	<u>8,415,729</u>	<u>8,591,991</u>
<i>Business-type Activities</i>					
Capital assets, net	<u>\$ 749,360</u>	<u>-</u>	<u>150,651</u>	<u>13,137,114</u>	<u>14,037,125</u>

Depreciation expense charged to the business-type activities is as follows:

Water	\$ 112,920
Sewer	<u>266,215</u>
Total depreciation expense	<u>\$ 379,135</u>



**CITY OF WAVERLY, NEBRASKA**

**Budgetary Comparison Schedule – Budget and Actual – Cash Basis  
(Supplementary Information)**

**For the Year Ended September 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
General			2,144,533	
Governmental fund internal transfers			307,412	
Debt Service			1,764,557	
CRRN, Series A			96,505	
CRRN, Series B			161,220	
CRRN, Series C			76,219	
CRRN, Series D			158,979	
CRRN, Series E			101,862	
CRRN, Series F			44,884	
CRRN, Series G			350,814	
City Sales Tax			1,723,977	
Street			455,543	
Lottery			1,559,423	
Fire			221,646	
Water			2,661,863	
Sewer			1,041,199	
	<u>\$ 15,566,551</u>	<u>15,566,551</u>	<u>12,870,636</u>	<u>(2,695,915)</u>
<b>Disbursements</b>				
General			3,260,543	
Governmental fund internal transfers			307,412	
Debt Service			835,266	
CRRN, Series A			99,328	
CRRN, Series B			173,370	
CRRN, Series C			76,630	
CRRN, Series D			159,710	
CRRN, Series E			85,019	
CRRN, Series F			52,725	
CRRN, Series G			299,295	
City Sales Tax			-	
Street			397,435	
Lottery			1,422,661	
Fire			280,720	
Water			2,663,758	
Sewer			603,636	
	<u>15,804,000</u>	<u>15,804,000</u>	<u>10,717,508</u>	<u>5,086,492</u>
	<u>\$ (237,449)</u>	<u>(237,449)</u>	<u>2,153,128</u>	<u>2,390,577</u>

**CITY OF WAVERLY, NEBRASKA**

**Notes to Budgetary Comparison Schedule  
(Supplementary Information)**

**For the Year Ended September 30, 2015**

**BUDGETARY COMPARISON SCHEDULE**

***Basis of Accounting***

The budget is prepared on the cash basis of accounting. Revenues and expenditures are reported when they result from cash transactions. Because state law requires that a municipality's annual budget be prepared on the cash basis of accounting, the budget adopted by the City Council is inconsistent with generally accepted accounting principles.

***Budget Law***

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

- (a) The City Council shall prepare a proposed all-purpose operating budget statement in writing and file with the secretary or clerk.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) A copy of the adopted budget must be filed with the levying board and the State Auditor's office. Proof of publication shall be attached.
- (d) Budgets are adopted on a cash basis. Amendments that alter the total expenditures require that an additional public hearing be held.

Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year expenses are expected to be paid. Appropriations for budgeted funds lapse at fiscal year end.

**CITY OF WAVERLY, NEBRASKA**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended September 30, 2015**

<b>Federal Grantor Pass-through Grantor Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>Environmental Protection Agency</b>			
<i>Passed through Nebraska Department of Environmental Quality</i>			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS997805-14	\$2,055,644*

\* Major Program

**NOTE A – BASIS OF PRESENTATION**

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Waverly, Nebraska (the City) under programs of the federal government for the year ended September 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting and, accordingly, represent the total cash expended for the program. The Schedule does not include transactions that might be included using the accrual basis of accounting as contemplated by generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost principles for State, Local, and Indian Tribal Governments*.

**NOTE C – MAJOR PROGRAM**

In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Programs denoted with an asterisk (\*) are determined by the independent auditor to be major programs.

**NOTE D – FEDERAL LOANS OUTSTANDING**

As of September 30, 2015, the City had a loan balance of \$2,056,127 with the Nebraska Department of Environmental Quality. \$2,055,644 of this balance represents Federal funds (CFDA #66.468). The remaining \$483 is comprised of state funds.

**MARVIN E. JEWELL & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**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***

The Honorable Mayor and City Council  
City of Waverly, Nebraska

We have audited, in accordance with the 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 modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Waverly, Nebraska (the City) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 16, 2016. Our report discloses that the City prepares its financial statements on the modified cash basis, 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 preceding paragraph 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 described below, we identified a 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 deficiency described in the accompanying schedule of findings and questioned cost as item FS 2015-001 to be a material weakness.

**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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing*

*Standards* and which are described in the accompanying schedule of findings and questioned costs as item FS 2015-002.

### **City of Waverly, Nebraska's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marvin E. Jewell & Co., P.C.*

Lincoln, Nebraska  
February 16, 2016

**MARVIN E. JEWELL & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133**

The Honorable Mayor and City Council  
City of Waverly, Nebraska

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

We have audited the City of Waverly, Nebraska's (City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA 2015-002 and SA 2015-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA 2015-001 to be a material weakness.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Marvin E. Jewell & Co., P.C.*

Lincoln, Nebraska  
February 16, 2016

**CITY OF WAVERLY, NEBRASKA**

**Schedule of Findings and Questioned Costs**

**For the Year Ended September 30, 2015**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

- |  |            |
|--|------------|
| 1. Type of auditor's report issued   | Unmodified |
| 2. Internal controls over financial reporting:                                   |            |
| a. Material weaknesses identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses? | No         |
| 3. Noncompliance material to financial statements noted?                         | Yes        |

**Federal Awards**

- |  |            |
|--|------------|
| 1. Internal control over major programs:   |            |
| a. Material weaknesses identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses?                                       | No         |
| 2. Type of auditor's report issued on compliance for major programs:   | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section 510(a)? | Yes        |
| 4. Identification of Major Program:<br>CFDA #66.468 - Capitalization Grants for Drinking Water State Revolving Funds   |            |
| 5. Dollar threshold used to distinguish between Type A and Type B programs?  | \$300,000  |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?                                      | No         |

**II. FINDINGS – FINANCIAL STATEMENTS**

**FS 2015-001 Lack of Segregation of Duties (Material Weakness)**

Criteria: Proper internal controls require that an entity has adequate segregation of duties within a significant account process.

Condition: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Authorization or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities. Adequate personnel are not available to assign responsibilities in such a way that different employees handle different parts of the same transaction. Authorization



# CITY OF WAVERLY, NEBRASKA

## Schedule of Findings and Questioned Costs – Continued

For the Year Ended September 30, 2015

### FS 2015-001 Lack of Segregation of Duties (Material Weakness) (Continued)

or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities.

Cause: The entity has a limited number of personnel.

Effect: An individual controlling a transaction from beginning to conclusion does not have oversight from other individuals to ensure that the transaction was properly executed and recorded.

Recommendation: The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports. We recommend that the City Council take an active part in internal controls and closely monitor all accounting functions while seeking to continue to strengthen compensating controls.

Auditee Response: The City will segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

### FS 2015-002 Unsecured Deposits

Criteria: According to State legislation, the City is required to secure 102% of the deposits in excess of the FDIC coverage. No deposits in excess of the amount insured by the FDIC shall be allowed to accumulate in the bank unless 1) the bank gives a surety bond; 2) the bank can give the City securities as collateral on the excess funds; 3) the bank can issue a joint custody receipt to the benefit of the City where a third party bank actually holds the security.

Condition: The City had unsecured deposits of \$308,467 at September 30, 2015 at Pinnacle Bank.

Cause: Pinnacle Bank does not have a person designated to verify the City's funds are adequately secured. The City Treasurer was not routinely verifying the adequacy of coverage.

Effect: The City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy due to these unsecured deposits.

Recommendation: The City should monitor compliance by comparing monthly bank balances with coverage on a timely basis to ensure coverage is sufficient to secure 102% of the deposits over the FDIC coverage.

Auditee Response: The administrative personnel have discussed the City's cash management and investment policy with the appropriate personnel at Pinnacle Bank to ensure a cooperative effort to ensure secured deposit compliance. City Treasurer shall verify monthly that the City's funds are appropriately secured.

**CITY OF WAVERLY, NEBRASKA**

**Schedule of Findings and Questioned Costs – Continued**

**For the Year Ended September 30, 2015**

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**SA 2015-001 Lack of Segregation of Duties (See FS 2015-001 above.)**

**SA 2015-002 Procurement**

**Environmental Protection Agency, Passed through Nebraska Department of Environmental Quality, Capitalization Grants for Drinking Water State Revolving Funds CFDA #66.468**

Criteria: A-102 Common Rule requires that the state's laws and procedures for procurements be followed and that the policies and procedures used were the same as for non-federal funds.

Condition: When testing procurement in order to ascertain if the policies and procedures were followed, we noted that most of the invoices did not contain initials indicating the invoice was authorized by the department head. In addition, while the invoices were approved by the City Council in the minutes, several of the invoices did not contain initials indicating the City Council had reviewed the invoice.

Cause: The department heads and City Council representative occasionally failed to initial invoices during their review.

Effect: The City Council approved several invoices without documentation of authorization by the department head or City Council review.

Questioned Costs: No costs are questioned. Although the City did not follow the procurement policies and procedures, all invoices approved by the City Council and submitted for reimbursement were eligible project costs.

Recommendation: We recommend the City follow the procurement policies and procedures.

Auditee Response: The City Treasurer will ensure that each invoice has been properly initialed prior to processing.

**SA 2015-003 Program Income**

**Environmental Protection Agency, Passed through Nebraska Department of Environmental Quality, Capitalization Grants for Drinking Water State Revolving Funds CFDA #66.468**

Criteria: A-102 Common Rule requires program income to be correctly determined, recorded and used in accordance with the program requirements.

**CITY OF WAVERLY, NEBRASKA**

**Schedule of Findings and Questioned Costs – Continued**

**For the Year Ended September 30, 2015**

**SA 2015-003 Program Income (Continued)**

Condition: The general ledger as presented for audit contained a misstatement in federal loan proceeds received. An entry to record Nebraska Department of Environmental Quality (NDEQ) loan proceeds was recorded to sales tax revenue received which resulted in a misstatement in federal loan proceeds received.

Cause: The loan proceeds were included in a single direct deposit from the State of Nebraska to Horizon Bank along with sales tax. There is no break down on the bank statement delineating the separate components of the deposit. Due to the small amount of the loan proceeds, the deposit was not recognized as being combined and the total direct deposit was posted as sales tax revenue.

Effect: The federal loan proceeds and sales tax revenues were misstated and required adjustment.

Questioned Costs: No costs are questioned.

Recommendation: Both the NDEQ and the Nebraska Department of Revenue provide detail of payments made. We recommend that these loan and sales tax receipts be reconciled to the balances reflected in the general ledger.

Auditee Response: The City Treasurer will reconcile the monthly sales tax revenue recorded in the general ledger to the detail provided by the State's website to ensure proper recording of revenue.

**CITY OF WAVERLY, NEBRASKA**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended September 30, 2015**

**FS 2014-001    Lack of Segregation of Duties**

Recommendation: The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Status: The City continues to improve segregation of duties to the extent possible with existing personnel and utilization of administrative personnel to provide additional control through review of financial transactions and reports.

DRAFT

**MARVIN E. JEWELL & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS  
8215 NORTHWOODS DRIVE, SUITE 300  
LINCOLN, NEBRASKA 68505  
(402) 423-1444 FAX 423-4829**

February 16, 2016

Honorable Mayor and City Council  
City of Waverly  
14130 Lancashire  
Waverly, Nebraska 68462

Dear Mayor and City Council Members:

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waverly, Nebraska (the City) for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 4, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies that had a material effect on the financial statements were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the commitments and contingencies is based on management's knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop the notes to the financial statements regarding Commitments and Contingencies in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material corrected misstatement detected as a result of the audit procedures was corrected by management. TIF G received \$297,000 net proceeds from a bond for the water shed project. The expenses for the water shed project had all been paid and recorded in the General Fund. As a result, the trial balance presented to us for the audit reflected overstated profit and fund balance due to the recording of this transaction. An adjustment was proposed to reflect the transfer and amount due to the general fund of the \$297,000 to reimburse the general fund for the expenses it paid.

City of Waverly  
14130 Lancashire  
Waverly, Nebraska 68462

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 16, 2016.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on the statements of proprietary funds (in compliance with Nebraska Statute 19-2903), which accompany the financial statements but are not required supplementary information (RSI). With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the budgetary comparison schedule, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the members of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

MARVIN E. JEWELL & CO., P.C.

Carmen R. Standley, CPA

**MARVIN E. JEWELL & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS  
8215 NORTHWOODS DRIVE, SUITE 300  
LINCOLN, NEBRASKA 68516  
(402) 423-1444 FAX 423-4829**

February 16, 2016

PRIVATE AND CONFIDENTIAL

Members of the City Council  
City of Waverly  
14130 Lancashire  
Waverly, Nebraska 68462

Dear City Council Members:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Waverly, Nebraska (the City) as of and for the year ended September 30, 2015, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 16, 2016 on the financial statements of the City of Waverly, Nebraska.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Organizational Structure

The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Council remain involved in the financial affairs of the City to provide oversight and independent review functions.

While the following list is not all-inclusive, some examples of procedures that would help strengthen your internal controls would be:

- Monthly review of each bank statement and bank reconciliation.
- Monthly review of bank balances and security in place over the FDIC coverage.
- Monthly review of each fund trial balance (with reconciliations where appropriate).
- Review of each payroll summary report and reconciliation to payroll presented for board approval.
- Review of contracts, loan and grant agreements and subsequent follow up reviews of restrictions and reserves to monitor continued compliance.
- Monitoring of grant or debt proceeds to the related expenditures.

Documentation of Internal Control Procedures

The City has policies and procedures in place to mitigate the lack of segregation of duties due to the small size of the City staff. Some of these policies and procedures involve approval and review of invoices by department heads and City Council. When testing procurement compliance in order to ascertain if the policies and

City of Waverly  
14130 Lancashire  
Waverly, Nebraska 68462

procedures were followed, we noted that most of the invoices did not contain initials indicating the invoice was authorized by the department head. In addition, although the invoices were approved by the City Council in the minutes, several of the invoices did not contain initials indicating the City Council had reviewed the invoice. Although the City did not follow the procurement policies and procedures, all invoices approved by the City Council and submitted for reimbursement were eligible project costs. The City has policies and procedures in place to mitigate the lack of segregation of duties due to the small size of the City staff. These policies and procedures involve approval and review of invoices by department heads and City Council. This process is typically documented by initials of the reviewing/approving party on the invoice.

### Keno

We are also engaged by the City to perform agreed-upon procedures regarding the annual compliance procedures of the keno activity of the City as derived from the Nebraska County and City Lottery Act and the County and City Lottery Regulations. Our findings are reported in a separate agreed-upon procedures report dated November 16, 2015.

The Lottery Operator Agreement effective September 1, 2011 between Four Sons Inc and the City sets out the allocation of proceeds. According to the agreement,

- 1) The allocation of proceeds shall be:
  - a. Prizes – No less than 65% of the Gross Proceeds.
  - b. The City – No less than 8% of the Gross Proceeds with increasing percentages as the prize payout percentage decreases from 80%. (See detail of percentages in contract).
  - c. The Operator – No more than 12% of the Gross Proceeds.
- 2) The contract does not address unclaimed wins.
- 3) The cost of the lottery auditor shall be borne exclusively by the Operator.

During the contract year ended August 31, 2015 we noted the following:

- 1) The computation of the allocation of proceeds is a direct factor of the prize award of games played each month. Our review of this calculation showed an underpayment to the City of \$5,809.30 for the contract year August 31, 2015.
- 2) We assume the "lottery audit" referred to in the contract is the compliance engagement required by the Nebraska Department of Revenue, Charitable Gaming Division. It appears the City has consistently paid for the cost of the compliance engagement, without reimbursement from the Operator.
- 3) The contract does not address unclaimed wins in the allocation of gross proceeds. Due to this fact and the methodology used to calculate the payouts, the unclaimed prizes are being used to pay the City's 8% commission. Per the Nebraska Department of Gaming regulations, all unclaimed lottery prizes are the property of the City.
- 4) Excluding the current year shortage in item 1 above, the cumulative shortage in the keno account is \$2,136.41 from the prior years' accumulation of over/short payments. This figure was arrived at by assuming that the Keno fund was started with \$0 being contributed by the City or the operator to open the account.

As the Lottery Operator Agreement nears renewal, we recommend reviewing the contract with the Operator and your legal council to ensure all parties understand and are in agreement with the provisions. We also recommend that the contract year be set for a period that lines up with the City's fiscal year and quarterly reporting for the Nebraska Department of Revenue, Charitable Gaming Division. Using a September 30 contract year would allow for more efficient monitoring.



City of Waverly  
14130 Lancashire  
Waverly, Nebraska 68462

### Unsecured Deposits

According to State legislation, the City is required to secure 102% of the deposits in excess of the FDIC coverage. No deposits in excess of the amount insured by the FDIC shall be allowed to accumulate in the bank unless 1) the bank gives a surety bond; 2) the bank can give the City securities as collateral on the excess funds; 3) the bank can issue a joint custody receipt to the benefit of the City where a third party bank actually holds the security. The City had unsecured deposits of \$308,467 at September 30, 2015 at Pinnacle Bank. The City should monitor compliance by comparing monthly bank balances with coverage timely to ensure coverage is sufficient to secure 102% of the deposits over the FDIC coverage.

### Reconciliation of Grants and Debt activity

During the course of our audit, we noted several instances that indicated there was a breakdown in controls in regards to monitoring the recording of grant monies or loan proceeds with the recording of the distribution of those funds. The situations noted were as followed:

1. The park fund received a tree grant. The grant expenses were reported in the Park, Cemetery, Streets and General funds. In addition, the school paid for some of the project costs related to the grant expenses reported in these various funds. It appears that the grant funds were not fully expended on the grant expenses due to the project costs paid directly by the school.
  - a. Grant income and related grant expenses should be accounted for in the same fund
  - b. Grant income should be reconciled to grant expenses
2. TIF G received \$297,000 net proceeds from a bond for the water shed project. The expenses for the water shed project had all been paid and recorded in the General Fund. As a result, the trial balance presented to us for the audit reflected overstated profit and fund balance due to the recording of this transaction. An adjustment was proposed to reflect the transfer and amount due to the general fund of the \$297,000 to reimburse the general fund for the expenses it paid.

In addition, interest and service fees paid on the watershed bond during the fiscal year were paid out of the debt service fund. As this bond is TIF indebtedness for TIF G, the payments should be made from the TIF G fund. An adjustment was proposed to reflect the amount due to the debt service fund of the \$2,282.50 to reimburse the debt service fund for the expenses it paid.

- a. Debt proceeds and expenses paid by the debt should be accounted for in the same fund or a transfer should be made to the fund that paid the expense.
  - b. Debt proceeds should be reconciled to the project costs.
3. NDEQ loan proceeds of \$3,347 were recorded as sales tax receipts. The City received an ACH from the state of Nebraska for \$32,523.72. The Nebraska Department of Revenue website reflected a sales tax remittance to Waverly for \$29,176.72. The "missing" loan advance from the NDEQ of \$3,347.00 represented the difference in the ACH.
  - a. Several government remittances, such as sales tax, highway allocation, municipal equalization, can be confirmed through the Nebraska Department of Revenue or Nebraska State Treasurer websites. Reconciling these receipts to the amounts reflected on the state websites will reduce the possibility of posting errors.

### Software

Several improvements have been made to the general ledger reports and utility billing software to improve internal controls. To date, the utility billing register still does not provide the dates of a report on the report itself. The dates are an essential part of the purpose and understanding of the reports and should be provided. Until this improvement is made, a City employee will be writing the date on the top of the report when it is printed. This still does not aid in identifying a keying error in report generation, but does improve internal controls by allowing the reports to be identified when referring to reports from prior periods.

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City of Waverly  
14130 Lancashire  
Waverly, Nebraska 68462

We wish to thank Doug and Ginger for the courtesies and assistance extended to us during our audit. If you have any questions regarding the above, we would be pleased to discuss them with you.

Very truly yours,

MARVIN E. JEWELL & CO., P.C.

Carmen R. Standley, CPA

CS/cs