

**AUDIT REPORT
OF THE
CITY OF CROFTON**

OCTOBER 1, 2014 THROUGH SEPTEMBER 30, 2015

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Issued on March 31, 2016

CITY OF CROFTON

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CITY OF CROFTON

BACKGROUND

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

In late July 2015, the Auditor of Public Accounts (APA) found a newspaper article that identified alleged irregularities with the City's reporting of its operations associated with the retirement of the former City Clerk (Clerk).

In mid-August 2015, the APA contacted the City to request specific information relating to the controversy surrounding the former Clerk. Among the information sought was an informal investigative report commissioned by the City, time cards and pay records of the former Clerk, a listing of the City's bank accounts along with the three most current months' bank statements, and a copy of the written severance agreement with the former Clerk.

The APA began receiving information from the City in late August 2015. By mid-October 2015, the APA had received the final outstanding items from the initial information request. Based upon the items received, the APA informed the City that the APA would be conducting the fiscal year 2015 audit and requested copies of the accounting records, Council meeting minutes, and all City bank account statements directly from the bank. In late October 2015, the APA received the bank statements from the bank.

The APA visited the City on November 4 and 5, 2015 to obtain other relevant information, interview staff, and begin the audit process.

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

- | | |
|--|---|
| • Wendell Strom, Mayor | • Tom Allen, Council Member |
| • Steve Kuehler, Council Member | • Chad Reifenrath, Council Member |
| • Michael Guenther, Council Member (as of December 2014) | • Allan Arens, Council Member (through November 2014) |

The following individuals held the position of City Clerk (Clerk) during and subsequent to the audit period:

- Nancy Foxhoven (former Clerk) – resignation tendered on July 13, 2015, and accepted by the Council on July 17, 2015
- Linda Wuebben – authorized by the Mayor to assume the duties of the Clerk as of July 13, 2015
- Gaye Young – served as Clerk from July 20, 2015, through August 25, 2015
- Rachael Haberman – served as Clerk from August 25, 2015, through February 3, 2016
- Diane Allen – appointed temporary Clerk on February 3, 2016

CITY OF CROFTON

BACKGROUND (Concluded)

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

CITY OF CROFTON

EXIT CONFERENCE

An exit conference was held March 24, 2016, with the City of Crofton to discuss the results of our examination. The following individuals were in attendance for the City:

NAME	TITLE
Steve Kuehler	President of City Council
Patrick A. Schmidt	Chief of Police
Charlie Hendrix	City Manager/Administrator
Daniel Hendrix	City Attorney
Dan Fiero (via video-conference)	City Accountant
Kristina Osborn (via video-conference)	City Accountant

CITY OF CROFTON

SUMMARY OF COMMENTS

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

1. **Possible Fraudulent Activity:** The Auditor of Public Accounts (APA) identified almost \$24,000 in withdrawals from the Field Improvement Account and the Softball Association that appear to have been used personally by the former Clerk.
2. **Inappropriate Severance Pay:** The former City Clerk (Clerk) was provided a \$976 severance payment without providing any additional services to the City. In addition, there was not adequate documentation to support the payment, which allegedly resulted from a verbal agreement between the former Clerk and the Mayor. Finally, the severance payment was not approved by the City Council (Council).
3. **Control Environment:** The City's control environment was not conducive to fair and complete financial reporting because the City lacked management personnel with the required expertise to prepare financial reports for a governmental entity. Additionally, due to the size of the City's staff, a proper segregation of duties was not possible. The Council failed to provide adequate monitoring and reviews of financial activities.
4. **Accounting Errors:** The APA made over \$150,000 in adjustments to the City's financial statements due to errors made by both the former Clerk and by the current management. Additionally, the City did not maintain support to document the method used to allocate certain expenses to various funds.
5. **Unauthorized Use of the City's FTIN:** At September 30, 2015, there were 11 bank accounts that had used the City's Federal Tax Identification Number (FTIN) without the City's knowledge. The former Clerk was an authorized signer on only one of the accounts. The balances of these 11 accounts totaled \$78,825.80 at September 30, 2015.
6. **Disbursement Processes:** The APA identified over \$170,000 in claims that were paid without Council approval, prior to Council approval, or for amounts that differed from the amounts approved by the Council. The APA also determined that over \$224,000 in City checks were signed by someone other than the individuals statutorily authorized to sign such checks. Additionally, nearly \$200,000 in payments lacked adequate documentation to support the expenditure. One claim from the City Attorney was not submitted timely, in accordance with State law. The APA also identified a number of other internal control issues related to the City's disbursement process, as detailed in the Comments and Recommendations section that follows.
7. **Payroll Processes:** The APA identified a significant number of internal control issues related to the processing of the City's payroll, including a lack of required ordinances, lack of Council approval for payroll, failure to maintain required documentation, absence of adequate reviews of hours worked, improper amounts paid due to incorrect tax tables, lack of controls regarding overtime hours worked, incorrect back pay for overtime, lack of documentation to support retirement contributions, and an inconsistent method of handling insurance stipends.

CITY OF CROFTON

SUMMARY OF COMMENTS

(Concluded)

- 8. *Receipt Processes, Including Utility Billing and Collection:*** The City lacked proper procedures to ensure all customers paid for the monthly water, sewer, and sanitation utilities. The APA determined that over \$6,000 was not properly billed or collected during July, August, and September 2015. We also noted the customer balances calculated by the City did not agree to those calculated by the APA. Rates were not set by ordinance, as required by statute. The City did not consistently charge late fees, did not consistently round the water usage to determine the amount owed, and did not ensure the correct amount was paid. Finally, the APA noted a number of other internal control issues related to the City's receipt process.
- 9. *Unpaid Taxes:*** The City failed to remit over \$37,000 in payroll and sales taxes until the APA brought this delinquency to the City's attention.
- 10. *Pledged Collateral:*** The City did not have procedures to ensure its deposits were adequately secured by either the Federal Deposit Insurance Corporation (FDIC) or pledged collateral as required by statute. The APA identified two months in which the ending balances exceeded the FDIC coverage. Additionally, in July 2015, the City received bond proceeds amounting to almost \$1 million and failed to obtain additional pledged collateral until nearly a month later.

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

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

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

1. Possible Fraudulent Activity

The former City Clerk (Clerk), Nancy Foxhoven, appears to have used City of Crofton (City) funds, as well as funds intended for the City's softball program, for personal use. The following table summarizes the alleged personal use of these funds:

Account Name	Possible Personal Deposits	Possible Personal Withdrawals	Net Loss in Accounts
Field Improvement Account (FY 09 to 14)	\$900.00	(\$10,156.77)	(\$9,256.77)
Field Improvement Account (FY 15)	\$0.00	(\$2,000.00)	(\$2,000.00)
Subtotal Field Improvement Account	\$900.00	(\$12,156.77)	(\$11,256.77)
Crofton Softball Association (FY 15)	\$0.00	(\$11,222.00)	(\$11,222.00)
Totals	\$900.00	(\$23,378.77)	(\$22,478.77)

Field Improvement Account

At the inception of the audit, the City informed the Auditor of Public Accounts (APA) that the former Clerk had changed the name of one of the City's bank accounts from the City of Crofton Field Improvement Account (Field Improvement Account) into her name, along with the name of one of her minor children. As a result, the City no longer had access to the account. To date, the City still lacks access to this account.

The account was opened using the City's Federal Tax Identification Number (FTIN). The City provided the APA with copies of the signature cards for this account from July 2003, when it was opened and also from when the name was changed in September 2009. Copies of both signature cards are shown below:

Account opened using the City's FTIN

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

ACCOUNT AGREEMENT WITH BANK Farmers & Merchants state Bank

BUSINESS ACCOUNT OWNERSHIP

☐ PROPRIETORSHIP ☐ PARTNERSHIP ☐ CORPORATION - FOR PROFIT

☐ CORPORATION - NOT FOR PROFIT ☐ LIMITED LIABILITY COMPANY ☐ OTHER

CONSUMER ACCOUNT OWNERSHIP

☐ INDIVIDUAL ☒ JOINT - WITH SURVIVORSHIP (NOT AS TENANTS IN COMMON) ☐ JOINT - NO SURVIVORSHIP (AS TENANTS IN COMMON)

☐ TRUST - IF IN TRUST ☐ OTHER ☐ PAY ON DEATH - IF PAYMENT ON DEATH

Beneficiary _____

Address _____

☐ NEW ☒ Free **TYPE OF ACCOUNT** ☐ EXISTING

☒ CHECKING ☐ CERTIFICATE OF DEPOSIT ☐ SAVINGS ☐ IRA

☐ MONEY MARKET ☐ NOW ACCOUNT ☐ ATM CARD ☐ OTHER

NAME Former Clerk's Child ACCOUNT NO. [REDACTED]

Nancy Foxhoven

ADDRESS 88893 550th Ave crofton, Ne 68730

DATE OPENED 9-15-09 BY WHOM in INITIAL DEPOSIT _____

DATE OF BIRTH _____ HOME PHONE _____ BUS. PHONE _____

Former Clerk's Child

1. Nancy A Foxhoven Authorized Customer Signature Tax Payer ID No. _____

_____ Authorized Customer Signature Tax Payer I.D. No. _____

Same account number as City's account from above.

The following is a summary of the alleged personal activity from the Field Improvement Account since August 2009:

Date	Deposits	Withdrawals	Description
8/4/2009	\$0.00	(\$1,025.00)	Check number 120 from the Field Improvement Account was written to Nancy Foxhoven and was deposited into a personal checking account number ending in 1170.
FY2009 Totals	\$0.00	(\$1,025.00)	
5/5/2010	\$0.00	(\$2,000.00)	A transfer from the Field Improvement Account to a personal checking account number ending in 1170.
9/29/2010	\$0.00	(\$300.00)	A transfer from the Field Improvement Account to a personal checking account number ending in 8770.
FY2010 Totals	\$0.00	(\$2,300.00)	
FY2011 Totals	\$0.00	\$0.00	
12/29/2011	\$0.00	(\$2,000.00)	An electronic payment from the Field Improvement Account for a personal payment to GM Card Services.
1/10/2012	\$900.00	\$0.00	A transfer into the Field Improvement Account from personal checking account number ending in 8720.
6/12/2012	\$0.00	(\$331.77)	A transfer from the Field Improvement Account to personal checking account number ending in 1170.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

Date	Deposits	Withdrawals	Description
8/2/2012	\$0.00	(\$2,000.00)	An electronic payment from the Field Improvement Account for a personal payment to GM Card Services.
FY2012 Totals	\$900.00	(\$4,331.77)	
9/10/2013	\$0.00	(\$2,500.00)	An electronic payment from the Field Improvement Account for a personal payment to GM Card Services.
FY2013 Totals	\$0.00	(\$2,500.00)	
FY2014 Totals	\$0.00	\$0.00	
12/16/2014	\$0.00	(\$2,000.00)	An electronic payment from the Field Improvement Account for a personal payment to GM Card Services.
FY2015 Totals	\$0.00	(\$2,000.00)	
Totals	\$900.00	(\$12,156.77)	

Details of the deposit and withdrawals can be found in **Exhibit A**.

The table above does not present all activity in the Field Improvement Account for the period tested. Legitimate deposits were made to the account for the purpose of field improvement. To illustrate, a check from the City was written to Crofton Field Improvements in July 2012 and deposited into the Field Improvement Account.

CITY OF CROFTON
1210 W. 2ND ST.
P.O. BOX 189
CROFTON, NE 68730

78-308/1041 28805
DATE 7/3/12

PAY TO THE ORDER OF Crofton Field Improvements \$ 5,000.00
Five thousand & 00/100 DOLLARS

Farmers & Merchants
State Bank
402-404-4045
CROFTON, NE 68730

MEMO _____
Nancy A. Foxhoven
[Signature]

Crofton Girls Softball Account

The City has baseball and softball organizations that were once operated under the City's control. Because the organizations were not created as separate, legal entities, the APA believes the funds of the organization are City funds. However, the City does not have access to this account. Additionally, no documentation exists to indicate that the funds belong to anyone other than the City. See Comment and Recommendation Number 5 for further information regarding these entities.

The former Clerk opened the Crofton Girls Softball Account in her personal name, as opposed to that of the City. Regardless, the amounts deposited into that account were supposed to be used for the operation of the City's girls' softball program. The APA obtained bank account statements for fiscal year 2015 beginning in mid-December 2014. The following is a summary of the alleged personal activity from the Crofton Girls Softball Account during that time:

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Date	Withdrawals	Description
12/11/2014	(\$8,000.00)	Cash withdrawal from the Crofton Girls Softball Account.
5/27/2015	(\$32.00)	Check number 208 from the Crofton Girls Softball Account was made payable to Nancy Foxhoven and was deposited into a personal checking account number ending in 8770 on 06/10/15. The memo of the check indicated the check was for first aid kits.
6/2/2015	(\$190.00)	Check number 211 from the Crofton Girls Softball Account was made payable to Nancy Foxhoven and was deposited into a personal checking account number ending in 8770 on 06/10/15. The memo of the check indicated the check was for ASA insurance.
6/10/2015	(\$3,000.00)	Cash withdrawal from the Crofton Girls Softball Account.
	(\$11,222.00)	

Details of the withdrawals can be found in **Exhibit A**.

The table shown above does not present all activity in the Crofton Girls Softball Account for the period tested. Other activity includes apparently appropriate transactions, such as fees paid for participation in the program and donations to the program.

In addition to the transactions displayed in the above two tables, the APA noted cash deposits into both the Field Improvement Account and the Crofton Girls Softball Account that were not included because the APA could not verify from whom the cash was received. For example, \$2,500.00 was withdrawn on March 27, 2015 from the former Clerk's personal checking account ending in 8720. On March 30, 2015, both the Field Improvement Account and Crofton Girls Softball Account received \$2,000 cash deposits. Due to the deposits having been made in cash, the APA could not determine the source of the monies. Given the short time between the withdrawal and the deposits, however, it appears that part of the deposits could have been from the former Clerk.

Neb. Rev. Stat. § 28-511(1) (Reissue 2008) provides the following:

A person is guilty of theft if he or she takes, or exercises control over, movable property of another with the intent to deprive him or her thereof.

Likewise, Neb. Rev. Stat. § 28-512 (Reissue 2008) states the following, in relevant part:

A person commits theft if he obtains property of another by deception. A person deceives if he intentionally:

(1) Creates or reinforces a false impression, including false impressions as to law, value, intention, or other state of mind

Should an investigation reveal credible evidence of City funds having been misappropriated for personal use, the alleged perpetrator could face criminal prosecution for theft.

Finally, good internal controls require procedures to ensure that no one person is in a position both to perpetrate and to conceal errors or irregularities. There is an increased risk for fraud or abuse of public funds when the Council fails to monitor adequately the Clerk's handling of City finances. We consider this finding to be a material weakness.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

We recommend the Council take necessary steps to gain access to both accounts. We also recommend the Council implement procedures to ensure the appropriate monitoring of all City funds. Such procedures should include a periodic review of the City's accounting records and bank statements to ensure the records are properly reconciled and that there are no unauthorized uses of City funds. This review would also help to ensure that all payments are properly presented and approved at Council meetings. Finally, because fraudulent activity is suspected, the APA will report this matter to both the Knox County Attorney and the Nebraska Attorney General.

2. Inappropriate Severance Pay

Upon the termination of her employment, the former City Clerk (Clerk) was given a \$976 severance payment without providing any additional services to the City of Crofton (City). Additionally, there was not adequate documentation to support this payment – which, according to current City management, resulted from a verbal agreement between the former Clerk and the Mayor.

As noted in Comment Number 6 herein, moreover, the severance payment to the former Clerk was not approved by the City Council (Council).

Article III, § 19, of the Nebraska Constitution states the following, in relevant part:

The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered

The Nebraska Supreme Court (Court) has opined that the prohibition in Article III, § 19, applies to the State and its political subdivisions alike. *Retired City Civilian Employees Club of City of Omaha v. City of Omaha Employees' Retirement System et al.*, 199 Neb. 507, 512, 260 N.W.2d 472, 475 (1977). Consequently, this constitutional prohibition is applicable to the City of Crofton.

The Court has explained the meaning of “extra compensation” for purposes of Article III, § 19, as follows:

A payment of compensation to a public servant constitutes extra compensation whenever there is no legal obligation to pay such compensation.

Myers v. Nebraska Equal Opportunity Com'n, 255 Neb. 156, 163, 582 N.W.2d 362, 367 (1998) (quoting *Matter of Mullane v. McKenzie*, 269 N.Y. 369, 377, 199 N.E. 624, 627 (1936)).

Elaborating upon the function of the prohibition in Article III, § 19, the Nebraska Attorney General (Attorney General) has made the following observation:

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

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Op. Att’y Gen. No. 95063 (Aug. 9, 1995). More succinctly yet, the Attorney General has stated regarding Article III, § 19, “Nebraska law generally requires work be performed in order for payment to be received.” Op. Att’y Gen. No. 95071 (Sept. 13, 1995).

In the previously referenced Op. Att’y Gen. 95063, the Attorney General has drawn a distinction between an unconstitutional gratuity prohibited by Article III, § 19, and a permissible settlement agreement, as follows:

[A] payment to a state employee upon his or her termination for which the state receives nothing would constitute a gratuity forbidden by Art. III, § 19. For example, if a state employee voluntarily retires after 50 years of service and receives a payment of \$ 25,000 solely for his long and faithful service, such a payment could be characterized as a gratuity and would clearly be improper. Similarly, if an employee voluntarily resigns in a situation where there is no controversy and receives a payment from the State which is actually a "severance," such a payment would be improper. On the other hand, a payment to a state employee upon termination as a result of the legitimate "settlement" of a personnel matter which includes the resolution of potential litigation and/or the resolution of difficult personnel problems involving actual legal disputes is not a gratuity since the State would receive something for its money, e.g., a release from potential liability and closure of legal disputes which impaired the ability of the state agency to function.

In that same opinion, the Attorney General pointed out that indicia of a constitutionally permissible settlement agreement include, at a minimum, the following: 1) a written instrument containing “some recitals as to the reasons for the state’s determination to settle”; and 2) “an unconditional release from the employee wherein the employee releases the State from any liability arising out of the actions surrounding his or her termination in exchange for the settlement payment.”

Given that the former Clerk was not required to provide anything of value in exchange for the severance payment – along with not only the lack of any supporting documentation but also the absence of approval by the City Council – a violation of Article III, § 19, appears to have been likely.

We recommend the City refrain from making unconstitutional severance payments to terminated employees and thoroughly document any valid settlement agreements, along with formal Council approval, to which it is a party. Because a violation of Article III, § 19, may have occurred, the APA will report this matter to both the Knox County Attorney and the Nebraska Attorney General.

City’s Response: After reading the entirety of the APA’s position the City asserts that these payments were made as part of a permissible settlement agreement. In exchange for the payment the city received written release from “potential liability and closure of (a) legal dispute which impaired the ability of the (city) to function.”

APA Response: As the Nebraska Attorney General has made clear in Op. Att’y Gen. No. 95063 (Aug. 9, 1995), constitutionally permissible settlement agreements must provide for the “legitimate” settlement of “actual legal disputes.” Valid settlement agreements require, according to that opinion, “at least some potential legal liability for the agency growing out

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

of the termination.” Moreover, any actual agreement between the parties should include “some recitals as to the reasons for the state's determination to settle” and “an unconditional release from the employee wherein the employee releases the State from any liability arising out of the actions surrounding his or her termination in exchange for the settlement payment.” The former Clerk was an “at-will” employee, whom the City could fire at its discretion and without cause. Given that the Clerk lacked a property right in continued employment to support a valid settlement agreement, there was no apparent reason for the City to offer any financial inducement for her immediate retirement. Furthermore, the “written release” that the City provided as putative support for the settlement contains no mention of any payments, much less a recital of the reasons for them. Definitive language releasing the City from all liability is also omitted from the document. In short, the City provides little to support the constitutionality of the payments at issue.

3. Control Environment

A control environment conducive to fair and complete financial reporting requires management to be aware of governmental accounting principles in order to prepare the financial statements. It also includes an adequate segregation of duties so that no one individual can process an accounting transaction from beginning to end. When an adequate segregation of duties is not possible due to the small size of municipal staff, it is imperative that the entity’s governing body provide effective monitoring of its policies, procedures, and accounting functions.

The City of Crofton (City) lacked management personnel with the required expertise to prepare financial reports of a governmental entity. Additionally, due to the limited size of the City staff, an adequate segregation of duties was not possible. The former City Clerk (Clerk) was able to process all accounting transactions from beginning to end, such as receiving money owed to the City, making bank deposits, writing checks, reviewing and approving invoices, receiving bank statements, preparing the claims listing for City Council (Council) approval, and providing financial information to the City’s CPA.

Despite the Clerk’s many duties, the Council retains overall responsibility for the operations of the City. Because an adequate segregation of duties was not possible due to the small number of City staff, it was all the more imperative for the Council to perform adequate monitoring and review of the City’s financial transactions. Unfortunately, the Council failed to oversee properly the financial activity of the City to ensure the accuracy and completeness of its financial records.

Under present management, the Clerk provided the Council with the current invoices and a packet that included certain items to be discussed at the next meeting. Neither the Council members nor the Mayor received or reviewed a copy of the bank statements during the audit period to ensure that all payments processed by the City were properly authorized.

Additionally, the APA found the following control issues:

- The current Mayor pre-signed checks. While at the City’s office, the Auditor of Public Accounts (APA) observed a stack of over 200 blank checks that were pre-signed by the Mayor. There is a significant risk for fraud or abuse of City funds when checks are pre-signed.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

- The City was unaware that other entities had used the City's Federal Tax Identification Number (FTIN) to open a number of bank accounts. See Comment and Recommendation Number 5 for further details.
- Since the termination of the long-time former Clerk, the Council has appointed four different clerks, none of whom appear to have had an adequate understanding of governmental accounting.
- The City had a negative Street Fund balance of \$29,283 at September 30, 2015. The City did not appropriately monitor its fund balances after the termination of the former Clerk. This amount represents funds paid for by other funds of the City.
- The City did not file an accurate Interlocal Agreement Report with the APA. Initially, the City claimed not to be involved in any interlocal agreements during the fiscal year; however, the APA discovered that the City had requested an increase in levy for interlocal agreements on the City's 2015-2016 budget. After further inquiries, it was determined that the City was involved in at least three different interlocal agreements and possibly more.
- The APA obtained an asset listing from the City's prior CPA. Current management seemed to have no knowledge of that list until presented by the APA.
- The City was unable to provide its capitalization policy to the APA. A policy was obtained from the City's prior CPA, but current management was unable to find any documentation regarding the policy and indicated guidance would be sought from the City's current accountant regarding the proper way to draft such a policy.
- Utility accounts were not adequately recorded, balanced, reconciled, or maintained.
- Due to using manual accounting processes, the City lacked both control over access to the accounting records and the ability to track any changes made thereto.

Furthermore, the City entered into an agreement with Hendrix Consulting and Law, a local general practice law firm belonging to Charlie and Daniel Hendrix, for City Manager services. Per that agreement, Hendrix Consulting and Law serves as an independent contractor responsible for providing "certain legal and law related services to the City of Crofton." The agreement specifies as follows:

These services are to be divided into two basic subgroups (for purposes of payment). These subgroups are

- 1. City Attorney Services.*
- 2. City Administrative Services.*

The City's contractual relationship with Hendrix Consulting and Law for City Manager services is altogether different than establishing a City Manager plan of municipal government under Neb. Rev. Stat. § 19-601 (Reissue 2012) et seq. The latter option is statutorily unavailable to the City due to its relatively small population. Regardless, by relying upon the services of an independent contractor City Manager, without also providing for its own increased supervision of City affairs, the Council has effectively protracted its inability to oversee and control municipal finances.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Good internal control requires a control environment that is conducive to fair and complete financial reporting and includes adequate reviews and monitoring of the City's financial activity by the Council. Without such oversight, there is a significant risk for loss or misuse of public funds, as identified in the previous comment. We consider this finding to be a material weakness.

We recommend the Council implement procedures to ensure the following:

- Management has the level of expertise needed in order to prepare fair and complete financial statements.
- Financial transactions are adequately documented, reviewed, and monitored.
- Invoices are properly reviewed by a member of the Council and that review is properly documented.
- Monthly reports are reviewed by the Council, and the bank statements are compared to financial reports presented to the Council.
- Monitor its fund balances on a periodic basis and take steps to ensure the negative Street Fund balance is addressed.
- The practice of pre-signing checks is discontinued.
- Bank accounts are periodically reviewed so that there are no unauthorized accounts.
- The Clerk is properly qualified to perform the required services.
- Interlocal agreements are adequately documented and reported to the APA.
- All utility accounts should be properly recorded, reconciled, balanced, and maintained. See also Comment and Recommendation Number 8.
- Assets lists and capitalization policies are approved and maintained.
- Access to the accounting records is adequately controlled.
- A proper level of monitoring and review is conducted by the Council, which is responsible for the operations of the City.

City's Response: The City Council has adopted and begun implementation of the following controls;

- a. On a monthly basis the council revisits and adopts applicable policy, resolutions, and ordinances designed to improve the segregation of duties and internal controls (starting July 2015).*
- b. Staff meets in a weekly meeting to discuss the implementation of these controls (starting on or about August 2015).*
- c. Council members meet one on one with the City Manager at least once a month in educational sessions (starting on or about August 2015).*

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

- d. *The City Manager writes a written (public) report on a monthly basis. The report is presented in the Regular City Council meeting.(starting on or about November 2015)*
- e. *An accounting firm experienced in government finance assists the city with training and advanced accounting processes (council approved November 2015)*
- f. *The City Treasurer and the City Clerk will no longer be the same individual (starting on or about August 2015).*
- g. *Expenses must be approved by the applicable department head, the clerk, the city manager, and the council (starting on or about August 2015).*
- h. *A monthly Treasurer's report is given to the council. The council approved accounting firm is assisting management in the process of making this report more detailed and reader friendly for the council.*
- i. *City council members will be provided with bank statements as part of their monthly packets (expected May 2016)*
- j. *The council has been in the process of moving utility payments into the QuickBooks program. It is anticipated that in April (for May bills) customers will begin to receive monthly bills.*
- k. *Necessary Policy statements will be drafted, approved and implemented.*

4. Accounting Errors

The Auditor of Public Accounts (APA) identified a number of significant recording errors that led to necessary adjustments to the City of Crofton's (City) financial statements. The following table summarizes more than \$150,000 in errors found in the City's recording of receipts or disbursements:

Description	Fund	Financial Statement Classification	Amount	APA Notes
Utility Revenue	Water/ Sewer/ Sanitation	Charges for Services	\$89,035.78	For the last three months of the fiscal year, the City did not record to the correct funds utility payments collected from residents.
Cedar-Knox Public Power District (CKPPD) Lease	General	Franchise Fees	\$27,133.79	The June 2015 lease monies received from CKPPD were recorded twice in the City's accounting system.
Municipal Equalization Aid	General	Intergovernmental	\$13,739.26	The June and September 2015 municipal equalization aid receipts from the State were not recorded in the City's accounting system.
City Sales Tax Receipts	General	City Sales Tax	\$6,570.49	The June 2015 City sales tax receipts were not recorded in the City's accounting system. The September 2015 City sales tax receipts were incorrectly recorded in the accounting system.
Property Tax Receipts	Street	Intergovernmental and Taxes	\$5,490.20	The July to September 2015 receipts from the County Treasurer for the township levy were coded to the General Fund but should have been coded to the Street Fund.
Unrecorded Expenses	General	General Government	\$1,561.11	Several expense transactions were not recorded in the accounting records. The transactions primarily occurred in the last three months of the fiscal year.
	General	Culture & Recreation	\$768.94	
	Street	Debt Service	\$1,468.21	
	Sewer	Utilities	\$291.22	

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

Description	Fund	Financial Statement Classification	Amount	APA Notes
Purchase of Flow Divider	Street	Repairs and Maintenance	\$3,026.97	The City originally recorded this expenditure to the Sewer Fund; however, the City determined this part was actually for the Street Sweeper and, therefore, should have been recorded in the Street Fund.
Duplicate Expenses	General	Culture & Recreation	\$1,258.03	Several expense transactions were recorded twice in the accounting records primarily because they were recorded both by the former Clerk and again by the new management.
	General	General Government	\$46.17	
	Street	Public Works	\$1,615.98	
Membership Fees for Knox County Development Agency	General	Economic Development	\$2,262.00	The membership fees paid to the Knox County Development Agency were originally recorded as General Government; however, the sales taxes set aside for Economic Development are used to pay for these fees. As such, these fees should have been coded to Economic Development.
Pool Utilities	General	Culture & Recreation	\$1,729.52	A document tested was identified as pool utilities and recorded to General Government. It should have been recorded as Culture & Recreation since it was a pool expense.
Interest	Multiple	Investment Interest	\$115.07	Interest income on the City's various bank accounts and CD's was not properly recorded in the accounting records throughout the year.
Incorrect Amount	General	Public Health and Safety	\$14.55	Two transactions from the City's Police Department were recorded for the incorrect amounts.
Totals			\$156,127.29	

Adjustments were made to the City's financial statements for the errors identified above. Additionally, the APA found other coding issues because the City did not have documented methods to allocate certain receipts or expenditures to the various City funds, as described below.

Recording of City Sales Tax Receipts

From October 2014 to June 2015, sales tax receipts were recorded by first coding the portion of motor vehicle sales tax receipts separately to an account that is included in the Street Fund. The remaining portion of the sales taxes was distributed to the General Fund, as follows: 20% to Park/Pool; 20% to Economic Development; and 60% to Infrastructure, in accordance with the original ballot language for the City's 1% sales tax.

This allocation method appeared to conform to the requirements of Neb. Rev. Stat. § 39-2520(1) (Reissue 2008) which provides the following related to motor vehicle fees:

All money derived from fees, excises, or license fees relating to registration, operation, or use of vehicles on the public highways, or to fuels used for the propulsion of such vehicles, shall be expended for payment of highway obligations, cost of construction, reconstruction, maintenance, and repair of public highways and bridges and county, city, township, and village roads, streets, and bridges, and all facilities,

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

appurtenances, and structures deemed necessary in connection with such highways, bridges, roads, and streets, or may be pledged to secure bonded indebtedness issued for such purposes, except for (a) the cost of administering laws under which such money is derived, (b) statutory refunds and adjustments provided therein, and (c) money derived from the motor vehicle operators' license fees or money received from parking meter proceeds, fines, and penalties.

Section (2) of that statute explains that the requirements of section (1) apply to sales and use taxes as follows:

The requirements of subsection (1) of this section also apply to sales and use taxes imposed on motor vehicles, trailers, and semitrailers . . . except that such provisions shall not apply in a municipality that has issued bonds (a) the proceeds of which were used for purposes listed in subsection (1) of this section and for which revenue other than sales and use taxes on motor vehicles, trailers, and semitrailers is pledged for payment or (b) approved by a vote that required the use of sales and use taxes imposed on motor vehicles, trailers, and semitrailers for a specific purpose other than those listed in subsection (1) of this section, until all such bonds issued prior to January 1, 2006, have been paid or retired. . . .

Therefore, it appears the sales and use taxes collected on motor vehicles should be allocated to the City's Street Fund. However, after the change in management July 2015, the City began to record the entire amount of City sales taxes to the General Fund, including the sales taxes collected on motor vehicles, which appears to be a violation of State law.

Additionally, the City failed to allocate the sales taxes received to the proper City function in accordance with the ballot language noted above. The table below illustrates the original recording of the sales taxes compared to the amounts determined by the APA:

Fund	City Function	Correct Coding	Coding by City	Adjustment (Note)
General	Park/Pool (20%)	\$15,545.35	\$11,330.55	\$4,214.80
General	Economic Development (20%)	\$15,545.35	\$11,330.55	\$4,214.80
General	Infrastructure (60%)	\$46,636.03	\$33,991.56	\$12,644.47
General	N/A	\$0	\$20,346.05	(\$20,346.05)
Street	N/A	\$15,055.37	\$9,212.90	\$5,842.47
Totals		\$92,782.10	\$86,211.61	\$6,570.49

Note: The Total is \$6,570.49 higher because it includes the \$6,570.49 that the City failed to record properly, as noted above.

Recording of Maintenance Personnel Payroll Costs

For one employee tested, his October 2014 to June 2015 payroll was recorded to various funds of the City, including Sanitation, Street, Water, Sewer, and General.

According to the City Clerk's Handbook, Payroll Section, page 11, City employees' pay will be allocated to a fund based on the "majority of work performed." The employee tested was the Maintenance Supervisor whose work varied. The City lacked documentation to support the method used to allocate his payroll costs to the various funds. This issue also affected the other maintenance employees.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

After the change in management, beginning in July 2015, and continuing to the end of the fiscal year, the payroll costs for the maintenance employees were all coded to the Street Fund. Again, the City lacked the documentation needed for the APA to determine whether the majority of worked performed by the employees was for the Street Fund.

Because these payroll costs were significant to the various funds, an adjustment was made for the maintenance employees' payroll costs for the last three months of the fiscal year so that they agreed with the allocation of payroll costs for the preceding nine months. The total payroll for the maintenance employees for that time period was \$18,640.40. The following table illustrates the allocation of these payroll costs to the various funds consistent with the recording of payroll for the first nine months of the fiscal year:

Fund	Oct 2014 to June 2015 Maintenance Employees' Payroll	October 2014 to June 2015 Percentage	July to Sept 2015 Maintenance Payroll Allocation
Sanitation	\$1,116.99	2.04%	\$380.26
Street	\$13,620.88	24.93%	\$4,647.05
Water	\$15,498.69	28.37%	\$5,288.28
Sewer	\$16,063.23	29.40%	\$5,480.28
General	\$8,336.10	15.26%	\$2,844.53
Totals	\$54,635.89		\$18,640.40

Recording of Gasoline Purchases

All charges on the City's charge account at Steffens Service Station were recorded to the Street Fund. However, the City failed to document which vehicle or piece of equipment was being filled with gasoline. One payment tested for \$2,811.88 included multiple purchases of gasoline and was coded entirely to the Street Fund. Not all of the receipts indicated the vehicle for which the gasoline was purchased, so the APA was unable to determine if all of the gasoline charges should have been coded to the Street Fund, as opposed to the Water, Sewer, or General Funds.

Good internal control requires procedures to allow a proper allocation of costs to the various funds to ensure financial reporting is complete and accurate. When transactions are not properly recorded and allocated, not only is there a risk for noncompliance with State law, there is an increased risk of material misstatement of the financial statements and misuse of City funds.

We consider this finding to be a material weakness.

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

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

City's Response: The City is addressing the potential for accounting errors in the following manner;

- a. Accounting functions are no longer performed manually. The city now utilizes the QuickBooks software system.(on or about March 2016)*
- b. City staff is now able to consult with an accounting firm experienced in government finance (council approved November, 2015).*
- c. City sales and Payroll taxes have been filed with the appropriate schedule and are paid up to date.*
- d. Gasoline Receipts will include the vehicle, purpose of the expense and the name of the individual making the charge.*
- e. Petty cash is no longer utilized by the city. (on or about February 2016).*

5. Unauthorized Use of the City's FTIN

As of September 30, 2015, Farmers and Merchants State Bank provided the Auditor of Public Account (APA) with a list of 11 financial accounts that had used the City of Crofton's (City) Federal Tax Identification Number (FTIN). The City was unaware that the accounts were opened using the City's FTIN. The former Clerk was listed as an authorized signer on one of the accounts, but no City employee was authorized to access the remaining accounts.

The bank accounts at issue were identified after the APA requested confirmation of the City's accounts by the Bank. The APA also asked the Bank to provide the authorized signature cards for those accounts. The following is a summary of those 11 bank accounts:

Bank Account Name or Owner	Account Number	Balance at 9/30/2015	Authorizing Signers
Baseball Concessions Bob Hegge	XXX970	\$6,786.76	Bob Hegge and Amber Hegge
Crofton Baseball Association Ryan Loecker	XXX470	\$2,178.50	Ryan Loecker
Crofton Fitness Center % Yvette Sanger	XXX970	\$704.07	Nancy Foxhoven, Allan Arens, Diane Allen, and Yvette Sanger
City Accounts		\$9,669.33	
Crofton Lakeview Club House	XXX570	\$23,313.88	Barbara Zavadil and Gregg Bailly
Crofton Lakeview Golf Course Barbara Zavadil	XXX270	\$27,386.63	Barbara Zavadil
Crofton Lakeview Golf Mens Open	XXX070	\$592.48	Gregg Bailly
Crofton Community Club % Erin Dennis	XXX970	\$11,468.54	Erin Dennis
Crofton Community Club CCC Bucks Account	XXX870	\$349.88	Larry Cooper and April Knapp
Crofton Community Club CD	XXX222	\$2,021.10	N/A for CD
Crofton Community Club CD	XXX227	\$2,018.01	N/A for CD
Crofton Community Club CD	XXX256	\$2,005.95	N/A for CD
Not City Accounts		\$69,156.47	
Total Balances at September 30, 2015		\$78,825.80	

After obtaining additional documentation from the City, the APA determined the accounts related to the golf course and community club belonged to legally separate entities and were not City funds. However, the baseball association and the fitness center appear to be entities of the City, as they were not otherwise legally incorporated under the laws of the State and because the City failed to provide documentation to prove otherwise. Consequently, those related accounts should be recorded in the City's accounting records and have City employees as authorized signers.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Good internal control procedures require a periodic review of accounts under the City's FTIN to ensure that all such accounts are properly authorized and secured by the appropriate amount of pledged collateral. Neb. Rev. Stat. § 77-2398(1) (Cum. Supp. 2014) requires public funds in financial institutions to be secured by the appropriate amount of pledged collateral.

Allowing bank accounts to be opened and operated under the City's FTIN without the proper authorization may result in loss or misuse of City funds or give rise to concerns regarding insufficient pledged collateral to secure the amount in excess of FDIC coverage.

We recommend the City require the golf course and community club to use their own FTIN for the bank accounts. We also recommend the City implement procedures to ensure the activity and balances of the baseball and softball associations and the fitness center are included in the City's accounting records and that a City employee is added to the account as an authorized signer. Non-City employees should not be allowed to access these City accounts.

City's Response: It remains the position of the city that these organizations should be privately organized and financed. Monies identified by the APA as city monies are in the process of being secured.

6. Disbursement Processes

The APA identified numerous issues pertaining to the City of Crofton's (City) disbursement process, as described below.

Lack of Proper Council Approval

The Auditor of Public Accounts (APA) identified 13 out of 34 total claims tested, as well as payroll claims of four employees tested, that were either paid prior to City Council (Council) approval, were not approved by the Council, were a different amount than the amount approved, or in which the amount paid was not identified in the Council meeting minutes. The following table summarizes these issues for the items tested.

Check Number	Check Date	Payee	Amount	Amount Approved by Council	Date Approved by Council
30657	10/1/2014	Daniel Hendrix	\$450.00	\$0.00	N/A
30742	11/4/2014	Crofton Community School	\$1,500.00	\$0.00	N/A
30754	11/19/2014	Cedar-Security Bank for Pat Schmidt	\$500.00	\$0.00	N/A
31186	6/8/2015	Nancy Foxhoven (1)	\$869.67	\$0.00	N/A
31242	6/22/2015	Nancy Foxhoven (1)	\$876.48	\$0.00	N/A
31268	7/6/2015	Nancy Foxhoven	\$853.34	\$0.00	N/A
31301	7/6/2015	Jebro, Inc.	\$16,527.25	\$0.00	N/A
Wire	7/15/2015	Series 2010 Bond Payment	\$25,000.00	\$0.00	N/A
31342	7/20/2015	Nancy Foxhoven	\$438.84	\$0.00	N/A
31347	7/24/2015	Nancy Foxhoven (final vacation and severance payment)	\$1,230.57	\$0.00	N/A
Claims Paid, but Never Approved by the Council			\$48,246.15	\$0.00	

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

Check Number	Check Date	Payee	Amount	Amount Approved by Council	Date Approved by Council
30695	10/27/2014	Larry Stallbaum (2)	\$1,364.38	\$1,364.38	11/3/2014
30697	10/27/2014	Linda Wuebben (2)	\$460.87	\$460.87	11/3/2014
30700	10/27/2014	Pat Schmidt (2)	\$1,137.79	\$1,137.79	11/3/2014
30898	1/26/2015	Kansas Highway Patrol (4)	\$17,200.00	\$20,200.00	2/2/2015
30899	1/23/2015	Nancy Foxhoven (expense reimbursement)	\$205.24	\$205.24	2/2/2015
31007	3/16/2015	Larry Stallbaum (2)	\$1,428.50	\$1,428.50	4/8/2015
31009	3/16/2015	Linda Wuebben (2)	\$460.87	\$460.87	4/8/2015
31012	3/16/2015	Pat Schmidt (2)	\$1,072.20	\$1,072.20	4/8/2015
31181	6/1/2015	EMC Insurance	\$14,291.81	\$14,291.81	6/8/2015
31352	7/29/2015	Charlie Hendrix	\$3,170.00	\$3,170.00	8/3/2015
(3)	(3)	Nancy Foxhoven (3)	\$14,653.84	\$14,653.84	(3)
Claims Paid Prior to Council Approval			\$55,445.50	\$58,445.50	
30658	9/24/2014	Crofton Baseball Association	\$1,500.00	\$1,200.00	9/15/2014
31479	9/18/2015	Steffens Service	\$2,811.88	\$2,802.88	Sept 15
Claims Paid for the Inappropriate Amount			\$4,311.88	\$4,002.88	
30694	10/22/2014	Wilfred Tramp	\$49,566.00	N/A	10/6/2014
31328	7/17/2015	Pat Schmidt	\$10,002.95	N/A	7/17/2015
31353	8/5/2015	Hendrix Consulting & Law	\$4,880.00	N/A	8/3/2015
Claim Paid, Amount Not Approved by the Council			\$64,448.95	N/A	
Total Claims Lacking Proper Approval by Council			\$172,452.48	\$62,448.38	

(1) June payroll checks were presented to the Board for approval in July. These paychecks were not included in the Board minutes.

(2) Paychecks in the months of October 2014 to May 2015 were approved by the Council in total for the entire month.

(3) Nancy Foxhoven's paychecks from October 2014 to May 2015 were included in one total as all were paid prior to Council approval.

(4) \$3,000 was recorded in the prior fiscal year.

Neb. Rev. Stat. § 17-614(1) (Cum. Supp. 2014) sets out the proper method for the appropriation or payment of money by the City, as follows:

All ordinances and resolutions or orders for the appropriation or payment of money shall require for their passage or adoption the concurrence of a majority of all members elected to the council or board of trustees.

Good internal control also requires procedures to ensure all amounts are approved prior to payment and that the amounts paid agree to the approved amounts. Without adequate procedures to ensure all claims paid are approved, the approval is obtained prior to payment, the amount paid agrees to the amount approved, and the meeting minutes document adequately the amount of all claims, there is an increased risk for loss or misuse of City funds.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Authorized Signers on Checks

The APA also identified 7 out of 34 checks tested, as well as 3 additional payroll checks, that were signed by Michael Guenther, the Mayor Pro-tem, instead of by the Mayor or Council Chair, as required by statute. Those seven checks are detailed below:

Date	Payee	Amount
7/17/2015	Pat Schmidt	\$10,002.95
7/20/2015	Nancy Foxhoven	\$438.84
7/24/2015	Nancy Foxhoven	\$1,230.57
7/29/2015	Charlie Hendrix	\$3,170.00
8/5/2015	Hendrix Consulting & Law	\$4,880.00
8/6/2015	A & R Construction	\$184,861.26
8/6/2015	Jebro, Inc.	\$15,055.92
9/18/2015	Productivity Plus	\$128.80
9/18/2015	Source Gas	\$1,729.52
9/18/2015	Steffens Service	\$2,811.88
Total		\$224,309.74

The above checks are only a sample representation of the many checks selected for testing; in fact, all payments since July 2015 have been signed by the Mayor Pro-tem.

Upon termination of the former Clerk's employment, the current management was chosen in July 2015. When the Mayor was later discovered to have pre-signed numerous City checks, the current management appointed a Mayor Pro-tem and transferred to him the authority to sign City checks. In doing so, however, the current management failed to take into consideration Neb. Rev. Stat. § 17-711 (Reissue 2012), which states the following:

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

The APA found no authority for anyone other than the Mayor or Council Chairman and the Clerk to sign City checks. Without adequate procedures to ensure City checks are properly signed only by statutorily authorized individuals, there is not only the prospect of violating State law but also the risk for misuse of City funds.

Lack of Supporting Documentation

The City was unable to provide documentation to support a number of its expenditures and, in some cases, the documentation provided was inadequate to meet the requirements of Neb. Rev. Stat. § 17-714 (Reissue 2012) which contains the following filing requirements for claims against the City, as follows:

All liquidated and unliquidated claims and accounts payable against a city of the second class or village shall: (1) Be presented in writing; (2) state the name and address of the claimant and the amount of the claim; and (3) fully and accurately identify the items or services for which payment is claimed or the time, place, nature, and circumstances giving rise to the claim.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

Eight of 34 claims tested either contained no documentation at all or did not contain adequate documentation to support the expenditure.

Date	Payee	Description	Amount	Issue
9/24/2014	Crofton Baseball Association	Donation	\$1,500.00	There was no documentation to support the expenditure.
10/7/2014	Linda Wuebben	Expense Reimbursement	\$256.73	See below
11/4/2014	Crofton Community School	Liquor License Fees	\$1,500.00	The City was unable to provide a listing of liquor license fees collected.
2/3/2015	Downtown Auto Service	Repair & Travel to Kansas	\$597.16	See below
4/10/2015	Crofton Baseball Association	2014 Electric Bill Reimbursement	\$748.32	There was no documentation to support the expenditure.
7/29/2015	Charlie Hendrix	Summer Youth Program and City Manager Services	\$3,170.00	The contract for City Manager services was not signed until October 2015. This payment was made prior to having a valid, signed contract. Additionally, the \$170 was for hours worked on the summer youth program. The City is not a party to the contract for the summer youth program and should not be paying for expenses of that program.
8/5/2015	Hendrix Consulting & Law	Services Provided 7-1-14 to 7-16-15	\$4,880.00	On several dates, the invoice did not list the number of hours worked on that day. See also below.
8/6/2015	A & R Construction	Sharon Street curb and Gutter Work	\$184,861.26	The City was unable to produce a signed copy of the contract with A & R Construction. The total contract price was \$794,910.18 according to the invoice obtained.
Total			\$197,513.47	

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

- The City reimbursed \$256.73 to Linda Wuebben without first obtaining proper documentation to support the expenses. Ms. Wuebben submitted bi-weekly billing reports to the City, as shown below; however, for the billing report tested, the City failed to obtain documentation to support expenses for food, copies, or postage. Additionally, the reimbursement for mileage expenses lacked proper documentation to identify the purpose of the travel, including points of each destination.

CITY OF CROFTON

From: "Linda Wuebben" [REDACTED]
To: "CITY OF CROFTON" [REDACTED]
Sent: Tuesday, September 23, 2014 2:20 PM
Subject: Re: Wuebben billing for Sept. 2-12, 2014

CITY OF CROFTON

Bi-Weekly Billing

September 2 – September 12, 2014

Sept. 2 – Emails, talking about social media seminar, G&P grant.
Sept. 3 – Emails, emails to Daniel about mixing strip and Tyson, called Bartels about annexation and Kelly Hodson about agreement and he is out-of-town?, krap, G&P grants, transit bus for Harold Tramp on Tuesday, Sept. 9.
Sept. 4 – Emails, notice for paper for planning meeting, article for paper, business visit, 18 miles.
Sept. 5 – Emails, G&P Grant, Mike Skroch.
Sept. 8 – Emails, Joann for estimate for outfield fence, skroch – plat, Walt and Matt.
Sept. 9 – Emails, Becky Wacker – social media seminar, G&P grant, submitted grant packet to Lowell for review, CCF meeting, 14 miles.
Sept. 10 – Emails, converting grant to pdf and organizing order.
Sept. 11 – Emails, meeting with Vernon Arens - Arens Engineering about Northside Acres Engineering study, 14 miles.
Sept. 12 – Emails, G&P grant, meeting with Walt and Matt, 14 miles

MILEAGE: 60 miles
COPIES: 14 b&w, 10 color.
EXPENSES: Data Plan, \$40.

September 15 – September 26, 2014

Sept. 15 – Emails, preparing grant for council meeting, 3Cs meeting, city council meeting, 21 miles.
Sept. 16 – Emails, Network meeting, windshield tour for Sheryl Hyatt and visitor, 83 miles.
Sept. 17 – Emails, contacts with Becky Wacker, Vernon Arens, Keith DeJong, Lowell Schroeder, Matt Corny, Joanne at West Hodson, Kelly will be back next week and I told her I needed agreement ASAP, talked over changes to purchase agreement for Wilfred with Daniel, Planning & Zoning meeting, 14 miles.
Sept. 18 – Emails, reading zoning regs again, writing minutes from the P&Z Meeting, talking with Michael Skroch about plat.
Sept. 22- Emails, talking with Keith about Sharon Street, conference call with Matt and Lowell, G&P Grant, KCDA meeting, talked with Daniel and Mike Skroch, called Dana Cole about financial performa for assisted living, 14 miles.
Sept. 23 – Emails, G&P Grant, printing community surveys for townhall meeting, Harolds using bus tomorrow, 14 miles.
Sept. 24 – Emails, finishing G&P grant and mailing, contact with Wintz about magazine, stopped at Bank of Hartington, Gobel property postponed to Oct. 28, 54 miles.
Sept. 25 – Emails, dropped off flyers for Social Media Seminar Oct. 8 in Crofton, 17 miles.
Sept. 26 – Emails, approval of letter for Crofton magazine.

MILEAGE: 217 miles
COPIES: 550 b&w copies; 36 color.
EXPENSES: KCDA meal, \$11.28; postage for grant, \$5.95.

- Downtown Auto Service is owned by Councilman Michael Guenther. The company was reimbursed for a trip Councilman Guenther took to Topeka, Kansas to inspect a vehicle the City planned to purchase. The City paid \$500 for this trip, but the invoice did not document the method used to determine the amount billed – whether the expense was for the time spent

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

on the trip or mileage expenses incurred, or a combination of both. A copy of the invoice is below:

Downtown Auto Service 1009 W 3rd Street, P.O. Box 65 Crofton, NE. 68730 Phone: 402-388-2578 Fax: 402-388-2542		INVOICE 6850 Org. Est. # 012754
INVOICE		Print Date: 01/27/2015
City of Crofton 1210 W 2nd Street Crofton, NE 68730 Home : 402-388-4766 Cust ID : 77	2013 Ford - Explorer Police Interceptor - 3.7L, V6 (227CI) Lic # : - NE VIN # : Odometer In : 0	
Part Description / Number	Qty Sale Ext Labor Description	Extended
	Travel to Topeka, KS to inspect vehicle before purchase. 15.5 hours, -1hr for lunch.	500.00

- The payment to Hendrix Consulting and Law for \$4,880 does not appear to have been submitted within the parameters set by Neb. Rev. Stat. § 17-714 (Reissue 2012), which states, in part, the following:

As a condition precedent to maintaining an action for a claim, other than a tort claim as defined in section 13-903, the claimant shall file such claim within ninety days of the accrual of the claim in the office of the city or village clerk.

Because the invoices for services provided by Hendrix Consulting and Law covered the time period from July 2014 to July 16, 2015 – a period of over one year – the claim was not submitted in accordance with the statute.

Good internal controls require procedures and records to ensure documentation to support expenditures, including detailed invoices or written contracts is on file prior to the approval of the expenditure. Without adequate documentation to support expenditures, there is an increased risk for loss or misuse of City funds. Additionally, if claims are not filed in accordance with the time frame set by statute, it is difficult for the City to budget properly for those expenses.

Potential Conflicts of Interest

The payments made by the City to Downtown Auto Service, appear legally problematic in light of certain provisions found in the Nebraska Political Accountability and Disclosure Act (Act), which is set out at Neb. Rev. Stat. §§ 49-1401 to 49-14,141 (Reissue 2010, Cum. Supp. 2014). Specifically, § 49-14,103.01(2) of the Act, says the following:

Except as provided in section 49-1499.04 or 70-624.04, no officer may have an interest in any contract to which his or her governing body, or anyone for its benefit, is a party. The existence of such an interest in any contract shall render the contract voidable by decree of a court of competent jurisdiction as to any person who entered into the contract or took assignment of such contract with actual knowledge of the prohibited conflict. (Emphasis added.)

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Subsection (1) of that same statute defines an “officer” as follows:

For purposes of sections 49-14,103.01 to 49-14,103.06, unless the context otherwise requires, officer means (a) a member of the board of directors of a natural resources district, (b) a member of any board or commission of any county, school district, city, or village which spends and administers its own funds, who is dealing with a contract made by such board or commission, (c) any elected county, school district, educational service unit, city, or village official, and (d) a member of any board of directors or trustees of a hospital district as provided by the Nebraska Local Hospital District Act or a county hospital as provided by sections 23-3501 to 23-3519. Officer does not mean volunteer firefighters or ambulance drivers with respect to their duties as firefighters or ambulance drivers. (Emphasis added.)

Additionally, subsection (4) of the statute says the following:

The prohibition in this section shall apply only when the officer or his or her parent, spouse, or child (a) has a business association as defined in section 49-1408 with the business involved in the contract or (b) will receive a direct pecuniary fee or commission as a result of the contract. (Emphasis added.)

Neb. Rev. Stat. § 49-1408 (Reissue 2010) provides the following definition:

Business with which the individual is associated or business association shall mean a business: (1) In which the individual is a partner, limited liability company member, director, or officer; or (2) in which the individual or a member of the individual's immediate family is a stockholder of closed corporation stock worth one thousand dollars or more at fair market value or which represents more than a five percent equity interest or is a stockholder of publicly traded stock worth ten thousand dollars or more at fair market value or which represents more than ten percent equity interest. An individual who occupies a confidential professional relationship protected by law shall be exempt from this section. This section shall not apply to publicly traded stock under a trading account if the filer reports the name and address of the stockbroker. (Emphasis added.)

It should be noted that § 49-14,103.01(5) provides the following exception to the prohibition against public officers having an interest in contracts with their governing bodies:

The prohibition in this section does not apply if the contract is an agenda item approved at a board meeting and the interested officer:

- (a) Makes a declaration on the record to the governing body responsible for approving the contract regarding the nature and extent of his or her interest prior to official consideration of the contract;*
- (b) Does not vote on the matters of granting the contract, making payments pursuant to the contract, or accepting performance of work under the contract, or similar matters relating to the contract, except that if the number of members of the governing body declaring an interest in the contract would prevent the body with all members present from securing a quorum on the issue, then all members may vote on the matters; and*
- (c) Does not act for the governing body which is party to the contract as to inspection or performance under the contract in which he or she has an interest.*

A review of the Council’s meeting minutes offers no indication that the Mr. Guenther ever made “a declaration on the record . . . regarding the nature and extent” of his interest in the payments to Downtown Auto Service, as required by § 49-14,103.01(5)(a). It is likely that the Council was already well aware of Mr. Guenther’s ownership of that company. This could explain why the

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS

(Continued)

Council's meeting minutes reflect no formal declaration of interest by Mr. Guenther. Nevertheless, despite any such prior knowledge, § 49-14,103.01(5)(a) requires a formal declaration "on the record" to be made.

In light of the above, the transactions between the City Council and Downtown Auto Service, appears to be in violation of § 49-14,103.01(2).

Crofton Golf Course Insurance

The City leases, from the United States Secretary of the Army, the land on which the Crofton Golf Course is situated. Section 16 (Insurance) of the lease agreement requires the City and "its sublessees and concessionaires . . . to obtain from a reputable insurance company contracts of liability insurance."

Subsequently, the City entered into a "Concessionaires Lease Agreement" with Lakeview Golf Association, Inc. (Association), a private, non-profit corporation. Per the terms of that agreement, the City permits the Association "to use and operate the Crofton Golf Course on approximately 114 acres of land as granted to the City of Crofton, Nebraska by the secretary of the Army Lease" Section 5 of the agreement requires the Association to "obtain from a reputable insurance company or companies contracts of liability insurance."

Based on the information provided, the APA determined the Association is not a component unit of the City. Nevertheless, the City paid for the Crofton Golf Course's liability insurance. Although reimbursed for that expenditure, this appears inconsistent with the terms of the lease agreement with the Association, which requires that entity to obtain its own insurance.

Without proper procedures to ensure adherence to all lease agreement terms, there is an increased risk for loss or misuse of City funds.

Other Disbursement Issues

- The City paid for an alcohol purchase made by the Mayor on the City's charge account at Steffens Service in June 2015. According to the receipt, the purchase was for "Refreshments for Park [the City's Parks Department] – Setting Basketball Hoops." See copy of the receipt below.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

6/24/2015 6:53 PM Sales Receipt #84156
Store: 1

Steffens Service Station
109 W Harold St
Crofton, NE 68730
LIKE US ON FACEBOOK
WEEKLY SPECIALS
LOCALLY OWNED

Bill To: City of Crofton
City of Crofton
Cashier: Sysadmin

Item #	Qty	Price	Ext Price
554	1	\$18.89	\$18.89 T
BUD LIGHT 24PK			
547	1	\$9.99	\$9.99 T
BUDWEISER 12PK			
Subtotal:			\$28.88
Local Sales Tax 6.5 % Tax:			+ \$1.88
RECEIPT TOTAL:			\$30.76

Account: \$30.76

Signature *C. Wendell Steffens*
I agree to pay above amount according to card issuer agreement (merchant agreement if credit voucher).

Previous Account Balance: \$2,849.32
Account Balance: \$2,880.08
Past Due: \$1,496.36

Thanks for shopping with us
Refreshments for Park. Setting Basketball

4156

The purchase of alcohol with public funds is prohibited by Neb. Rev. Stat. § 13-2203(2) (Reissue 2012), which permits the governing body of a local government to purchase, among other things, only nonalcoholic beverages.

- The City reimbursed Nancy Foxhoven for the purchase of a debit card at Walmart. As shown below, a handwritten notation on the back of the receipt indicates that the \$200 gas card was bought for the City's Police Department:

Walmart 
Save money. Live better.

(605) 665 - 1425
MANAGER RYAN HUMPHAL
3001 BROADWAY AVE
YANKTON SD 57078

ST# 1483 OP# 00005168 TE# 09 TR# 07209
ONEVANILLANC 079936606702 4.94 T

DEBIT LOAD 060538802945 200.00 0
TAX 1 6.000 % 0.30
TOTAL 205.24
CASH TEND 210.00
CHANGE DUE 4.76

EFT DEBIT PAY FROM PRIMARY
200.00 DEBIT LOAD
ACCOUNT # **** *83 67 S
REF # 502318009462
NETWORK ID. 0057 APPR CODE 395219
TERMINAL # 00000000

01/23/15 12:15:09

Nancy
Gas card
for Police Department

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Aside from the fact that the City did not track usage of the gift card, municipal employees already had the capability to charge their business gas purchases at local gas stations, including Steffens Service and CMART (Lewis & Clark Mini Mart). Therefore, the stated purpose of the purchase, as documented on the receipt, is not reasonable.

- The City lacks adequate procedures for ensuring that gasoline purchases made on City charge accounts are only for City-owned vehicles and equipment. The APA found a significant number of fuel purchases made by City employees. During the fiscal year, the City paid in excess of \$11,000 to either the Lewis and Clark Mini Mart or Steffens Service for such purchases. Despite their frequency, the City had no way of monitoring those expenditures to ensure that they were both reasonable, and the gasoline was not for personal use.
- The City lacked proper controls over its petty cash fund. The current management was not even aware of the authorized amount of the petty cash fund. The APA performed a cash count of the fund and found that the \$49.06 on hand did not agree to the petty cash fund's activity log. A former Clerk had used the petty cash fund as a reimbursement account by purchasing certain items personally and then reimbursing herself from the petty cash fund.
- In January 2015, the City paid \$20,200 to the Kansas Highway Patrol for the purchase of a police vehicle. However, the former Clerk recorded \$3,000 of this expense to the prior fiscal year by entering it in the September 2014 accounting records. The remaining \$17,200 was recorded in January 2015, when the invoice was received.

Again, good internal control requires procedures to ensure all expenditures of public funds are made in compliance with relevant State statutes, reasonable and necessary expenses of the City, and properly recorded in the accounting records. Without such procedures, there is an increased risk for loss or misuse of City funds. We consider this finding to be a material weakness.

Depending on the circumstances, moreover, failure to abide by statutory requirements governing the expenditure of City funds could constitute "official misconduct" under Neb. Rev. Stat. § 28-924 (Reissue 2008), which provides the following:

- (1) A public servant commits official misconduct if he knowingly violates any statute or lawfully adopted rule or regulation relating to his official duties.*
- (2) Official misconduct is a Class II misdemeanor.*

We recommend the Council implement procedures to ensure the following:

- All claims are properly approved prior to payment.
- Only approved claims are paid.
- Claims are paid for the correct amount.
- Checks have the required two signatures, either the Mayor or the Council President and the Clerk, as required by statute.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

- Documentation to support financial transactions is obtained prior to payment and is appropriately maintained.
- Proper declarations on the record are made for potential conflicts of interest.
- The City reviews the lease agreements for the Crofton Golf Course property and adheres to the insurance purchase provisions contained therein.
- Significant transactions are supported by written contracts or agreements.
- City funds are not expended for the purchase of alcoholic beverages.
- Disbursements are reasonable and necessary.
- Gas purchases charged to the City are appropriately reviewed and monitored, and there is a documented method for allocating those expenditures to the appropriate funds.
- Disbursements are recorded properly in the accounting records.

City's Response:

- a. The Crofton Youth Program is a program operated by the City of Crofton. These services are reimbursed for by Madison County and are deposited with the city. At the time that this payment request was made, reimbursement could only be made to the city (not the contractor).*
- b. Current Potential Conflicts of Interest have been disclosed on the record. (on or before February 2016).*
- c. The clerk now maintains a log for keeping track of conflicts of interest. (on or about January, 2016). The log is in the process of being updated to include a greater level of detail.*
- d. Disbursements are now included in the body of the minutes (on or about February 2016). It should be noted that from July to February disbursements were included on a separate list that the Mayor officially marked as an attachment to the record, during the public meeting.*
- e. The City Council will continue to monitor and make improvements.*

**The current Mayor and Council President declared themselves unavailable for purposes of signing checks. They did this in a public meeting and the council held a public vote to determine a replacement for these purposes, as is authorized by Neb. Rev. Stat. 17-148.*

APA Response: The fact that the Mayor appeared at the meeting to declare himself “unavailable for purposes of signing checks” proves that he was, in fact, available to sign the checks. Neb. Rev. Stat. § 17-148 (Reissue 2012), which is offered as support for having someone other than the Mayor sign the checks, provides only for a proxy to “preside at all meetings of the council in the absence of the mayor.” Because the Mayor was present and capable of carrying out his responsibilities, management lacked the authority to appoint someone else to act in his place.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

7. Payroll Processes

We noted multiple issues throughout the City of Crofton's (City) payroll process, as described in more detail below.

Internal Control Issues

The Auditor of Public Accounts (APA) identified a number of significant internal control issues involving the processing of payroll by the City, as follows:

- The City lacked an ordinance approving the compensation of its employees and officials. Neb. Rev. Stat. § 17-108 (Reissue 2012) states, "The officers and employees of the city shall receive such compensation as the mayor and council shall fix by ordinance." The City approved the pay rates for employees during the October 2014 City Council (Council) meeting; however, no ordinance was adopted or referenced, as required by law.
- Payroll is made prior to Board approval, which conflicts with Neb. Rev. Stat. § 17-614(1) (Cum. Supp. 2014). That statute states that "orders for the appropriation or payment of money shall require for their passage or adoption the concurrence of a majority of all members elected to the council or board of trustees." The Council approved the payroll amounts in the month after they were paid. For example, payroll checks issued in January were approved by the Council in February.
- After the City's new management was put in place in July 2015, the payroll was no longer presented to the Council for approval. Therefore, all paychecks paid in June 2015 through September 2015 were never approved by the Council.
- Miscellaneous income amounts were not approved by the Council for pay periods between October 2014 and May 2015. During that time, the miscellaneous pay was excluded from the amounts reported to the Council for approval. The total amount of miscellaneous income paid to employees during fiscal year 2015 was \$14,915.16.
- The City failed to maintain properly Internal Revenue Service (IRS) Form W-4 for its employees. Form W-4 is completed by employees in order to document the proper amount of income taxes to withhold from the employees' pay.
- The City lacks an independent review of the Clerk's calculation of employee hours worked from the time cards and also lacks a review of the hours worked entered into the accounting records to ensure accuracy. The APA identified the following errors in hours paid to employees:

Employee	Description	Hours Overpaid	Rate	Total Overpayment
Nancy Foxhoven	Errors in regular hours paid during the fiscal year and in the calculation of the unused vacation payment.	7.12	\$ 15.25	\$ 108.58
Pat Schmidt	Errors in the calculation of overtime back pay	17.52	\$ 22.17	\$ 388.42
Total				\$ 497.00

- The net pay for all employee tested appears to have been incorrect due to the City's reliance upon the incorrect tax tables. Income taxes were remitted to the Federal and State

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

government, so any discrepancies would have been corrected in the employees' income tax filings for the year.

- The City did not require the former Economic Development Director to track her work hours with a time card. Though she was paid \$600 per pay period, there was no record of the number of hours worked for this employee.
- Section IV of the City of Crofton Handbook describes the City's policies for employee vacations, sick pay, retirement plans, holidays, and leaves of absences. Specifically, page 7 states, "Vacation leave must be applied for by the employee and may be used only when approved by the Mayor and/or City Council . . ." However, no method is provided for documenting either an employee's request to use leave or the required approval by the Mayor or Council of such leave.

Good internal control requires procedures to ensure the following: 1) compensation for City officials and employees is paid in accordance with the appropriate ordinance; 2) all payroll claims, including miscellaneous income, are paid only after Council approval; 3) documentation is maintained for all payroll withholdings; 4) independent reviews of employee work hours are made from the time cards and entered into the accounting records; 5) correct tax tables are used; 6) time cards are required for all employees; and 7) vacation leave requests are appropriately documented and approved. Without adequate controls, there is a risk for loss or misuse of City funds.

Overtime Hours Worked

One employee worked a significant number of overtime hours until July 2015 without proper monitoring of the hours worked. Additionally, the City did not provide documented approval for the overtime hours worked. Below is a summary of the overtime hours worked during the fiscal year:

Pay period	Regular Hours	OT hours	Total Hours
9/28/2014 to 10/11/2014	80.00	25.43	105.93
10/12/2014 to 10/25/2014	88.00	56.68	144.68
10/26/2014 to 11/8/2014	80.00	42.03	122.03
11/9/2014 to 11/22/2014	88.00	63.93	151.93
11/23/2014 to 12/6/2014	88.00	54.68	142.68
12/7/2014 to 12/20/2014	80.00	41.00	121.00
12/21/2014 to 1/3/2015	96.00	33.13	129.13
1/4/2015 to 1/17/2015	80.00	65.00	145.00
1/18/2015 to 1/13/2015	80.00	65.82	145.82
2/1/2015 to 2/14/2015	80.00	57.12	137.12
2/5/2015 to 2/28/2015	88.00	40.50	128.50
3/1/2015 to 3/14/2015	80.00	62.02	142.02
3/15/2015 to 3/28/2015	80.00	69.45	149.45
3/29/2015 to 4/11/2015	80.00	78.85	158.85
4/12/2015 to 4/25/2015	80.00	51.83	131.83
4/26/2015 to 5/9/2015	80.00	65.83	145.83
5/10/2015 to 5/23/2015	80.00	67.68	147.68
5/24/2015 to 6/6/2015	88.00	59.93	147.93
Total Overtime Worked	1,496.00	1,000.91	2,496.91

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

During the fiscal year, the employee worked an average of 55.6 extra hours per pay period. The APA also determined the employee used only 12 hours of vacation from January 2014 through July 2015. Without adequate monitoring and approval of overtime hours paid, there is a risk of misuse of City funds.

Section III of the City of Crofton Handbook included policies for compensation and personnel action. Specifically, page 6 of the handbook states the following:

It is the policy of the City to discourage overtime worked and, whenever possible, work schedules should be adjusted accordingly so as to provide adequate service to the public without exceeding a normal work week.

Situations or emergencies may arise which will require employees to exceed the normal work week. The employee shall be compensated for all hours worked in excess of a regular work week (40 hours) at the rate of one and one-half times their regular hourly rate.

Furthermore, at some point prior to the fiscal year, the City decided to cap the amount of overtime it paid to this employee at 20 hours per pay period. When the City put its new management in place, another decision was made to repay all overtime hours worked that were not previously paid. The amount paid by the City to the employee for overtime hours worked but not paid was \$17,309.78.

The APA determined the City's calculation of this back pay was incorrect and should have been \$16,921.36, resulting in an overpayment of \$388.42 – which is included in the previous section of this comment.

Not only was the overtime calculation incorrect, but also the back payment did not have amounts withheld for retirement. The City's SIMPLE IRA Adoption Agreement allows City employees to elect to have his or her compensation reduced by a percentage. The City's SIMPLE IRA Basic Plan Document defines compensation as all of the participant's wages and certain elective deferrals. As part of the employee's wages, the overtime payments should have been included in the compensation used to calculate the retirement contribution.

Using the 5% that was previously withheld on the regular pay checks for this employee, the APA calculates that the City should have withheld \$846.08 from his pay and should have matched \$507.65 for his retirement plan.

In July 2015, the City negotiated a salary amount with this employee, making him no longer eligible for overtime pay.

Good internal control requires procedures to ensure overtime hours worked are properly monitored and approved and are also reasonable. Without such procedures, there is an increased risk for misuse of City funds.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Retirement Withholdings

The City withheld amounts from certain employees' pay for contribution to a retirement IRA, but the amounts withheld did not agree to those specified in the signed plan documents on file. Additionally, the amounts withheld from July paychecks were not properly remitted to the retirement vendor.

Two of the three employees tested had amounts withheld that did not agree to those specified in the signed plan documents, as follows:

Employee	Amount Per Agreement	Amount Withheld
Nancy Foxhoven	2.50%	7%
Pat Schmidt	3.00%	5%

The total amounts not remitted for July 2015 are summarized below:

Employee	Employee Contributions	Employer Contributions	Totals
Nancy Foxhoven	\$279.53	\$119.80	\$399.33
Larry Stallbaum	\$140.01	\$140.01	\$280.02
Pat Schmidt	\$237.38	\$142.43	\$379.81
Totals	\$656.92	\$402.24	\$1,059.16

Good internal controls require procedures to ensure retirement withholding amounts agree to those specified in the signed plan agreements on file and are properly remitted. Without such policies and procedures, there is an increased risk of loss or misuse of City funds.

Insurance Stipend

Finally, the City's handling of the insurance stipend paid to its employees was inconsistent. From October 2014 to June 2015, the insurance stipend was included in the compensation used to calculate the retirement withholding for two of three employees tested. Therefore, the applicable income and social security taxes were withheld on the stipend and, because that amount was included as gross income, retirement contributions were calculated using it.

However, for the third employee, the City paid the insurance stipend on a check separate from this employee's regular paycheck so the insurance stipend amount was not included in the compensation used to calculate the retirement contribution.

Beginning in July, the City began to refer to all insurance stipends as bonuses, which were paid with checks separate from the regular paychecks. Since that time, none of the insurance stipend amounts have been counted as compensation used to calculate the retirement contributions.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

According to the City's Handbook, the City will match up to 3% of each full-time employee's gross wages. The definition provided for "gross wages" is that found in 26 U.S.C. § 6051(a)(3) (2011). In relevant part, 26 U.S.C. states the following:

For purposes of this chapter, the term "wages" means all remuneration (other than fees paid to a public official) for services performed by an employee for his employer, including the cash value of all remuneration (including benefits) paid in any medium other than cash

Therefore, it appears these insurance stipends should be included as compensation, meaning that they would not only be included in the amount used to calculate the retirement withholding but also be subject to having both income and social security taxes withheld.

Good internal controls require adequate procedures to ensure the insurance stipend paid to City employees is properly included in gross wages and, therefore, also in the amount used to calculate the retirement and tax withholdings. Without such procedures, there is a significant risk of loss or misuse of City funds.

We consider this finding to be a material weakness.

We recommend the Council implement procedures to ensure the following:

- The appropriate ordinances are adopted or referenced to support compensation paid to City employees and officers.
- All payroll claims, including miscellaneous income, are paid only after Council approval.
- Documentation is maintained of all City employee payroll withholdings.
- Independent reviews of work hours calculated from City employee time cards are performed and documented in the accounting records.
- The City uses the correct tax tables when calculating employee payroll.
- Time cards are required for all City employees.
- City employee vacation leave requests are appropriately documented and approved.
- Overtime hours worked by City employees are properly monitored and approved and are also reasonable.
- Retirement withholdings for City employees agree to the amounts specified in the signed plan documents on file and are properly remitted.
- The insurance stipend paid to City employees is properly included in gross wages and, therefore, also in the amount used to calculate retirement and tax withholdings.

City's Response:

- a. *It should be noted that the overtime hours of the employee in question were regularly supervised. The mayor was sent regular email reports of the hours worked from the city*

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

clerk. The overtime question was also discussed in council meetings and the employee was told to “do what he had to do” with regards to overtime. The employee believed that he was being compensated for these hours, until he received his first paystub and it became clear that the hours were not being reimbursed. These monies were paid as a part of a wage claim brought by the employee.

- b. Payroll is approved by the council. (on or about January 2016).*
- c. Time cards hours are calculated and entered into the system by the clerk. The City Administrator (or designee in their absence) verifies the totals and matches the hours against the paystub. (as of July 2015).*
- d. The city will maintain proper W-4 paperwork.*
- e. The correct income tax tables are now being utilized.*
- f. The city will work with the council approved accountant to determine the proper handling of withholdings.*
- g. The council has considered the question of Insurance Stipends over the course of the last several months. Staff is still in the process of drafting and negotiating an acceptable policy. It is anticipated that the council will approve the policy/ordinance in May of 2016.*
- h. Employee vacation will now be requested in writing.*

- *It should be noted that the city does disagree with the APA’s reading of Neb. Rev. Stat. 17-108. The city will, however, endeavor to satisfy the recommendation of the APA.*

APA Response: Because the City does not elaborate upon its interpretation of Neb. Rev. Stat. § 17-108 (Reissue 2012), the APA is at something of a loss as to how best to respond. That one-sentence statute says simply, “The officers and employees of the city shall receive such compensation as the mayor and council shall fix by ordinance.” As pointed out in the comment, no City ordinance establishes employee wages. Though finding it difficult to imagine how the statutory language at issue could be interpreted differently, the APA is appreciative nonetheless of the City’s professed willingness to take corrective action.

8. Receipt Processes, Including Utility Billing and Collection

Utility Billing and Collection

The City of Crofton (City) lacked adequate procedures to ensure all customers paid for monthly utilities, including water, sewer, and sanitation services.

To start, the City did not send utility bills to its customers; rather, each customer self-reported water usage by remitting a postcard that identified his or her water usage for the month. This postcard, along with a corresponding utility payment, was to be provided monthly to the City. A City employee then recorded this information into manual spreadsheets, which were used for a number of years and during the audit period. The spreadsheets included a beginning balance, the number of gallons of water used each month, the monthly water, sewer, and sanitation rates, the total amounts due for the month, monthly payment information, and ending balances or credits.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

The City lacked procedures both to ensure the amounts self-reported by utility customers were accurate and for following up with those residents who did not remit a payment each month. This absence of procedures, along with the use of the manual records to record balances and activity, gave rise to a significant risk that the City did not collect all monies due to it from utility customers.

Additionally, after the resignation of the former City Clerk (Clerk) in July 2015, current City management failed to ensure customer activity and balances were recorded correctly on new customer utility spreadsheets. The City appears to have used temporary workers to transfer balances and activity to the new spreadsheets. The City neglected also to ensure all of the activity recorded by the former Clerk was accurate prior to transferring the balances to the new spreadsheets.

The Auditor of Public Accounts (APA) obtained both versions of the utility spreadsheets – those used by the former Clerk and those used after her resignation – and manually recreated the utility activity from June 2015 balances through September 2015 for each customer account. The APA also traced the amounts paid by customers to the City's bank account to ensure the payments were deposited. Based on the records obtained, the APA determined there to be a total of 408 customer accounts, although a number of those were inactive.

As a result of this process, the APA found a number of issues, including customers who did not pay for any utilities during a given month and customers who did not pay for one or more of the utility services – water, sewer, or sanitation – during the month. These issues are summarized as follows:

Number of Accounts with Issues	July	August	September	Potential Missed Payments
No utilities (water, sewer, and sanitation) (Exhibit B)	28	8	37	\$ 4,087.24
No Water (Exhibit C)	15	20	2	\$ 856.92
No Sewer (Exhibit D)	13	16	11	\$ 1,065.20
No Garbage (does not include businesses) (Exhibit E)	10	10	8	\$ 326.20
Totals	66	54	58	\$6,335.56

It is important to note that the information included above is based on 3 out of 12 months during the fiscal year, so it is possible that more utility accounts were not properly paid.

In addition to the concerns noted above, the APA found the following issues:

- Utility rates that became effective in March 2015 were not approved by ordinance. The City charged the following rates for water, sewer, and sanitation services in fiscal year 2015 compared to fiscal year 2014:

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Type of Service	FY 2015 (effective March 2015)	FY 2014
Water	\$23.16 for the first 1,000 gallons and \$4.75 + 6.5% tax for each additional 1,000 gallons	\$23.16 for the first 1,000 gallons and \$4.75 + 6.5% tax for each additional 1,000 gallons
Sewer	\$26.63 Varying commercial rates	\$13.31 Varying commercial rates
Sanitation	\$11.65 senior rate \$13.85 residential Businesses were not covered.	\$10.75 senior rate \$12.50 residential Businesses were not covered.

Neb. Rev. Stat. § 17-538 (Reissue 2012) requires the City's rates charged for water utilities to be set by ordinance:

Such cities and villages shall have the right and power to tax, assess, and collect from the inhabitants thereof such tax, rent or rates for the use and benefit of water used or supplied to them by such waterworks, mains, portion or extension of any system of waterworks or water supply as the council or board of trustees shall deem just or expedient; and all such water rates, taxes or rent shall be a lien upon the premises, or real estate, upon or for which the same is used or supplied; and such taxes, rents or rates shall be paid and collected and such lien enforced in such manner as the council or board of trustees shall by ordinance direct and provide.

Neb. Rev. Stat. § 17-925.01 (Reissue 2012) authorizes the City Council (Council) to set its sewer rates by ordinance, as follows:

[T]he mayor and city council of any such city or the board of trustees of any village may establish by ordinance such rates for such sewer service as may be deemed by them to be fair and reasonable, to be collected from either the owner or the person, firm, or corporation requesting the services at such times, either monthly, quarterly, or otherwise, as may be specified in the ordinance.

- There were 127 customer accounts whose balances, as calculated by the APA, did not agree to the balances provided by the City at September 30, 2015. The City's September 2015 calculation of the balance owed by customers was over \$1,100 higher than the APA's calculated amount. However, these balances do not include the amounts owed for customers who did not pay for certain months or services, as indicated above. See **Exhibit F**.
- Amounts recorded as received from customers were not reconciled to the City's deposits.
- Late fees for the non-payment of the utility rates by the required due date were not charged consistently.
- Water rates were not charged consistently. The City's practice was to round the water rates if the water usage was between 1,000 gallon increments. However, in some cases, customers who self-reported did not round and used the lower rate until the next increment of 1,000 gallons was reached. The City did not monitor individuals who self-reported their water usage to make sure the rate paid agreed to the gallons used.
- Certain customers did not pay the correct amount for sewer and garbage. Sewer service is \$26.63 and varies for commercial customers, and sanitation service is either \$11.65 for seniors or \$13.85 for residential, with another \$7.20 for an extra cart. The following are examples:

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

Customer Number	July Sewer
231	\$13.85

Customer Number	July Garbage	Aug Garbage	Sept Garbage
5	\$20.85	\$20.85	\$20.85
39	\$20.85	\$20.85	\$20.85
98		\$11.85	
106	\$10.75	\$10.75	\$10.75
119		\$20.85	
125	\$20.85	\$20.85	\$20.85
172		\$20.85	\$20.85
213	\$20.85	\$20.85	\$20.85
218	\$13.85	\$25.81	\$25.81
231	\$26.63	\$13.85	\$13.85
284	\$20.85	\$20.85	\$20.85
286	\$20.85	\$20.85	\$20.85
300	\$20.85	\$20.85	\$20.85
315	\$20.85	\$20.85	\$20.85

As previously mentioned, the errors noted for July, August, and September 2015 occurred under the current management. Any errors that occurred prior to July 2015 would have been the responsibility of the former Clerk.

The APA provided the City with the detailed information compiled during testing of the utilities in order for the City to review and correct any errors and omissions. It is our understanding that the City is trying to utilize accounting software to track the utility activity and balances in the future.

Without adequate procedures to ensure all customers pay the proper utility fee each month, there is an increased risk for loss of City funds. We consider this finding to be a material weakness.

We recommend the City implement procedures to ensure it bills all customers properly each month, and the correct amounts, including late fees, are paid by customers each month. The City should continue its work to implement a software program to maintain the utility accounts. We also recommend the City set its water and sewer rates by ordinance, as directed by statute. The City should update its water usage ordinance to clarify when the water usage rate changes – exactly in between each 1,000 gallons or at the next 1,000 gallon increment. Finally, we recommend the City utilize the spreadsheet provided by the APA to make a final determination of the September 2015 customer account balances.

City's Response:

- a. *At the start of fiscal year (October 2015), the council approved monies for new accounting software. The software was purchased and the city has been transitioning information from the old system to the new system. This process is about complete and the city expects to begin city wide meter reading and billing services in April.*

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

- b. Utility rates have been set in general law (on or before October 2015). They will be readopted in ordinance form.*
- c. The clerk responsible for entering information has now been properly trained and duties have been assigned according to ability to perform the function.*

Sale of Land

In May 2015, the City received \$12,000 for the sale of land that had recently been purchased for the Northside Acres development. According to the City Manager, the land sale was negotiated by the former Clerk and the former Economic Development Director. This is problematic because such a transaction does not appear to comply with State law governing the sale of real property by a city of the second class.

Neb. Rev. Stat. § 17-503 (Reissue 2012) sets out specific procedures that the City must follow when selling real property with a fair market value of \$5,000 or more. Subsection (1) of that statute requires the City's authority to sell real property to be "exercised by resolution directing the sale at public auction or by sealed bid." Additionally, subsection (6) summarizes certain other requirements:

Following (a) passage of the resolution directing a sale, (b) publishing of the notice of the proposed sale, and (c) passing of the thirty-day right-of-remonstrance period, the property shall then be sold. Such sale shall be confirmed by passage of an ordinance stating the name of the purchaser and terms of the sale.

Good internal controls require the City to implement procedures ensuring compliance with applicable State law governing the sale of real estate. The absence of such procedures risks not only noncompliance with statute, but also the loss or misuse of public funds. We consider this finding to constitute material noncompliance.

We recommend the City implement procedures to ensure compliance with applicable State law governing the sale of real estate. We also recommend the City consult with the County Attorney regarding possible legal ramifications of the recent land transaction at issue.

City's Response: The city has contacted the county attorney regarding this matter.

Pool Receipts

The City did not maintain adequate records detailing all amounts collected at the City pool. The City tracked pool receipts using a spreadsheet which noted names and whether the individual purchased a Family Pass, Single Pass, Youth Pass, or Lessons. For daily passes, the spreadsheet only included a count by date. This information was not easily traced to the accounting records.

Good internal control procedures require sufficient documentation be maintained to support the amount recorded in the accounting records. When such procedures are not in place, there is an increased risk of loss or misuse of public funds. Additionally, if all receipts are not properly tracked, there is an increased risk that other funds could be miscoded or unaccounted for.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

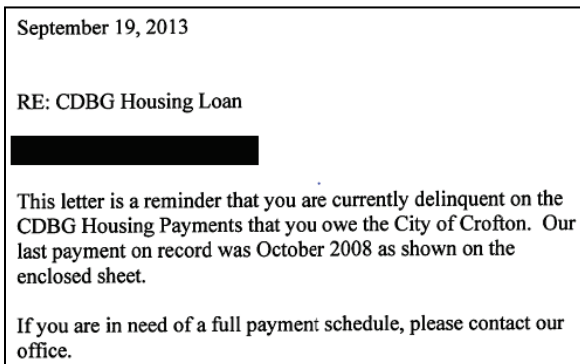
We recommend the City establish procedures to ensure documentation is maintained to support the amount recorded in the accounting records.

City's Response: The city is in the process of developing a plan with regards to controlling cash pool receipts.

Housing Loan Program Receipts

The City operates a housing rehabilitation loan program. During fiscal year 2015, two residents participated in the loan program, which offers 20-year loans at a fixed annual interest rate of 4.00%. Loan payments are due to the City by the first day of each month, and are considered past due on the 15th day of each month.

The City's collection procedures appeared to be insufficient as one of the two residents participating in the loan program was more than six years behind on loan payments, and no late fees were ever assessed. The resident received a loan in the amount of \$18,126 in April 2006. Monthly payments were made sporadically for the first two years, but then payments ceased from November 2008 until November 2013. The only documentation related to attempts at collection was a letter dated September 19, 2013, shown below.



This appears to indicate that the City waited nearly five years before sending a payment reminder. Since the letter was sent, the loan payments have periodically been made; however, the resident had an outstanding balance of \$8,347.84 as of September 30, 2015.

Good business practice requires sufficient collection procedures to ensure amounts owed to the City are collected in accordance with payment schedules. When such procedures are insufficient, there is an increased risk of loss or misuse of City funds.

We recommend the City review its housing loan program collection procedures and make sure all payments are current.

City's Response: The city is in the process of developing a plan with regards to the housing loan fund.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Unpaid Taxes

For several months, the City of Crofton (City) failed to remit over \$37,000 in payroll withholdings and sales taxes collected to the appropriate State and Federal agencies. The following table illustrates amounts withheld or collected by the City during the fiscal year but not properly paid over:

Tax Type	Remittance Entity	Months Unpaid	Payment Due	Total Outstanding
Federal Income Tax Withheld	Internal Revenue Service	July 2015 – Sept 2015	Semi-weekly	\$12,823.67
Social Security Withheld	Internal Revenue Service	July 2015 – Sept 2015	Semi-weekly	\$5,149.47
Medicare Withheld	Internal Revenue Service	July 2015 – Sept 2015	Semi-weekly	\$1,204.33
Employer's Share Social Security	Internal Revenue Service	July 2015 – Sept 2015	Semi-weekly	\$5,149.47
Employer's Share Medicare	Internal Revenue Service	July 2015 – Sept 2015	Semi-weekly	\$1,204.33
IRS Subtotal				\$25,531.27
State Income Tax Withheld	Nebr Dept of Revenue	June 2015 – Sept 2015	Monthly	\$4,993.93
Unemployment Insurance	Nebr Dept of Labor	April 2015 – Sept 2015	Quarterly	\$430.01
Total Payroll Taxes				\$30,955.21
Sales Tax	Nebr Dept of Revenue	June 2015 – Sept 2015	Monthly	\$6,293.47
Total Unpaid				\$37,248.68

The same amounts not remitted as of September 30, 2015, are illustrated by fund, below:

Tax Type	General Fund	Street Fund	Sewer Fund	Water Fund	Sanitation Fund	Total Outstanding
Payroll Taxes	\$21,978.32	\$3,575.77	\$2,654.95	\$2,561.93	\$184.24	\$30,955.21
Sales Tax			\$2,244.42	\$4,049.05		\$6,293.47
Total Outstanding	\$21,978.32	\$3,575.77	\$4,899.37	\$6,610.98	\$184.24	\$37,248.68

The details of each type of tax or withholding amount that was not properly remitted are as follows:

- For entities of the City's size, the Internal Revenue Service (IRS) Publication 15 (2015) requires semi-weekly deposits for Federal income taxes, social security taxes, and Medicare taxes withheld from employees' wages, as well as for the employer's share of social security and Medicare taxes. After making one semi-weekly deposit in July 2015, the City failed to make the additional required deposits for the rest of the fiscal year. The City also failed to file the required IRS Form 941 for the third quarter of 2015, which was due October 31, 2015. The form was not filed, and the taxes went unpaid until December 2015.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

- Similarly, the Nebraska Department of Revenue (Revenue) requires monthly deposits of all State income taxes withheld from employees' wages. Despite making the monthly deposits through May 2015, the City failed to remit any funds beginning in June 2015 through the end of the fiscal year. Additionally, Form 941N for both the second and third quarter of 2015, due July 31 and October 31, 2015, respectively, were not filed until December 2015.
- Sales taxes collected by the City for water and sewer billings are required to be remitted monthly to Revenue; however, the City failed to make these payments or to remit Form 10 since May 2015. Furthermore, the Auditor of Public Accounts (APA) recalculated the sales taxes remitted to Revenue for May 2015 and noted that the City was not correctly calculating the amount of sales tax to be remitted. In the month tested, the City calculated and paid sales taxes of \$1,291, but the correct amount that should have been paid was \$1,361, for an underpayment of \$70. Projecting this error rate to the remaining sales tax payments for the first eight months would result in possible underpayments of sales taxes in the amount of \$439.
- The Department of Labor (Labor) requires unemployment tax to be paid quarterly. The City failed to file or pay the amounts due on both the second and third quarter unemployment forms.

When these amounts are not timely remitted to the appropriate State and Federal agency, the City will likely incur interest and penalty fees. The City has indicated that the majority of the outstanding balances were paid by December 2015. However, by that time, the City had also incurred significant interest and penalties, as shown in the following table.

Tax Type	9/30/2015 Balance	Possible Penalties/ Interest*	12/31/2015 Balance Due	Date Paid	Balance Paid	Penalties/ Interest Paid	Total Paid	Over (Under) Paid
Federal Payroll Taxes	\$25,531.27	\$4,850.93	\$30,382.20	12/31/2015	\$25,538.93	\$0.00	\$25,538.93	(\$4,843.27)
State Payroll Taxes	\$4,993.93	\$719.85	\$5,713.78	12/31/2015	\$6,538.19	\$51.45	\$6,589.64	\$875.86
Unemployment Insurance	\$430.01	\$173.68	\$603.69	12/30/2015	\$430.01	\$173.68	\$603.69	\$0.00
Sales Tax	\$6,293.47	\$0.00	\$6,293.47	n/a	\$0.00	\$0.00	\$0.00	(\$6,293.47)
Totals	\$37,248.68	\$5,744.46	\$42,993.14		\$32,507.13	\$225.13	\$32,732.26	(\$10,260.88)

* The APA calculated these penalties and interest based on the guidance provided by the IRS and Revenue. Actual penalty amounts assessed by those entities may differ from the APA's calculation.

When taxes and other payroll withholdings are not remitted timely and accurately, there is an increased risk of loss or misuse of public funds, as well as possible violations of State or Federal regulations.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Continued)

We recommend the City take appropriate steps to ensure taxes and other payroll withholdings are remitted timely and accurately to the appropriate State and Federal agencies in order to prevent further loss of City funds due to the incurrence of interest and penalties.

City's Response:

- a. *The city has now transferred all manual accounting methods to QuickBooks.*
- b. *Taxes are currently up to date.*

10. Pledged Collateral

The City of Crofton (City) lacked procedures to ensure its deposits were adequately secured by either Federal Deposit Insurance Corporation (FDIC) coverage or adequate pledged collateral.

Neb. Rev. Stat. § 77-2395(1) (Reissue 2009) states the following, in relevant part:

[T]he custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured or guaranteed.

During the audit period, the FDIC coverage was \$250,000 per depositor, per insured bank. In certain instances, as illustrated below, the City maintained balances calculated at 102% of the statutorily allowed deposit amount, making FDIC coverage alone inadequate to fully protect all of the City's deposits.

Dates	Bank Balance	102%
10/1/2014	\$ 280,323.85	\$ 285,930.33
11/30/2014	\$ 257,712.82	\$ 262,867.08

Note: Does not include balances for the fitness center, baseball, and softball accounts.

Additionally, bond proceeds of \$989,990 were received on July 23, 2015, and remained unsecured for over a month, until the City obtained additional pledged collateral with a face value of \$1,550,000 on August 17, 2015.

Without adequate procedures to ensure City deposits are properly ensured, there is a risk not only of violating State law but also for the loss of City funds.

We recommend the City implement procedures to ensure its deposits are fully ensured by either FDIC coverage or other pledged collateral at all times throughout the year.

City's Response: The City will work with the bank(s) to ensure that city assets are properly secured.

CITY OF CROFTON

COMMENTS AND RECOMMENDATIONS (Concluded)

City's Overall Response: We very much appreciate your assistance in conducting this audit. We believe that this process has already helped in our recovery efforts and will make us better prepared for next year's audit.

As you may be aware, the new management took full control of City operations with less than 72 hours notice. This was complicated by the fact that most of the city's institutional memory was held by two employees. For various reasons these employees were unavailable to help with the transition. Little if any documentation was available to guide us through the transition. Prior to the change, most accounting processes were performed manually. The exception to this was some records that were kept on a 1992 DOS based computer. The City could not find a person that was trained to operate such a device. The computer also appeared to be populated with inaccurate information and did not function properly.

This experience has opened the Council's eyes to the necessity of maintaining proper oversight of City finances and affairs. The Council now understands that it is responsible for requiring that city staff maintain proper records, utilize proper accounting programs, and stay in compliance with applicable policies and laws. The Council also understands the need to properly segregate duties throughout the organization.

Over the past several months we have been aggressively implementing new processes and procedures. We recognize that we still have quite a bit of work to do. We have included a small sampling of the work that we have done and the work that we expect to do ahead of next year's audit.



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CITY OF CROFTON

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Crofton, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities – cash basis, the business-type activities – accrual basis, and each major fund – cash basis for the governmental funds and accrual basis for the proprietary funds – of the City of Crofton, Nebraska, as of and for the year ended September 30, 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 accounting principles generally accepted in the United States of America for the business-type activities and in accordance with the cash basis of accounting for the governmental activities described in Note 1 for the governmental activities. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements of the governmental activities and the major governmental funds in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and each major governmental fund of the City of Crofton, as of September 30, 2015, and the respective changes in cash-basis financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the City of Crofton, as of September 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements, which collectively comprise the City of Crofton's basic financial statements. Other information on pages 73-86 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other information on pages 73-86 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of the City of Crofton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Crofton's internal control over financial reporting and compliance.

March 29, 2016



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor

CITY OF CROFTON
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS
September 30, 2015

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 132,644	\$ 89,722	\$ 222,366
Cash on Hand with County Treasurer	6,083	-	6,083
Accounts Receivable	-	14,048	14,048
Inventory	-	8,000	8,000
Restricted Cash and Cash Equivalents	781,782	-	781,782
Total Current Assets	920,509	111,770	1,032,279
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	18,950	18,950
Capital Assets			
Land	-	85,360	85,360
Depreciable Assets (Net)	-	297,309	297,309
Total Noncurrent Assets	-	401,619	401,619
TOTAL ASSETS	920,509	513,389	1,433,898
LIABILITIES			
Current Liabilities			
Accounts Payable	-	16,690	16,690
Accrued Expenses	-	11,694	11,694
Total Current Liabilities	-	28,384	28,384
Noncurrent Liabilities			
Customer Deposits	-	18,950	18,950
TOTAL LIABILITIES	-	47,334	47,334
NET POSITION			
Invested in Capital Assets (Net of Related Debt)	-	382,669	382,669
Restricted for:			
Recreation	47,434	-	47,434
Infrastructure	66,627	-	66,627
Economic Development	19,445	-	19,445
Streets	(29,283)	-	(29,283)
Housing Rehab	18,630	-	18,630
Capital Improvements	659,521	-	659,521
Unrestricted	138,135	83,386	221,521
TOTAL NET POSITION	\$ 920,509	\$ 466,055	\$ 1,386,564

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

CITY OF CROFTON
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF ACTIVITIES - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS
For the Year Ended September 30, 2015

Functions/Programs:	Program Receipts/Revenues			Net (Disbursements/Expenses) Receipts/Revenue and Changes in Net Position		
	Disbursements/ Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General Government	\$ 165,686	\$ 42,858	\$ -	\$ (122,828)	\$ -	\$ (122,828)
Public Health and Safety	105,171	-	-	(105,171)	-	(105,171)
Public Works	440,631	-	-	(440,631)	-	(440,631)
Culture and Recreation	92,013	-	-	(92,013)	-	(92,013)
Community Development	17,268	-	1,798	(15,470)	-	(15,470)
Debt Service	47,176	-	-	(47,176)	-	(47,176)
Total Governmental Activities	867,945	42,858	1,798	(823,289)	-	(823,289)
Business-Type Activities:						
Water	213,602	170,845	-	-	(42,757)	(42,757)
Sewer	68,474	83,614	-	-	15,140	15,140
Sanitation	43,802	42,257	-	-	(1,545)	(1,545)
Total Business-Type Activities	325,878	296,716	-	-	(29,162)	(29,162)
Total Primary Government	\$ 1,193,823	\$ 339,574	\$ 1,798	(823,289)	(29,162)	(852,451)
General Receipts/Revenues:						
Bond Proceeds				1,000,000	-	1,000,000
Taxes:						
Property Taxes - General Purposes				113,636	-	113,636
City Sales Taxes				77,727	-	77,727
City Motor Vehicle Sales Taxes				15,055	-	15,055
Property Taxes - Township/Street Purposes				14,345	-	14,345
Motor Vehicle Taxes				13,251	-	13,251
Occupancy Taxes				2,000	-	2,000
Intergovernmental				140,139	-	140,139
Loan Proceeds				25,000	-	25,000
Other Miscellaneous Receipts/Revenues				151,665	240	151,905
Total General Receipts/Revenues				1,552,818	240	1,553,058
Increase in Net Position				729,529	(28,922)	700,607
Net Position - Beginning of year				190,980	494,977	685,957
Net Position - End of year				<u>\$ 920,509</u>	<u>\$ 466,055</u>	<u>\$ 1,386,564</u>

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

CITY OF CROFTON
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS - CASH BASIS
September 30, 2015

	General Fund	Street Fund	Housing Rehab Fund	Capital Projects Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ 132,644	\$ -	\$ -	\$ -	\$ 132,644
Cash on Hand with County Treasurer	5,491	592	-	-	6,083
Restricted Cash and Cash Equivalents	133,506	(29,875)	18,630	659,521	781,782
TOTAL ASSETS	<u>\$ 271,641</u>	<u>\$ (29,283)</u>	<u>\$ 18,630</u>	<u>\$ 659,521</u>	<u>\$ 920,509</u>
FUND BALANCE					
Restricted	\$ 133,506	\$ (29,283)	\$ 18,630	\$ 659,521	\$ 782,374
Unassigned	138,135	-	-	-	138,135
TOTAL CASH BASIS FUND BALANCES	<u>\$ 271,641</u>	<u>\$ (29,283)</u>	<u>\$ 18,630</u>	<u>\$ 659,521</u>	<u>\$ 920,509</u>

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

CITY OF CROFTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS - CASH BASIS
For the Year Ended September 30, 2015

	General Fund	Street Fund	Housing Rehab Fund	Capital Projects Fund	Total
RECEIPTS					
Taxes	\$ 206,614	\$ 29,400	\$ -	\$ -	\$ 236,014
Intergovernmental	50,945	89,194	-	-	140,139
Charges for Services	29,144	-	-	13,714	42,858
Miscellaneous	150,664	-	1,798	1,001	153,463
TOTAL RECEIPTS	437,367	118,594	1,798	14,715	572,474
DISBURSEMENTS					
General Government	165,686	-	-	-	165,686
Public Health and Safety	105,171	-	-	-	105,171
Public Works	973	113,991	-	325,667	440,631
Culture and Recreation	92,013	-	-	-	92,013
Community Development	17,268	-	-	-	17,268
Debt Service					
Principal	25,000	17,011	-	-	42,011
Interest	4,558	607	-	-	5,165
TOTAL DISBURSEMENTS	410,669	131,609	-	325,667	867,945
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	26,698	(13,015)	1,798	(310,952)	(295,471)
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	-	-	-	1,000,000	1,000,000
Loan Proceeds	25,000	-	-	-	25,000
Transfers In	-	-	-	25,000	25,000
Transfers Out	(25,000)	-	-	-	(25,000)
TOTAL OTHER FINANCING SOURCES	-	-	-	1,025,000	1,025,000
Net Change in Cash Basis Fund Balances	26,698	(13,015)	1,798	714,048	729,529
CASH BASIS FUND BALANCES - BEGINNING	244,943	(16,268)	16,832	(54,527)	190,980
CASH BASIS FUND BALANCES - ENDING	\$ 271,641	\$ (29,283)	\$ 18,630	\$ 659,521	\$ 920,509

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

CITY OF CROFTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ACCRUAL BASIS
September 30, 2015

	Sewer Fund	Water Fund	Sanitation Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 34,888	\$ 52,802	\$ 2,032	\$ 89,722
Accounts Receivable	5,296	6,944	1,808	14,048
Inventory	-	8,000	-	8,000
Total Current Assets	40,184	67,746	3,840	111,770
Noncurrent Assets				
Restricted Assets - Cash	-	18,950	-	18,950
Capital Assets				
Land	41,930	41,930	1,500	85,360
Depreciable Assets	220,093	908,456	-	1,128,549
Accumulated Depreciation	(181,468)	(649,772)	-	(831,240)
Total Noncurrent Assets	80,555	319,564	1,500	401,619
TOTAL ASSETS	120,739	387,310	5,340	513,389
LIABILITIES				
Current Liabilities				
Accounts Payable	712	15,978	-	16,690
Payroll Liabilities	2,655	2,562	184	5,401
Sales Tax Payable	2,244	4,049	-	6,293
Total Current Liabilities	5,611	22,589	184	28,384
Noncurrent Liabilities				
Customer Deposits	-	18,950	-	18,950
TOTAL LIABILITIES	5,611	41,539	184	47,334
NET POSITION				
Invested in Capital Assets (Net of Related Debt)	80,555	300,614	1,500	382,669
Unrestricted	34,573	45,157	3,656	83,386
TOTAL NET POSITION	\$ 115,128	\$ 345,771	\$ 5,156	\$ 466,055

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

CITY OF CROFTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS - ACCRUAL BASIS
For the Year Ended September 30, 2015

	Sewer Fund	Water Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 83,614	\$ 170,845	\$ 42,257	\$ 296,716
OPERATING EXPENSES:				
Personnel Services	24,457	23,598	1,700	49,755
Professional Fees	28,065	4,438	-	32,503
Materials and Supplies	754	4,002	-	4,756
Repairs and Maintenance	992	14,419	-	15,411
Utilities	6,541	302	-	6,843
Contracted Services	-	136,783	42,100	178,883
Depreciation	1,355	18,151	-	19,506
Miscellaneous	6,310	11,909	2	18,221
TOTAL OPERATING EXPENSES	68,474	213,602	43,802	325,878
OPERATING INCOME (LOSS)	15,140	(42,757)	(1,545)	(29,162)
NONOPERATING REVENUES:				
Interest Income	27	213	-	240
TOTAL NONOPERATING REVENUES	27	213	-	240
CHANGE IN NET POSITION	15,167	(42,544)	(1,545)	(28,922)
TOTAL NET POSITION, BEGINNING	99,961	388,315	6,701	494,977
TOTAL NET POSITION, ENDING	\$ 115,128	\$ 345,771	\$ 5,156	\$ 466,055

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

CITY OF CROFTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ACCRUAL BASIS
For the Year Ended September 30, 2015

	Sewer Fund	Water Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 83,179	\$ 178,742	\$ 44,356	\$ 306,277
Cash Paid For Contractual Services	-	(133,856)	(45,846)	(179,702)
Cash Paid For Personnel Services	(21,803)	(21,036)	(1,516)	(44,355)
Other Cash Expenses	(41,695)	(29,198)	(2)	(70,895)
Net Cash Provided by (Used in) Operating Activities	19,681	(5,348)	(3,008)	11,325
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interest Received	27	213	-	240
Net Cash Provided by Noncapital Financing Activities	27	213	-	240
NET INCREASE (DECREASE) IN CASH	19,708	(5,135)	(3,008)	11,565
CASH AND CASH EQUIVALENTS - BEGINNING	15,180	76,887	5,040	97,107
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 34,888</u>	<u>\$ 71,752</u>	<u>\$ 2,032</u>	<u>\$ 108,672</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	15,140	(42,757)	(1,545)	(29,162)
Adjustments to Reconcile:				
Depreciation	1,355	18,151	-	19,506
Change in Assets & Liabilities:				
(Increase) Decrease in Accounts Receivable	(435)	7,197	2,099	8,861
Decrease in Inventory	-	1,200	-	1,200
Increase (Decrease) in Accounts Payable	(989)	5,716	(3,746)	981
Increase in Customer Deposits	-	600	-	600
Increase (Decrease) in Sales Tax Payable	1,956	1,983	-	3,939
Increase in Payroll Liabilities	2,654	2,562	184	5,400
Total Adjustments	4,541	37,409	(1,463)	40,487
Net Cash Provided by (Used in) Operating Activities	<u>19,681</u>	<u>(5,348)</u>	<u>(3,008)</u>	<u>11,325</u>

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

Government-Wide Financial Statements

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B. Basis of Presentation (Continued)

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

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

The City does not allocate indirect costs.

Fund Financial Statements

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

The City reports the following types of governmental funds:

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

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The City includes the following Special Revenue Funds as major funds:

Street Fund: This fund accounts for the construction and maintenance of City roads and is primarily financed by State aid.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B. Basis of Presentation (Concluded)

Housing Rehab Fund: This fund accounts for grant monies received, which are restricted for accomplishing the objectives of the Community Development Block Grant Program, rental rehabilitation and related loan activities, and residential redevelopment.

Capital Projects Funds: Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects. The City includes the following as a major fund:

Capital Projects Fund: This fund accounts for the bond proceeds restricted to the construction and improvement of specific City projects.

The City reports the following types of proprietary funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

Basis of Accounting

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

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

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Assets, Liabilities, and Equity

Estimates

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

Cash and Cash Equivalents

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

Receivables

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

Restricted Assets

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

Capital Assets

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

Governmental Fund Operations

Capital assets are not capitalized, but instead are reflected as capital outlay disbursements upon acquisition in the governmental activities of the Statement of Net Position and the governmental fund financials. This differs from GAAP, which requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), to be reported in the applicable governmental activities columns in the government-wide financial statements.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Assets, Liabilities, and Equity (Continued)

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

Proprietary Fund Operations

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

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

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

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

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

Accounts Payable

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

Accrued Expenses

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Assets, Liabilities, and Equity (Continued)

Customer Deposits

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

Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as a disbursement of the City funds as paid. Upon termination, employees are paid for any unused vacation. Under the cash basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements.

Long-term Debt

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

Governmental Fund Operations

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

Proprietary Fund Operations

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

Equity Classifications

Government-wide Statements

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

- a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. **Assets, Liabilities, and Equity** (Concluded)

- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Fund Financial Statements

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

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

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

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

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

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

Unassigned—All amounts not included in other spendable classifications.

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

E. Receipts/Revenues and Disbursements/Expenses

Sales and Use Tax

The City presently levies a 1% sales tax on taxable sales within the City. The sales tax is collected by the Nebraska Department of Revenue and remitted to the City in the month following receipt. The Nebraska Department of Revenue receives the sales tax approximately one month after collection by vendors. The sales tax is allocated according to the original ballot language that approved the tax: 20% to recreation, including pool and park expenditures; 20% to the City's economic development plan; and 60% to improving infrastructure, including streets, water and sewer facilities, and property tax relief. As of October 1, 2006, sales tax collected on the sale of motor vehicles is recorded in the Street Fund as required by Neb. Rev. Stat. § 39-2510 (Reissue 2008).

Property Taxes

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

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

Property taxes levied for 2014-2015 are recorded as receipts when received by the County.

Electrical Distribution System Lease

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

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Operating Revenues and Expenses

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

Disbursements/Expenses

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

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

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

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

Interfund Transfers

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

A. Fund Accounting Requirements

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

B. Deposit Laws and Regulations

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

B. Deposit Laws and Regulations (Concluded)

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

See Comment and Recommendation Number 10.

C. Revenue Restrictions

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

D. Related Party Transactions

The City conducts business with various members of the City Council. These transactions are conducted in the ordinary course of business and were not material for the year ended September 30, 2015.

See Comment and Recommendation Number 6.

E. Budgetary Data

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

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

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

- a. On or before August 1, the City prepares a budget for the fiscal year commencing October 1. The budget includes proposed expenditures and resources available.
- b. The budget is published with subsequent public hearings to obtain taxpayer comments.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

E. Budgetary Data (Concluded)

- c. Prior to September 20, the City Council adopts the budget, which is then filed with the appropriate state and county officials.
- d. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require board approval.
- e. Appropriations lapse at the end of the fiscal year, except for capital improvement appropriations and certain encumbrances against operating budgets.
- f. The County Clerk certifies a preliminary property tax levy for each fund of the City which levied property taxes in the county the previous year based on the combined valuation and amount required for the City the prior year. The preliminary levy becomes the final levy unless the governing board passes, by a majority vote, a resolution setting the levy at a different amount.
- g. The property tax requirements resulting from the budget process are utilized by the County Assessor to establish the tax levy. Taxes are levied annually on or before October 15. Real property taxes and personal property taxes are due December 31 with the first half delinquent May 1 and the second half delinquent September 1.
- h. The City adopts a budget by ordinance for all funds.

F. Deficit Fund Balance

The Street Fund had a deficit fund balance of \$29,283. Disbursements were made from the fund without having the necessary balance available. The General Fund covered the cost of the negative balance in the Street Fund.

3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

A. Cash

Deposits

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

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)

A. Cash (Concluded)

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

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

At year end, the City's carrying amount of deposits was \$1,023,098. The bank balance for all funds was \$1,033,376. For purposes of classifying categories of custodial risk, the bank balances of the City's deposits, as of September 30, 2015, were either entirely insured or collateralized with securities held by the City's agent in the City's name. However, as noted in Comment and Recommendation Number 10, there were times during the fiscal year when the City's deposits were not entirely secured.

B. Restricted Assets

The restricted assets as of September 30, 2015, are as follows:

Type of Restricted Assets	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$781,782	\$18,950	\$800,732

The General Fund has \$47,434 of cash restricted for recreation, \$66,627 of cash restricted for infrastructure, and \$19,445 of cash restricted for economic development. The Street Fund has a negative restricted cash balance of \$29,875 restricted for street improvements. See Comment and Recommendation Number 3 regarding this negative balance. The Housing Rehab Fund has \$18,630 of cash restricted for housing rehabilitation. The Capital Projects Fund has \$659,521 of cash restricted for capital projects. The Water Fund has \$18,950 of cash restricted for customer deposits.

C. Accounts Receivable

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2015, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 5,296
Water Fund	\$ 6,944
Sanitation Fund	\$ 1,808
Total	\$ 14,048

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

<u>Business-type Activities:</u>	Balance at October 1, 2014	Additions	Disposals	Balance at September 30, 2015
Capital Assets Not Depreciated:				
Land	\$85,360	\$ -	\$ -	\$85,360
Depreciable Capital Assets:				
Infrastructure	\$1,128,550	\$ -	\$ -	\$1,128,550
Total Depreciable Capital Assets, at historical cost	\$1,128,550	\$ -	\$ -	\$1,128,550
Less Accumulated Depreciation for:				
Infrastructure	(\$811,735)	(\$19,506)	\$ -	(\$831,241)
Total Accumulated Depreciation	(\$811,735)	(\$19,506)*	\$ -	(\$831,241)
Depreciable Capital Assets, Net	\$316,815	(\$19,506)	\$ -	\$297,309
Business-type Capital Assets, Net	<u>\$402,175</u>	<u>(\$19,506)</u>	<u>\$ -</u>	<u>\$382,669</u>

*Depreciation expense was charged to the functions as follows:

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

E. Liabilities

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

The following is a summary of changes in the City's liabilities, including accounts payable, accrued expenses, and customer deposits for the year ended September 30, 2015:

<u>Business-type Activities:</u>	Balance at October 1, 2014	Additions	Deductions	Balance at September 30, 2015
Liabilities:				
Accounts Payable	\$15,710	\$16,690	\$15,710	\$16,690
Accrued Expenses	\$2,354	\$11,694	\$2,354	\$11,694
Customer Deposits	\$18,350	\$700	\$100	\$18,950
Total Liabilities	<u>\$36,414</u>	<u>\$29,084</u>	<u>\$18,164</u>	<u>\$47,334</u>

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

F. Prior Period Adjustments

The City did not record all of its activities in the prior period. The activity of the Crofton Fitness Center, the Crofton Baseball Association, the Baseball Concessions, the Field Improvement Account, and the Crofton Girls Softball Accounts were added to the beginning balances to reflect this activity, as follows:

September 30, 2014 Ending Balance	\$ 205,313
APA Adjustment	\$ 39,630
Adjusted Beginning Balance	\$ 244,943

Additionally, the Housing Rehab Fund's ending balance at September 30, 2015, did not agree to the bank statement. Therefore, the APA adjusted the balance as follows:

September 30, 2014 Ending Balance	\$ 15,427
APA Adjustment	\$ 1,406
Adjusted Beginning Balance	\$ 16,833

Lastly, there were two payments received from the State of Nebraska in September 2014 that were not recorded in the prior year financial statements as the prior year was reported using the modified cash basis of accounting. As such, these receipts, amounting to \$12,844, were recorded as receipts for fiscal year 2015.

G. Interfund Transactions

The City only had one operating transfer among funds during the fiscal year. A transfer out of the General Fund and into the Capital Projects Fund for \$25,000 was made. This was the proceeds from a line of credit that was originally receipted into the General Fund, but was needed to pay capital project costs prior to obtaining the bond proceeds.

4. OTHER NOTES

A. Employee Retirement Plan

Beginning January 1, 1999, the City started a retirement plan for its full-time employees. The plan calls for payments to be made by the City into a Simple IRA account for each full-time employee up to a maximum of 3% of the employee's gross wage. The employee may also contribute within limits set by IRS codes. The amount contributed by the City during fiscal year 2015 was \$3,796 and the amount contributed by employees was \$6,057. The City did not remit the July 2015 withholdings. See Comment and Recommendation Number 7.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)

B. Risk Management

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

C. Commitments and Contingencies

Construction and Commitments

As of September 30, 2015, the City had the following construction obligations:

Project	Contract Amount	Paid Through 9/30/2015	Remaining Commitment	Expected Completion Date
Sharon Street Project:				
Engineering	\$87,000	\$26,100	\$60,900	
Construction	<u>\$749,910</u>	<u>\$351,846</u>	<u>\$398,064</u>	
Project Total	\$836,910	\$377,946	\$458,964	December 2015
Sewer Plant Project:				
Sewer Study	\$62,275	\$34,900	\$27,375	Project On Hold

Short-Term Debt

The City established a \$100,000 line of credit in March 2015. On March 22, 2015, the City received \$25,000. The interest rate on the outstanding principal balance is 2.25%. The following represents the short-term debt activity for the year ended September 30, 2015:

Description	Beginning Balance	Draws	Repayments	Ending Balance
Line of Credit	\$0	\$25,000	\$0	\$25,000

Long-Term Debt

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS (Concluded)

C. Commitments and Contingencies (Concluded)

- Various purpose bonds, Series 2010, dated August 10, 2010 for \$240,000 were issued to provide funding for a street project. The bonds are due July 15, 2020, with interest rates ranging from .85% to 3.55%. During the fiscal year, the City repaid \$25,000 in principal, plus \$4,558 in interest, related to this bond.
- Notes payable for street equipment, dated January 15, 2011, at 5% interest. The note is due December 15, 2015. During the fiscal year, the City repaid \$17,011 in principal, plus \$607 in interest, related to this note.
- Various purpose bonds, Series 2015, dated July 23, 2015, for \$1,000,000 were issued to provide funding for street projects. The City did not make any repayments during the fiscal year related to this bond.

The following represents future payments required on these debt instruments:

	2010 Bond Payable		Note Payable		2015 Bond Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 25,000	\$ 3,962	\$ 4,372	\$ 33	\$ 1,000,000	\$ 6,356
2017	\$ 25,000	\$ 3,288	\$ -	\$ -	\$ -	\$ -
2018	\$ 25,000	\$ 2,538	\$ -	\$ -	\$ -	\$ -
2019	\$ 25,000	\$ 1,738	\$ -	\$ -	\$ -	\$ -
2020	\$ 25,000	\$ 888	\$ -	\$ -	\$ -	\$ -
Totals	\$ 125,000	\$ 12,414	\$ 4,372	\$ 33	\$ 1,000,000	\$ 6,356

D. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2015:

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

The City indicated there may be additional interlocal agreements, but was unable to find any documentation. See Comment and Recommendation Number 3.

E. Subsequent Events

Management has evaluated subsequent events through March 29, 2016, the date on which the financial statements were available for issue.

CITY OF CROFTON

OTHER INFORMATION

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

BUDGET AND ACTUAL - GENERAL ALL-PURPOSE FUND

For the Year Ended September 30, 2015

	General All-Purpose Fund		
	Original and Final Budget	Actual	Variance Positive (Negative)
RECEIPTS			
Property Taxes	\$ 127,451	\$ 127,981	\$ 530
State Highway Allocation	80,053	86,365	6,312
State Municipal Equalization	20,463	23,267	2,804
Other Intergovernmental Receipts	31,900	30,507	(1,393)
City Sales Tax	84,000	92,782	8,782
Other Local Receipts	1,460,205	1,533,528	73,323
TOTAL RECEIPTS	1,804,072	1,894,430	90,358
DISBURSEMENTS			
General Government	193,900	165,686	28,214
Public Health and Safety	111,000	105,171	5,829
Public Works - Streets	1,077,200	440,631	636,569
Culture and Recreation	71,000	92,013	(21,013)
Community Development	18,313	17,268	1,045
Debt Service	-	47,176	(47,176)
Sanitation	46,000	43,802	2,198
Sewer	55,000	68,474	(13,474)
Water	200,000	213,602	(13,602)
TOTAL DISBURSEMENTS	\$ 1,772,413	1,193,823	\$ 578,590
Net Change in Cash Basis Fund Balance		<u>700,607</u>	
CASH BASIS FUND BALANCE - BEGINNING		<u>685,957</u>	
CASH BASIS FUND BALANCE - ENDING		<u><u>\$ 1,386,564</u></u>	

See accompanying Notes to the Budgetary Comparison Supplementary Information.

OTHER INFORMATION

FIELD IMPROVEMENT ACCOUNT AND
CROFTON GIRLS SOFTBALL ACCOUNT DETAILS*Field Improvement Account (Account Number Ending in 4570)*

Check number 120, dated August 4, 2009, for \$1,025 was made payable to the former Clerk from the Field Improvement Account.

120

DATE 8/4/09 TELEPHONE

PAY TO THE ORDER OF Nancy Foxhoven \$ 1,025.00

One thousand twenty-five + 00/100 DOLLARS

Farmers & Merchants State Bank
100 JEFFERSON
CROFTON, MD 21114

MEMO bases, rock equipment

1041020951

Nancy A. Foxhoven

Date 08-05-2009 Account [REDACTED] Amount 1025.00
TR [REDACTED] IV_Sequence 18901694

On August 5, 2009, that check was deposited into a personal account under the former Clerk's name with account number ending in 1170:

Farmers & Merchants State Bank

Depositor's Name Nancy Foxhoven Date 8-4-09

DESCRIPTION	CURRENCY	SILVER	CHECKS	DOLLARS	CENTS
				1025	00

SUB-TOTAL CASH RETURNED TOTAL DEPOSIT

ACCOUNT NAME [REDACTED] TOTAL DEPOSIT 1025.00

Nancy Foxhoven

Date 08-05-2009 Account [REDACTED] Amount 1025.00
TR [REDACTED] IV_Sequence 18901692

The following illustrates a \$2,000 transfer out of the the Field Improvement Account on May 5, 2010. The APA spoke with a bank employee on January 28, 2016, who confirmed that the funds were transferred to a personal checking account in the former Clerk's name with account number ending in 1170.

OTHER INFORMATION

FIELD IMPROVEMENT ACCOUNT AND
CROFTON GIRLS SOFTBALL ACCOUNT DETAILS

Account Activity						
	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			6,609.21
<input type="checkbox"/>	05/05	05/05	Funds Transfer Debit		2,000.00	4,609.21

The following illustrates a \$300 transfer out of the the Field Improvement Account on September 29, 2010. The APA spoke with a bank employee on January 28, 2016, who confirmed that the funds were transferred to a personal checking account in the former Clerk's name with account number ending in 8770.

Account Activity						
	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			4,609.21
<input type="checkbox"/>	09/29	09/29	Funds Transfer Debit		300.00	4,309.21

On December 29, 2011, a phone payment of \$2,000 was made to GM Card Services from the Field Improvement Account.

Account Activity						
	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			4,309.21
<input type="checkbox"/>	12/29	12/29	Gm Card Svcs - Phone Pmt		2,000.00	2,309.21

The following illustrates a \$900 transfer into the Field Improvement Account on January 10, 2012. Notes on the the bank statement indicated that the transfer was from a personal checking account under the former Clerk's name with the account number ending in 8720.

Account Activity						
	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			2,309.21
<input type="checkbox"/>	01/10	01/10	Funds Transfer Credit	900.00		3,209.21

The following illustrates a \$331.77 transfer out of the the Field Improvement Account on June 12, 2012. The APA spoke with a bank employee on January 28, 2016, who confirmed that the funds were transferred to a personal checking account in the former Clerk's name with account number ending in 1170.

Account Activity						
	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			4,409.21
<input type="checkbox"/>	06/12	06/12	Funds Transfer Debit		331.77	4,077.44

On August 2, 2012, a phone payment of \$2,000 was made to GM Card Services from the Field Improvement Account.

OTHER INFORMATION

FIELD IMPROVEMENT ACCOUNT AND
CROFTON GIRLS SOFTBALL ACCOUNT DETAILS

Account Activity		For a Balancing Worksheet, visit fandmstatebank.com/balance				
✓	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			5,697.44
<input checked="" type="checkbox"/>	07/13	07/13	Customer Deposit	236.58		5,934.02
<input type="checkbox"/>	08/02	08/02	Gm Card Svcs Phone Pmnt		2,000.00	3,934.02

On September 10, 2013, a phone payment of \$2,500 was made to GM Card Services from the Field Improvement Account.

Account Activity		For a Balancing Worksheet, visit fandmstatebank.com/balance				
✓	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			9,057.68
<input checked="" type="checkbox"/>	09/10	09/10	Gm Card Svcs Phone Pmnt		2,500.00	6,557.68

On December 16, 2014, a phone payment of \$2,000 was made to GM Card Services from the Field Improvement Account.

Account Activity		For a Balancing Worksheet, visit fandmstatebank.com/balance				
✓	Date	Post Date	Description	Deposits	Withdrawals	Daily Balance
			Beginning Balance			10,670.58
<input checked="" type="checkbox"/>	12/16	12/16	Gm Card Svcs Phone Pmnt		2,000.00	8,670.58

Crofton Girls Softball Account (Account Number Ending in 5870)

On December 11, 2014, the former Clerk withdrew \$8,000.00 from the Crofton Girls Softball Account as noted below:

DDA GENERAL DEBIT DOCUMENT	DATE	12-11-14	INITIALS	<i>[Signature]</i>
	CUSTOMER NAME	Former Clerk's Child		
Signature	<i>[Signature]</i>			
ACCOUNT NUMBER	[REDACTED]			
	<input type="checkbox"/> Transfer to account <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Loan Payment <input type="checkbox"/> Purchase Cashier's Check <input type="checkbox"/> Other	<i>[Signature]</i> AMOUNT 8000.00		

Check number 208, dated May 27, 2015, for \$32 was made payable to the former Clerk from the Crofton Girls Softball Account.

OTHER INFORMATION

FIELD IMPROVEMENT ACCOUNT AND
CROFTON GIRLS SOFTBALL ACCOUNT DETAILS

Crofton Girls Softball
1210 W. 2nd St
Crofton, Ne 68730

208

DATE 5/27/15 76-209/1041

PAY TO THE ORDER OF Nancy Foxhoven \$ 32.00
Thirty two + 00/100 DOLLARS

Farmers & Merchants
State Bank
402-386-4344
CROFTON, NE 68730

MEMO First aid kits Nancy Foxhoven AP

Check number 211, dated June 2, 2015, for \$190 was made payable to the former Clerk from the Crofton Girls Softball Account.

Crofton Girls Softball
1210 W. 2nd St
Crofton, Ne 68730

211

DATE 6/2/15 76-209/1041

PAY TO THE ORDER OF Nancy Foxhoven \$ 190.00
One hundred ninety + 00/100 DOLLARS

Farmers & Merchants
State Bank
402-386-4344
CROFTON, NE 68730

MEMO ASA Ins Nancy Foxhoven AP

On June 10, 2015, the former Clerk deposited the aforementioned checks of \$32 and \$190 into a personal account under her name with account number ending in 8770.

Farmers & Merchants State Bank
402-386-4344 • Crofton, Nebraska 68730
Crofton, Nebraska 68730 • Highway 50 57078
Nebraska, Nebraska 68730 • South Highway 50 57078

Account Number ██████████ Title Nancy Foxhoven Date 6-10-15

DESCRIPTION	DOLLARS	CENTS
CHECKS		
<u>City of Crofton</u>	<u>51</u>	<u>33</u>
<u>Crofton softball</u>	<u>32</u>	<u>00</u>
<u>Crofton softball</u>	<u>190</u>	<u>00</u>
<u>Nancy Foxhoven</u>		
SUB-TOTAL	<u>1143</u>	<u>00</u>
CASH RETURNED	<u>400</u>	<u>00</u>
TOTAL DEPOSIT	<u>743</u>	<u>00</u>

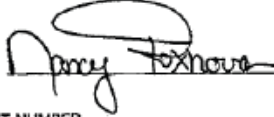
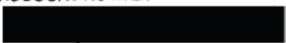

ACCOUNT NUMBER ██████████ TOTAL DEPOSIT 743.00

Date: 06-10-2015 Account: ██████████ Amount: \$743.00 Serial: 0 TR ██████████ IV_Sequence: 16220806

OTHER INFORMATION

FIELD IMPROVEMENT ACCOUNT AND
CROFTON GIRLS SOFTBALL ACCOUNT DETAILS

On June 10, 2015, the former Clerk withdrew \$3,000.00 from the Crofton Girls Softball Account.

DDA GENERAL DEBIT DOCUMENT	DATE	6-10-15	INITIALS	LC
	CUSTOMER NAME			
Signature		Former Clerk's Child		
		<input checked="" type="checkbox"/>	Transfer to account	
		<input type="checkbox"/>	Cash	
		<input type="checkbox"/>	Loan Payment	
		<input type="checkbox"/>	Purchase Cashier's Check	
Other		<input type="checkbox"/>		
ACCOUNT NUMBER		AMOUNT		
		3000.00		
				

OTHER INFORMATION

CUSTOMERS WITH NO UTILITIES BILLED OR PAID
IN JULY, AUGUST, AND SEPTEMBER 2015

Customer Number	Actual Amount Billed For July	Minimum July Water	July Sewer	July Garbage (Note 1)	Minimum Amount Owed
56	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
60	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
67	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
71	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
85	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
98	\$0.00	\$23.16	\$26.63	\$11.85	\$61.64
100	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
102	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
116	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
117	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
119	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
120	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
130	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
136	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
142	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
151	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
162	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
172	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
217	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
221	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
222	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
224	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
228	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
319	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
331	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
358	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
361	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
385	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
Total July Amounts Not Billed					\$1,625.37
Customer Number	Actual Amount Billed For August	Minimum August Water	August Sewer	August Garbage	Minimum Amount Owed
56	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
60	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
85	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
107	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
221	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
358	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
361	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
385	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
Total August Amounts Not Billed					\$409.97

OTHER INFORMATION

CUSTOMERS WITH NO UTILITIES BILLED OR PAID
IN JULY, AUGUST, AND SEPTEMBER 2015

Customer Number	Actual Amount Billed For September	Minimum September Water	September Sewer	September Garbage	Minimum Amount Owed
2	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
17	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
56	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
60	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
62	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
63	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
64	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
65	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
67	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
68	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
69	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
71	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
85	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
98	\$0.00	\$23.16	\$26.63	\$11.85	\$61.64
100	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
105	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
107	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
109	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
117	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
119	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
120	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
124	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
136	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
210	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
221	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
223	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
245	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
274	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
281	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
289	\$0.00	\$23.16	\$26.63	\$11.65	\$61.44
313	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
338	\$0.00	\$23.16	\$0.00	\$0.00	\$23.16
358	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
359	\$0.00	\$23.16	\$26.63	\$13.85	\$63.64
361	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
385	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
395	\$0.00	\$23.16	\$26.63	\$0.00	\$49.79
Total September Amounts Not Billed					\$2,051.90
Total Amounts Not Billed					\$4,087.24

Note 1: Customers with \$0 for the sanitation services likely represent commercial customers, who are not covered under the City's sanitation contract.

OTHER INFORMATION

CUSTOMERS WITH NO WATER BILLED OR PAID
IN JULY, AUGUST, AND SEPTEMBER 2015

Customer Number	Actual Amount Billed for July	Minimum July Water Bill	Minimum Amount Owed
32	\$0.00	\$23.16	\$23.16
62	\$0.00	\$23.16	\$23.16
106	\$0.00	\$23.16	\$23.16
141	\$0.00	\$23.16	\$23.16
165	\$0.00	\$23.16	\$23.16
176	\$0.00	\$23.16	\$23.16
244	\$0.00	\$23.16	\$23.16
284	\$0.00	\$23.16	\$23.16
309	\$0.00	\$23.16	\$23.16
316	\$0.00	\$23.16	\$23.16
351	\$0.00	\$23.16	\$23.16
359	\$0.00	\$23.16	\$23.16
370	\$0.00	\$23.16	\$23.16
394	\$0.00	\$23.16	\$23.16
403	\$0.00	\$23.16	\$23.16
Total July Amounts Not Billed			\$347.40
Customer Number	Actual Amount Billed for August	Minimum August Water Bill	Minimum Amount Owed
20	\$0.00	\$23.16	\$23.16
62	\$0.00	\$23.16	\$23.16
65	\$0.00	\$23.16	\$23.16
67	\$0.00	\$23.16	\$23.16
68	\$0.00	\$23.16	\$23.16
98	\$0.00	\$23.16	\$23.16
106	\$0.00	\$23.16	\$23.16
117	\$0.00	\$23.16	\$23.16
119	\$0.00	\$23.16	\$23.16
136	\$0.00	\$23.16	\$23.16
163	\$0.00	\$23.16	\$23.16
176	\$0.00	\$23.16	\$23.16
245	\$0.00	\$23.16	\$23.16
281	\$0.00	\$23.16	\$23.16
289	\$0.00	\$23.16	\$23.16
313	\$0.00	\$23.16	\$23.16
321	\$0.00	\$23.16	\$23.16
322	\$0.00	\$23.16	\$23.16
359	\$0.00	\$23.16	\$23.16
395	\$0.00	\$23.16	\$23.16
Total August Amounts Not Billed			\$463.20
Customer Number	Actual Amount Billed for September	Minimum September Water Bill	Minimum Amount Owed
106	\$0.00	\$23.16	\$23.16
176	\$0.00	\$23.16	\$23.16
Total September Amounts Not Billed			\$46.32
Total Amounts Not Billed			\$856.92

OTHER INFORMATION

CUSTOMERS WITH NO SEWER BILLED OR PAID
IN JULY, AUGUST, AND SEPTEMBER 2015

Customer Number	Actual Amount Billed for July	Minimum July Sewer Bill	Minimum Amount Owed
37	\$0.00	\$26.63	\$26.63
38	\$0.00	\$26.63	\$26.63
63	\$0.00	\$26.63	\$26.63
64	\$0.00	\$26.63	\$26.63
99	\$0.00	\$26.63	\$26.63
106	\$0.00	\$26.63	\$26.63
157	\$0.00	\$26.63	\$26.63
167	\$0.00	\$26.63	\$26.63
174	\$0.00	\$26.63	\$26.63
187	\$0.00	\$26.63	\$26.63
234	\$0.00	\$26.63	\$26.63
357	\$0.00	\$26.63	\$26.63
396	\$0.00	\$26.63	\$26.63
Total July Amounts Not Billed			\$346.19
Customer Number	Actual Amount Billed for August	Minimum August Sewer Bill	Minimum Amount Owed
37	\$0.00	\$26.63	\$26.63
38	\$0.00	\$26.63	\$26.63
63	\$0.00	\$26.63	\$26.63
64	\$0.00	\$26.63	\$26.63
71	\$0.00	\$26.63	\$26.63
99	\$0.00	\$26.63	\$26.63
100	\$0.00	\$26.63	\$26.63
106	\$0.00	\$26.63	\$26.63
157	\$0.00	\$26.63	\$26.63
167	\$0.00	\$26.63	\$26.63
174	\$0.00	\$26.63	\$26.63
187	\$0.00	\$26.63	\$26.63
218	\$0.00	\$26.63	\$26.63
234	\$0.00	\$26.63	\$26.63
357	\$0.00	\$26.63	\$26.63
396	\$0.00	\$26.63	\$26.63
Total August Amounts Not Billed			\$426.08
Customer Number	Actual Amount Billed for September	Minimum September Sewer Bill	Minimum Amount Owed
37	\$0.00	\$26.63	\$26.63
38	\$0.00	\$26.63	\$26.63
99	\$0.00	\$26.63	\$26.63
106	\$0.00	\$26.63	\$26.63
157	\$0.00	\$26.63	\$26.63
167	\$0.00	\$26.63	\$26.63
174	\$0.00	\$26.63	\$26.63
187	\$0.00	\$26.63	\$26.63
218	\$0.00	\$26.63	\$26.63
234	\$0.00	\$26.63	\$26.63
357	\$0.00	\$26.63	\$26.63
Total September Amounts Not Billed			\$292.93
Total Amounts Not Billed			\$1,065.20

OTHER INFORMATION

CUSTOMERS WITH NO GARBAGE BILLED OR PAID
IN JULY, AUGUST, AND SEPTEMBER 2015

Customer Number	Actual Amount Billed for July	Minimum July Garbage Bill	Minimum Amount Owed
19	\$0.00	\$11.65	\$11.65
38	\$0.00	\$11.65	\$11.65
78	\$0.00	\$11.65	\$11.65
160	\$0.00	\$11.65	\$11.65
185	\$0.00	\$11.65	\$11.65
187	\$0.00	\$11.65	\$11.65
234	\$0.00	\$11.65	\$11.65
294	\$0.00	\$11.65	\$11.65
306	\$0.00	\$11.65	\$11.65
396	\$0.00	\$11.65	\$11.65
Total July Amounts Not Billed			\$116.50
Customer Number	Actual Amount Billed for August	Minimum August Garbage Bill	Minimum Amount Owed
19	\$0.00	\$11.65	\$11.65
38	\$0.00	\$11.65	\$11.65
71	\$0.00	\$11.65	\$11.65
78	\$0.00	\$11.65	\$11.65
185	\$0.00	\$11.65	\$11.65
187	\$0.00	\$11.65	\$11.65
234	\$0.00	\$11.65	\$11.65
294	\$0.00	\$11.65	\$11.65
306	\$0.00	\$11.65	\$11.65
396	\$0.00	\$11.65	\$11.65
Total August Amounts Not Billed			\$116.50
Customer Number	Actual Amount Billed for September	Minimum September Garbage Bill	Minimum Amount Owed
19	\$0.00	\$11.65	\$11.65
38	\$0.00	\$11.65	\$11.65
78	\$0.00	\$11.65	\$11.65
185	\$0.00	\$11.65	\$11.65
187	\$0.00	\$11.65	\$11.65
234	\$0.00	\$11.65	\$11.65
294	\$0.00	\$11.65	\$11.65
306	\$0.00	\$11.65	\$11.65
Total September Amounts Not Billed			\$93.20
Total Amounts Not Billed			\$326.20

OTHER INFORMATION

SEPTEMBER 2015 APA CALCULATED CUSTOMER BALANCES

Customer Number	APA Calculated September Balance	Balance per City Utility Records	Variances
3	\$0.00	\$80.82	\$80.82
9	(\$94.74)	\$0.00	\$94.74
11	\$10.00	\$0.00	(\$10.00)
12	(\$4.56)	\$61.44	\$66.00
15	\$42.08	\$39.69	(\$2.39)
25	\$127.28	\$192.92	\$65.64
26	\$41.84	\$108.00	\$66.16
30	\$0.06	\$5.06	\$5.00
32	(\$6.99)	\$8.24	\$15.23
34	\$5.06	\$104.78	\$99.72
35	(\$12.78)	(\$12.30)	\$0.48
37	\$5.06	\$6.41	\$1.35
40	(\$10.00)	\$0.00	\$10.00
42	(\$71.56)	\$0.00	\$71.56
43	\$8.15	\$6.52	(\$1.63)
44	(\$78.82)	\$0.00	\$78.82
49	\$64.97	\$0.00	(\$64.97)
50	\$54.85	\$0.00	(\$54.85)
51	\$75.09	\$0.00	(\$75.09)
52	\$59.91	\$0.00	(\$59.91)
53	\$59.91	\$0.00	(\$59.91)
54	\$59.91	\$0.00	(\$59.91)
55	\$75.09	\$0.00	(\$75.09)
59	\$0.00	\$0.02	\$0.02
65	\$26.63	\$78.42	\$51.79
70	\$30.46	\$29.66	(\$0.80)
71	\$26.63	\$107.59	\$80.96
77	(\$24.40)	\$16.95	\$41.35
78	(\$10.00)	\$0.00	\$10.00
79	(\$109.11)	(\$5.00)	\$104.11
81	\$2.31	\$1.25	(\$1.06)
82	\$112.03	\$0.00	(\$112.03)
86	\$43.45	\$70.07	\$26.62
87	\$97.70	(\$5.95)	(\$103.65)
94	(\$2.96)	(\$1.19)	\$1.77
95	(\$0.20)	\$0.80	\$1.00
98	\$38.48	\$116.16	\$77.68
102	\$225.87	\$360.82	\$134.95
106	(\$32.25)	\$10.75	\$43.00
107	\$0.47	\$0.00	(\$0.47)
109	(\$46.72)	\$0.00	\$46.72
110	\$5.08	\$5.07	(\$0.01)
116	(\$40.48)	\$0.00	\$40.48
119	\$47.48	\$142.44	\$94.96
120	\$94.00	\$174.96	\$80.96
121	(\$10.12)	\$58.58	\$68.70

OTHER INFORMATION

SEPTEMBER 2015 APA CALCULATED CUSTOMER BALANCES

Customer Number	APA Calculated September Balance	Balance per City Utility Records	Variances
128	\$0.00	\$79.89	\$79.89
130	(\$114.50)	\$33.02	\$147.52
133	\$1.10	\$0.00	(\$1.10)
137	(\$2.80)	\$0.00	\$2.80
142	\$7.28	\$47.46	\$40.18
144	\$114.56	\$0.26	(\$114.30)
158	(\$41.20)	\$20.24	\$61.44
161	\$0.00	(\$313.97)	(\$313.97)
162	(\$25.34)	\$6.60	\$31.94
163	\$38.28	\$40.48	\$2.20
166	(\$1.33)	(\$79.34)	(\$78.01)
168	\$13.85	\$0.00	(\$13.85)
175	\$0.04	\$0.02	(\$0.02)
176	\$0.00	\$0.02	\$0.02
191	\$25.42	\$35.30	\$9.88
193	(\$4.66)	\$0.00	\$4.66
194	(\$315.12)	\$132.27	\$447.39
198	(\$9.70)	\$0.00	\$9.70
202	\$99.58	\$151.37	\$51.79
208	(\$68.70)	\$0.00	\$68.70
215	(\$6.00)	(\$2.00)	\$4.00
217	\$99.58	\$149.37	\$49.79
218	\$84.39	(\$14.67)	(\$99.06)
219	\$68.76	(\$4.94)	(\$73.70)
222	(\$11.96)	(\$7.06)	\$4.90
224	\$22.58	(\$19.42)	(\$42.00)
226	(\$1.96)	\$0.04	\$2.00
227	\$63.64	\$0.00	(\$63.64)
228	\$103.34	\$108.40	\$5.06
229	(\$15.58)	\$5.06	\$20.64
231	(\$0.35)	\$0.00	\$0.35
233	\$20.00	\$10.00	(\$10.00)
241	\$10.40	\$0.00	(\$10.40)
245	\$196.63	\$119.30	(\$77.33)
255	\$31.75	\$30.61	(\$1.14)
259	\$13.36	\$0.00	(\$13.36)
261	(\$58.90)	\$1.35	\$60.25
266	\$4.97	\$48.32	\$43.35
272	\$0.10	\$6.10	\$6.00
278	\$10.46	\$9.11	(\$1.35)
279	\$0.72	\$49.92	\$49.20
284	\$19.69	\$36.36	\$16.67
286	(\$90.88)	\$0.00	\$90.88
293	\$4.03	\$2.68	(\$1.35)
296	(\$81.74)	\$0.00	\$81.74
300	\$211.11	\$113.47	(\$97.64)

OTHER INFORMATION

SEPTEMBER 2015 APA CALCULATED CUSTOMER BALANCES

Customer Number	APA Calculated September Balance	Balance per City Utility Records	Variances
301	\$9.00	\$46.48	\$37.48
311	(\$0.04)	\$0.00	\$0.04
312	(\$1.17)	(\$0.26)	\$0.91
313	\$109.18	\$40.48	(\$68.70)
314	(\$64.55)	(\$13.82)	\$50.73
315	\$202.00	\$101.00	(\$101.00)
316	\$191.07	\$241.52	\$50.45
317	(\$38.75)	(\$37.72)	\$1.03
319	\$104.64	\$0.00	(\$104.64)
320	\$104.64	\$0.00	(\$104.64)
321	\$147.25	\$0.00	(\$147.25)
322	\$96.66	\$0.00	(\$96.66)
323	\$99.58	\$0.00	(\$99.58)
324	\$104.64	\$0.00	(\$104.64)
327	(\$32.43)	\$0.50	\$32.93
328	(\$1.18)	\$29.03	\$30.21
335	(\$19.67)	\$63.70	\$83.37
345	(\$2.38)	(\$4.94)	(\$2.56)
346	(\$50.00)	\$0.00	\$50.00
347	\$152.58	\$73.76	(\$78.82)
350	(\$3.10)	\$0.00	\$3.10
351	(\$163.91)	(\$29.14)	\$134.77
357	\$68.72	\$54.41	(\$14.31)
363	\$19.73	\$5.06	(\$14.67)
365	\$49.79	\$99.58	\$49.79
370	\$0.00	\$167.76	\$167.76
372	\$0.00	\$61.44	\$61.44
378	(\$3.72)	(\$2.39)	\$1.33
384	\$63.56	\$104.12	\$40.56
388	(\$14.22)	(\$14.05)	\$0.17
394	(\$4.92)	(\$95.40)	(\$90.48)
396	(\$69.28)	\$0.00	\$69.28
397	(\$0.21)	\$3.93	\$4.14
402	\$1.15	\$1.13	(\$0.02)
408	\$110.81	\$110.82	\$0.01
Totals	\$2,464.53	\$3,565.60	\$1,101.07



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

Independent Auditor's Report

Mayor and City Council
City of Crofton, Nebraska

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities – cash basis, the business type activities – accrual basis, and each major fund – cash basis for governmental funds and accrual basis for proprietary funds of the City of Crofton, Nebraska (City) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated March 29, 2016. Our report on the basic financial statements disclosed that, as described in Note 1, the City prepares its financial statements for the governmental funds on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Comments Section that we consider to be material weaknesses: Comment Number 1 (Possible Fraudulent Activity), Comment Number 3 (Control Environment), Comment Number 4 (Accounting Errors), Comment Number 6 (Disbursement Processes), Comment Number 7 (Payroll Processes), and Comment Number 8 (Receipt Processes, Including Utility Billing and Collection).

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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Comments Section of our report as Comment Number 8 (Receipt Processes, Including Utility Billing and Collection).

Additional Item

We also noted certain additional items that we reported to management of the City in the accompanying Comments Section of this report as Comment Number 2 (Inappropriate Severance Pay), Comment Number 5 (Unauthorized Use of the City's FTIN), Comment Number 9 (Unpaid Taxes), and Comment Number 10 (Pledged Collateral).

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 29, 2016



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor