

**AUDIT REPORT  
OF THE  
CITY OF CROFTON**

**OCTOBER 1, 2015, THROUGH SEPTEMBER 30, 2016**

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**Issued on April 13, 2017**

# CITY OF CROFTON

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## CITY OF CROFTON

### BACKGROUND

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

Based upon the issues identified in the Auditor of Public Accounts' (APA) audit of the City for the year ended September 30, 2015, the City was notified that the APA would be performing the year-end September 30, 2016, audit as well.

The APA visited the City on January 18 and 19, 2017, to begin the audit process by obtaining relevant information.

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

- Wendell Strom, Mayor
- Steve Kuehler, Council Member
- Michael Guenther, Council Member
- Tom Allen, Council Member
- Chad Reifenrath, Council Member

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

- Rachael Haberman – served as Clerk from August 25, 2015, through February 3, 2016.
- Diane Allen – appointed temporary Clerk on February 3, 2016.

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

## CITY OF CROFTON

### SUMMARY OF COMMENTS

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

1. ***Financial Statement Issues:*** City management lacked the ability to ensure that its financial statements and related disclosures were complete and accurate for fiscal year 2016. The Auditor of Public Accounts (APA) found significant issues with the accounting records and coding contained therein. During the course of the audit, the City provided at least six different versions of its accounting records in order to address issues noted by the APA.
2. ***Repayments of Alleged Misappropriation of City Monies:*** During the fiscal year 2015 audit, the APA found that the former City Clerk appeared to have used City funds, including money allocated to a local softball program, for personal use. In 2016, the former City Clerk repaid \$20,000 to the softball program. As of February 7, 2017, however, none of that money had been transferred to the City.
3. ***Control Environment:*** The City's control environment was not conducive to fair and complete financial reporting because the City lacked a proper segregation of duties. The City Council (Council) failed to provide adequate monitoring and reviews of financial activities. Additionally, several other issues were noted, including a lack of safeguarding unused checks, lack of a capitalization policy, checks not being restrictively endorsed, and one check dated January 26, 2016, not being deposited for almost a year after it was written.
4. ***Accounting Errors:*** The APA recommended over \$1,506,000 in adjustments to the City's financial statements due to errors made by the current management.
5. ***Disbursement Processes:*** The APA identified over \$1,440,000 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 \$712,518 in City checks were signed by someone other than the individuals statutorily authorized to sign such checks. Additionally, nearly \$54,000 in payments lacked adequate documentation to support the expenditure. The APA also identified other issues related to the City's disbursement process, as detailed in the Comments and Recommendations section that follows.
6. ***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 W-4 and I-9 documentation, lack of documentation to support the allocation of payroll costs, and incorrect retirement withholdings.
7. ***Receipt Processes, Including Utility Billing and Collection:*** The City lacked proper procedures to ensure that all customers paid for the correct monthly water, sewer, and sanitation utilities. The City did not have a way to track amounts owed by each customer and no way to ensure that its accounts receivable balance at September 30, 2016, was correct. Finally, the APA noted a number of other internal control issues related to the City's receipt process.

CITY OF CROFTON

**SUMMARY OF COMMENTS**

(Concluded)

8. ***Tax Increment Funding Issues:*** The City lacked adequate documentation to ascertain its full compliance with State statutes that govern tax increment financing (TIF). The City received \$2,298 in TIF during the fiscal year.
9. ***Sales Tax Remittances:*** The City was late in its remittances of State and local sales and use taxes for the months of June 2015 through January 2016. The total amount of taxes remitted for this time period was \$9,376. Additionally, the City appears to have underpaid \$31 in tax to the Nebraska Department of Revenue for the January 2016 tax remittance.

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 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. 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. Financial Statement Issues

One of the main reasons for the Auditor of Public Accounts (APA) performing the fiscal year 2016 audit was to ensure that the City of Crofton (City) was on the right track after its 2015 audit was completed. At the conclusion of the 2015 audit fieldwork, the APA met and discussed all findings, recommendations, and related adjustments with the City to ensure that management and the City Council (Council) understood what was in need of improvement going forward. At around that time, the City hired an accounting firm to transfer its financial records and utility billings into QuickBooks and to provide consulting assistance to help ensure that transactions were being recorded correctly within the newly implemented accounting system.

Nevertheless, the City's management continued to lack the ability to ensure that its financial statements and related disclosures were complete and accurate for fiscal year 2016. Prior to starting any fieldwork on the audit, the APA received an email from the City Attorney providing the City's QuickBooks accounting records for the fiscal year ended September 30, 2016. Included with that correspondence was notification that the City was also preparing the financial statements, which would be reviewed by its hired accounting firm.

Based on the assurance that the financial statements were being completed by the City and would be subject to subsequent review by accountants, the APA budgeted the hours needed to complete the 2016 audit. Soon after beginning the audit fieldwork, however, the APA determined that the financial statements had been neither prepared nor reviewed for fiscal year 2016. Rather, it was the City's mistaken understanding that these functions were included automatically in the QuickBooks file provided.

After reviewing the original QuickBooks file received, the APA soon found significant issues with the accounting records and coding contained therein. On January 23, 2017, the APA sent an email message to the Council members and City management, explaining that the initial QuickBooks file was unreliable. The APA gave the City until January 30, 2017, to make the necessary adjustments; however, the City requested an additional week, which was granted. The APA also offered to meet with City representatives to discuss the related items, if needed.

Among the issues that the APA noted with the accounting records in QuickBooks were the following:

- At least 33 lines of coding were recorded to an account entitled "Ask My Accountant." These entries included deposits, checks, bills, and general journal entries netting to a total of \$232,136.
- The City was utilizing the class system to record transactions to the proper fund within QuickBooks. However, the APA identified at least 122 lines of coding that did not have a specific class assigned. These lines of coding netted to a total \$263,928.
- At least 85 lines of coding, which totaled \$214,578, were lumped together as "utilities income" but not separated between the income source funds for water, sewer, and sanitation.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 1. **Financial Statement Issues** (Continued)

- Other errors were identified, including disbursements being recorded as receipts. For example, a \$19,005 check payable to Cedar Knox Public Power was recorded to a revenue account. In addition, a significant number of accounts were not being used consistently in QuickBooks.

The City sent the APA an updated QuickBooks file on February 7, 2017. However, the APA found additional issues with the recording of certain transactions, including lines of coding that were added in QuickBooks without a class and a \$13,190 check that was switched from an expense to a revenue account. After additional correspondence with the City, the APA received the third updated version of QuickBooks on February 13, 2017. Unfortunately, an initial review of that newer version revealed more errors.

On February 15, 2017, the APA sent another follow-up email message to the Council members and City management regarding the need for complete and accurate accounting transactions to be recorded in QuickBooks. The APA provided information regarding the issues that were observed in the initial review of the updated file, which included some of the following:

- Due to the City having removed certain transactions from the updated file, a negative bank balance of \$118,516, as of September 30, 2016, was incorrectly shown in QuickBooks.
- There were issues with the monthly reconciliations between QuickBooks and the City's bank records. Included with the City's balancing each month were reconciling items, such as \$117,547 in outstanding deposits and \$174,197 in outstanding checks, which were in addition to its other reconciling items. Using the reconciling items noted on the City's reconciliation, the APA could not agree the accounting system cash balance to the cash in the bank. Additionally, the APA could not reconcile receipt and disbursement activity in the accounting records to activity on the bank statements for the period without examining each individual transaction. The APA also identified a reimbursement receipt of \$11,766 recorded in QuickBooks; however, the APA could not find a corresponding deposit in the bank statements.
- The City did not record or track its restricted cash balances. The restricted equity accounts with balances in QuickBooks at September 30, 2015, did not agree to the fiscal year 2015 audit report, and the City did not know the cause of this discrepancy. Additionally, no transactions were posted and no balances were updated in these equity accounts in fiscal year 2016.
- There were issues with accounts receivable balances for utilities that did not appear to reconcile to the actual balances due at September 30, 2016. The City had a balance of \$70,997 per the most updated QuickBooks file received.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**1. Financial Statement Issues** (Continued)

Additionally, the APA had discussions with the City on the opening cash balance in QuickBooks. Based upon the bank balance at September 30, 2015, along with outstanding checks, the ending book balance of one of the City's accounts was \$117,546. When the APA received the original QuickBooks file, the beginning cash balance in the general checking account at October 1, 2015, was \$61,652, resulting in an understatement of \$55,894. The City changed this amount on the revised QuickBooks file dated March 12, 2017, to \$119,302, resulting in an overstatement of \$1,756.

After the above files were received, the City provided the APA with other subsequent QuickBooks backup files dated February 28, March 12, and March 17, 2017, all of which contained additional changes to the accounting data. Eventually having to format the financials based on one of the QuickBooks data files received, the APA utilized the March 17, 2017, file to do so. Even after all the updated QuickBooks files had been received, however, the APA still had to recommend a significant number of adjustments to the City's accounting records within QuickBooks, as identified in Comment and Recommendation Number 4 herein.

Due to the untimely receipt of the accounting records, the City's audit was not completed by March 31, 2017, as required. Neb. Rev. Stat § 19-2903 (Reissue 2012) provides, in relevant part, the following:

*The municipal authorities of each municipality shall cause an audit of the municipality's accounts to be made by a recognized independent and qualified accountant as expeditiously as possible following the close of the fiscal year for such municipality and to cover all financial transactions and affairs of the municipality for such preceding fiscal year . . . . Such audit shall be completed and the annual audit report made by such accountant shall be submitted within six months after the close of the fiscal year . . . .*

The City is currently utilizing its City Attorney to answer any QuickBooks or financial statement questions. Regardless, the City should ensure that its financial records and underlying data support the financial statements. Good internal controls require procedures that are conducive to fair and complete financial reporting. There is an increased risk for material misstatements when such procedures are not in place. This finding was included in the prior audit and continues to be a material weakness.

We recommend the City implement procedures to ensure that financial management has the level of expertise needed to prepare fair and complete financial statements and necessary adjustments. Such expertise should include the ability to perform a periodic review of the accounting records to ensure that amounts are recorded accurately and consistently and are properly allocated to the various City funds. If current financial management is incapable of carrying out these essential procedures, the City should consider hiring the necessary staff or consultants to do so.



## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 1. **Financial Statement Issues** (Concluded)

*City's Response: The transition from manual accounting processes to Quickbooks proved to be far more problematic than expected. The city continues to invest in training and development tools in order to improve consistency and accuracy. One such tool is a classification key that will act as a guide for staff, so that entries will be coded consistently. Only authorized personnel will be allowed to make classification changes to Quickbooks.*

*Quickbooks, as a software platform is limited as a tool for government accounting. Many items cited by the auditor are the result of the software limitations. The city attempted to overcome these limitations by utilizing Microsoft Excel Spreadsheets. Through this process, the auditor has educated the city (and its accountant) that tasks performed in spreadsheets should be carried over into Quickbooks and not maintained in separate documents. The city is also looking to see whether or not Clerkbooks will be an acceptable add on software to Quickbooks. If so, this will enable the city to complete government accounting functions directly in the Quickbooks software.*

#### 2. **Repayments of Alleged Misappropriation of City Monies**

During the fiscal year 2015 audit, the Auditor of Public Accounts (APA) found that a former City Clerk (Clerk) for the City of Crofton (City) appeared to have misappropriated City funds, including money allocated to a local softball program, for personal use. At the conclusion of the audit, the APA informed the Knox County Attorney of this apparently fraudulent activity. To avoid a potential conflict of interest, however, the neighboring Pierce County Attorney was appointed to serve as a special prosecutor for the case. As of February 6, 2017, the investigation remains ongoing.

At some point in 2016, the former Clerk repaid \$20,000 to the softball program. City staff played no part in arranging for this reimbursement and received none of the money. During the City Council meeting on May 4, 2016, a representative of the softball program informed the City of the \$20,000 repayment. At that time, a lengthy discussion ensued regarding the proper disposition and use of the returned funds. As of February 7, 2017, however, none of that money had been transferred to the City.

The APA has made several attempts to obtain documentation regarding the former Clerk's \$20,000 restitution to the softball program. Nevertheless, as of February 13, 2017, none of the requested records have been forthcoming.

Additionally, during the prior fiscal year, the former Clerk repaid \$11,766 to the City for, what appeared to be, misappropriated funds.

Good business practices require that City funds allocated to a local program be used for their intended purpose or be returned. Without such practices, there is an increased risk for the loss or misuse of public funds, especially when suspected misappropriation is involved.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 2. **Repayments of Alleged Misappropriation of City Monies** (Concluded)

We recommend the City continue to assist with the ongoing investigation into the former Clerk's alleged misuse of public funds. In addition, if the funds returned to the softball program are not transferred to the City, some formal arrangement should be made regarding their proper disposition and use.

*City's Response: The City continues to work with the appropriate parties and individuals to resolves these matters. We believe that a tentative agreement has been reached with the Softball Association regarding the use of the \$20,000. The formal agreement is expected to be ratified by the council on April 20th.*

#### 3. **Control Environment**

A control environment conducive to fair and complete financial reporting requires 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.

Due to the limited size of the City of Crofton's (City) staff, an adequate segregation of duties was not possible. The 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, receiving bank statements, preparing the claims listing for City Council (Council) approval, and providing financial information to the City's accounting firm.

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 City Manager provided the Council with a listing of current invoices along with information on bank balances and receipt and disbursement activity. The bank balances and activity were presented based upon either QuickBooks reports or a spreadsheet maintained by the City Attorney.

Due to the issues noted in this audit report, specifically in Comment and Recommendation Number 1, the APA is uncertain as to the accuracy of the information presented to the Council regarding the City's activity. Based upon the presentation of this questionable information, moreover, the Council would be unaware if a check was issued without appropriate approval.

Additionally, the APA found the following control issues:

- Unused City checks were kept in an unlocked drawer of the Clerk's desk. Anyone who had access to the Clerk's office would also have had access to the checks.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 3. **Control Environment** (Continued)

- The City had a negative Street Fund balance of \$54,671 and a negative cash and cash equivalents of \$211 in the Sanitation Fund at September 30, 2016. The City failed to monitor appropriately its balances. Consequently, the \$211 and \$54,671 amounts at issue represent money paid for by other funds of the City.
- The City did not have a capitalization policy that provided the threshold for when items should be added to the inventory list. Per discussion with the City Manager, the City's policy was to capitalize items with a value over \$500. In addition, formal written procedures did not exist for when items should be added to or removed from the inventory list or how often that list should be reviewed. Additionally, we noted that the City had no inventory list for City-owned real estate.
- Utility accounts were not adequately recorded, balanced, reconciled, or maintained. See Comment and Recommendation Number 7 herein for more information.

Furthermore, during a cash count performed at the City office on January 18, 2017, the following issues were noted:

- Eight of nine checks on hand, totaling \$889, were not restrictively endorsed.
- One \$82 check on hand, which was dated January 26, 2016, had not been deposited by the City. City staff was not aware this check was on hand, as it was pressed up against the front of the Clerk's desk drawer.
- The Clerk used \$5 of her personal money to make change when a customer paid a utility bill.

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 the loss or misuse of public funds, as identified in the previous comment. This finding is considered a material weakness. A similar finding was noted in the prior year's audit report.

We recommend the Council implement procedures to ensure the following:

- Financial transactions are adequately documented, reviewed, and monitored.
- A proper level of monitoring and review is conducted by the Council, which is responsible for the operations of the City.
- Fund balances are monitored on a periodic basis, and steps are taken to ensure the negative Street Fund and Sanitation Fund balances are addressed.
- All utility accounts are properly recorded, reconciled, balanced, and maintained. See also Comment and Recommendation Number 7.
- Unused check stock is properly controlled.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**3. Control Environment (Concluded)**

- Assets lists and capitalization policies are approved and maintained.
- Checks are restrictively endorsed immediately upon receipt, and deposits are made timely.

*City's Response: The City continues to look at ways to improve the segregation of duties. It should be noted that the day that the auditor conducted the cash count the clerk had just checked the mail and was performing the deposit for that day.*

*The City's street fund has not been negative. Sales tax income allocated to infrastructure have been used to supplement expenditures for street projects. This is reflected in the excel spreadsheets the City keeps. We are in the process of learning how to account for this in Quickbooks.*

**APA Response: The APA formatted the City's financials based upon activity recorded in QuickBooks, the City's accounting system. Based upon this activity and the prior year fund balance, the Street Fund had a negative fund balance as of September 30, 2016. The allocation of related sales tax income should be accurately reflected in the City's accounting system.**

**4. Accounting Errors**

The Auditor of Public Accounts (APA) identified a number of significant recording errors that led to their recommendation of necessary adjustments to the City of Crofton's (City) financial statements. The following table summarizes more than \$1,506,000 in errors found in the City's recording of receipts or disbursements:

Description	Fund	Financial Statement Classification	Amount	APA Notes
2015 Bond Payoff	Capital Projects	Debt Service Principal and Interest	\$1,006,356	Payment to pay off the 2015 bond was recorded to the Street Fund; however, it should have been recorded to the Capital Projects Fund.
Cedar Knox Public Power	Water	Contracted Services	\$143,506	Payments to Cedar Knox for water, totaling \$124,501, were recorded to Utilities by the City, but these payments should have been recorded to Contracted Services. Additionally, one payment to Cedar Knox was recorded to the Capital Projects Fund when it should have been recorded to the Water Fund for \$19,005.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**4. Accounting Errors** (Continued)

Description	Fund	Financial Statement Classification	Amount	APA Notes
Cedar-Knox Public Power District (CKPPD) Lease	General	Intergovernmental	\$92,633	The first quarter 2016 lease monies received from CKPPD were recorded to Utilities Income and the second quarter 2016 lease monies were recorded to General Income in QuickBooks when both should have been recorded to Cedar Knox Public Power Income, totaling \$48,848. On the February 7, 2017, revised QuickBooks file, the first quarter receipt was incorrectly moved to Rent Income and the second quarter receipt was correctly moved to Cedar Knox Public Power Income. Additionally, the City noted all receipts from CKPPD were Miscellaneous when they should have been classified as Intergovernmental. Total received from CKPPD during the fiscal year was \$92,633.
Farmers and Merchants Bank	General	Debt Service Principal and Interest	\$53,301	This was a repayment of a short-term loan. The payment was recorded as an operating and interest expense in General Government in QuickBooks; however, loan repayments should be recorded as Debt Service Principal and Debt Service Interest, separate from the General Government function.
Farmers and Merchants Bank	General	Loan Proceeds	\$52,000	The City recorded loan proceeds as a Miscellaneous Receipt; however, this should be separately identified in the financials as Loan Proceeds.
Art's Garbage	Sanitation	Contracted Services	\$45,839	Payments to Art's Garbage were recorded to Materials and Supplies Expense and Utilities Expense throughout the year. Payments should have been recorded to Contracted Services.
2nd Street Bond Payment	General	Debt Service Principal and Interest	\$28,963	This was a repayment of the 2010 Bond Series. The payment was coded in QuickBooks to the Street Fund when it should have been recorded to the General Fund.
Farmers and Merchants Bank	General	Debt Service Principal	\$24,000	This was a repayment of a short-term loan. The loan proceeds were deposited into the General Fund, therefore, the repayment should also be out of the General Fund, however the City coded this repayment to the Street Fund.
Olsson Associates	Sewer	Professional Fees	\$14,975	The City incorrectly recorded payments related to a sewer study to Olsson as Miscellaneous Expenses when they should have been coded to Professional Fees.
Pool Receipts	General	Charges for Services	\$13,091	The City noted that pool receipts should be classified as Miscellaneous; however, since the City is providing the pool for residents to use, it would be more appropriate to record the receipts as Charges for Services.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**4. Accounting Errors** (Continued)

Description	Fund	Financial Statement Classification	Amount	APA Notes
State Highway Allocation Funds	Street	Intergovernmental	\$8,564	The receipt for the July 2016 Highway Allocation was recorded as a Motor Vehicle Tax receipt rather than a receipt for Highway Allocation.
Municipal Equalization Aid	General	Intergovernmental	\$5,552	Two of four receipts received from the State were recorded as Highway Allocation in the Street Fund rather than Municipal Equalization Aid in the General Fund.
Kansas State Bank	Street	Debt Service Principal and Interest	\$4,404	Payments to pay off street equipment were recorded to the General Fund and to Equipment Expense. Payments should have been recorded to the Street Fund to Debt Service Principal for \$4,372 and Debt Service Interest for \$32.
Tim Arens	Water	Repairs and Maintenance	\$3,610	Payments for water repairs were recorded by the City to Contracted Services. Per discussion with the City Attorney, he stated these payments would be more appropriate as Repairs and Maintenance.
Utility Receipts	Water, Sewer, and Sanitation	Charges for Services	\$3,548	As noted in Comment and Recommendation 1, QuickBooks originally had lines of coding totaling \$263,928 that were unclassified. When the APA received the final QuickBooks file, \$3,548 was left as unclassified. Since these appeared to be receipts for utilities, the APA allocated amounts to the Water, Sewer, and Sanitation Fund based upon total receipts received in each fund during the year.
Q125 Centennial Payment	General	Culture & Recreation	\$2,636	The City made a payment for Crofton's 125th celebration, which was coded to Ask My Accountant in QuickBooks. This should have been coded as an expense to Culture and Recreation.
Refund of Overpayment	Street	Public Works	\$1,244	A vendor sent an overpayment back to the City. The City recorded the money received as a receipt; however, it should have been recorded as a negative disbursement in order to offset the original payment in QuickBooks.
Assisted Living Payment	General	Miscellaneous Receipts	\$1,000	The City incorrectly receipted money into its bank account during FY15 for assisted living donations received. When the City paid out the monies, it was recorded to Ask My Accountant in QuickBooks.
Health Insurance	Sewer	Personnel Services	\$438	The City incorrectly recorded payments related to employee health insurance as a Miscellaneous Expense when they should have been classified as Personnel Services.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**4. Accounting Errors** (Continued)

Description	Fund	Financial Statement Classification	Amount	APA Notes
Housing Loan Program Receipts	Housing Rehab	Miscellaneous Receipts	\$348	Several receipts the City received during the year for Housing Rehab were recorded as negative accounts receivable, rather than to a revenue account in QuickBooks. Additionally, two receipts were recorded to the General Fund when they should have been recorded to the Housing Rehab Fund.
<b>Totals</b>			<b>\$1,506,008</b>	

Adjustments were suggested to correct the City's financial statements for the errors identified above. Additionally, the APA found other coding issues, as described below.

***Recording of Payroll Withholdings***

During review of the payroll process, the APA noted that the City doubled expenditures in QuickBooks for Federal and State payroll withholdings, State Unemployment Tax, and IRA contributions. When processing payroll in QuickBooks, an expense and a liability are recorded for these amounts. Then, when the City remitted withholdings and other payroll deductions, it created another expense in QuickBooks rather than clearing out the liability account. These expenses were coded entirely to the General Fund, General Government, which also was not appropriate as some City employees' wages were split between several funds. The APA proposed an entry to reverse the liability activity out of the financials, which also reduced expenses, for a total of \$63,608. Additionally, the APA proposed an entry to move some of the withholdings and other payroll deductions to other City funds and functions based upon how employees' wages were recorded. The City agreed with the proposed adjustment and a total of \$88,451 in disbursements was moved out of the General Fund, General Government as seen in the table below:

Fund/Function	Federal Withholdings	State Withholdings	IRA Contributions	Total
General Fund General Government	(\$71,177)	(\$9,799)	(\$7,475)	(\$88,451)
General Fund Culture and Recreation	\$15,255	\$1,564	\$878	\$17,697
General Fund Public Health and Safety	\$25,433	\$3,644	\$3,087	\$32,164
Street Fund	\$20,471	\$3,065	\$2,194	\$25,730
Sewer Fund	\$5,009	\$763	\$658	\$6,430
Water Fund	\$5,009	\$763	\$658	\$6,430
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

A good internal control plan and sound accounting practices require procedures to ensure expenses are accurate in the City's accounting system.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 4. Accounting Errors (Continued)

##### ***Recording of City Sales Tax Receipts***

The City received sales tax receipts from the State of Nebraska on a monthly basis. A portion of sales tax receipts received were motor vehicle sales tax receipts, which should be separately recorded to an account that is included in the Street Fund. The remaining portion of the sales taxes should be 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 above allocation method appears to conform to the requirements of Neb. Rev. Stat. § 39-2520(1) (Reissue 2016), 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, 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 the same statute explains that the requirements of section (1) apply also 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.*

For one sales tax receipt, the motor vehicle taxes were recorded to the General Fund rather than the Street fund. Due to this, the Street fund receipts were understated by \$805, and the General Fund was overstated by the same amount. Additionally, all motor vehicle taxes received from the State during the fiscal year were recorded as sales tax receipts rather than city motor vehicle sales tax receipts. This resulted in an error of \$14,462.

For one receipt, moreover, the City failed to allocate the sales taxes received to the proper City function in accordance with the ballot language noted above. This was corrected in the updated QuickBooks file provided to the APA by the City on February 13, 2017.

The table below illustrates the original recording of the sales taxes compared to the amounts determined by the APA:



# CITY OF CROFTON

## COMMENTS AND RECOMMENDATIONS (Continued)

### 4. Accounting Errors (Continued)

Fund	City Function	Correct Coding	Coding by City	Variance
General	Park/Pool (20%)	\$1,302	\$0	\$1,302
General	Economic Development (20%)	\$1,302	\$0	\$1,302
General	Infrastructure (60%)	\$3,907	\$0	\$3,907
General	N/A	\$0	\$8,697	(\$8,697)
Street	N/A	\$2,186	\$0	\$2,186
<b>Totals</b>		<b>\$8,697</b>	<b>\$8,697</b>	<b>\$0</b>

#### ***Recording of County Receipts***

During review of the City's 2016-2017 budget, it was noted that Motor Vehicle Pro-Rate and In Lieu of Taxes receipts were not separately listed on the budget. For the fiscal year ended September 30, 2016, the City received \$314 in Motor Vehicle Pro-Rate and \$13,110 of In Lieu of Taxes receipts. Neb. Rev. Stat. § 13-504(1)(c) (Cum. Supp. 2016) states that the budget must contain an estimate of revenue from all sources. Additionally, a good internal control plan requires procedures to ensure receipts are properly recorded for accurate budget preparation.

The APA also identified issues with the City's recording of monies received from Knox County for all 12 months tested. Those errors included the following:

- The City failed to record the Township levy receipts to the Street Fund, as required by Neb. Rev. Stat. § 39-1522 (Reissue 2016). Because the City was recording much of the motor vehicle tax to the Street Fund, however, an adjustment of only \$1,730 was necessary.
- One transaction, totaling \$1,295, was coded to motor vehicle income when it should have been coded to motor vehicle tax, similar to all other lines of coding during the fiscal year.
- Tax Increment Financing (TIF) monies of \$2,298 were not recorded separately, as the revenues were lumped in with other County general fund receipts.
- County commissions, totaling \$1,648, were recorded as an expense (professional services expenses) and not to an offsetting revenue account.
- When recording county receipts in QuickBooks, the City recorded the majority to Property Taxes. However, there are several other types of receipts that the City receives from the county including Motor Vehicle Tax, Homestead Exemption, Property Tax Credit, Motor Vehicle Prorate, and In Lieu of Taxes. Due to how the financials are presented and the requirements to show receipts by type on the City's budget, the City should split these receipts out by type within QuickBooks rather than lumping into Property Taxes. Due to this, the APA proposed an adjustment to move \$32,182 of county receipts out of Property Taxes and into the correct receipt types.

# CITY OF CROFTON

## COMMENTS AND RECOMMENDATIONS (Continued)

### 4. Accounting Errors (Concluded)

When adequate procedures are not in place to ensure the accuracy of financial information used to compile the financial statements, there is greater risk that material misstatements may occur and remain undetected. Additionally, when activity is not entered correctly into the accounting system, there is an increased risk that the City's budget submission will be inaccurate. This finding is considered a material weakness. A similar finding was noted in the prior year's audit report.

We recommend the City implement procedures, including a periodic review of the accounting records for receipts and disbursements, to ensure all amounts are recorded accurately in the accounting system and properly allocated to the various funds and City functions.

*City's Response: The city takes note of the auditor's finding. It does however add that the majority of the errors occurred prior to the auditor's release of last year's findings and the replacement of certain key staff members. Many of these errors have been since corrected. The city also makes note that several of these items are statements of best practice. The city strives for best practice wherever practicable. Best practice is not always practicable, however.*

### 5. Disbursement Processes

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

#### ***Lack of Proper Council Approval***

The APA identified 7 out of 20 claims tested that were either paid prior to City Council (Council) approval, were not approved by the Council, or were for an amount different than that approved. The following table summarizes these issues for the items tested.

Check Number	Check Date	Payee	Amount	Amount Approved by Council	Date Approved by Council
1409	7/13/16	F&M State Bank (1)	\$1,003,250	\$0	N/A
31551	10/21/15	A&R Construction	\$175,480	\$0	N/A
<b>Claims Paid, but Never Approved by the Council</b>			<b>\$1,178,730</b>	<b>\$0</b>	
1410	7/13/16	F&M State Bank	\$25,000	\$25,000	7/21/16
<b>Claims Paid Prior to Council Approval</b>			<b>\$25,000</b>	<b>\$25,000</b>	
31739	1/20/16	A&R Construction (2)	\$108,231	\$170,731	12/7/15
1448	8/3/16	F&M State Bank	\$53,301	\$57,000	7/6/16
31728	1/18/16	Wilfred Tramp	\$51,169	\$44,949	1/13/16
31550	10/20/15	F&M State Bank	\$24,000	\$25,000	10/5/15
<b>Claims Paid for the Inappropriate Amount</b>			<b>\$236,701</b>	<b>\$297,680</b>	
<b>Total Claims Lacking Proper Approval by Council</b>			<b>\$1,440,431</b>	<b>\$322,680</b>	

(1) The City Council approved an ordinance on 6/16/16 that allowed for the redemption and the replacement of the 2015 Bond Series but never approved the dollar amount to be repaid.

(2) The City Council originally approved \$170,731, which agreed to the original invoice received by the City. The City then received a revised invoice in the amount of \$108,231. The Council discussed the project during a meeting but never approved this amount to be paid to the contractor.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 5. **Disbursement Processes** (Continued)

Neb. Rev. Stat. § 17-614(1) (Cum. Supp. 2016) 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.*

Additionally, good internal control requires procedures to ensure that all amounts are approved prior to payment, and the amounts paid agree to the amounts approved. Without adequate procedures to ensure that 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 each claim, there is an increased risk for the loss or misuse of City funds.

#### ***Authorized Signers on Checks***

The APA also identified that 11 out of 20 checks tested, as well as 2 additional payroll checks, were signed by Michael Guenther, the Mayor Pro-tem, instead of by the Mayor or Council Chair, as required by State law. Additionally, one check was signed only by the City Clerk (Clerk), and lacked a second signature by the Mayor or Council Chair. Those 14 checks are detailed below:

Date	Payee	Amount
10/13/2015	Crofton Baseball Association	\$2,000
10/20/2015	F&M State Bank	\$24,000
10/21/2015	A&R Construction	\$175,480
10/21/2015	Eisenbraum	\$43,500
11/3/2015	Kansas State Bank	\$1,468
11/5/2015	A&R Construction	\$291,305
11/5/2015	Olsson Associates	\$8,125
11/12/2015	Larry Stallbaum	\$1,354
11/12/2015	Racheal Haberman	\$828
11/17/2015	Assisted Living	\$1,000
1/18/2016	Wilfred Tramp	\$51,169
1/18/2016	Q125 Centennial (1)	\$2,636
1/20/2016	A&R Construction	\$108,231
2/5/2016	Steffen's Service Station	\$1,422
<b>Total</b>		<b>\$712,518</b>

(1) This check was signed only by the Clerk.

The above checks are but a sample of those selected for testing; however, it appears that the majority of payments from July 2015 through late April 2016 were signed by the Mayor Pro-tem. The City had 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.)*

# CITY OF CROFTON

## COMMENTS AND RECOMMENDATIONS (Continued)

### 5. Disbursement Processes (Continued)

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 an increased risk for the misuse of City funds.

#### ***Prepayment of Services***

During testing, APA found that the City paid Hendrix Law for the entire month of September 2016 attorney and administrative services in advance of the services actually being performed in the amount of \$3,500. The payment was made on September 7, 2016, 23 days before the last date of the services to be performed. It is unclear why the City paid in advance for attorney and administrative services, as the agreement between the vendor and the City did not state that monthly payments were to be made before the services were performed.

A good internal control plan and sound business practices require procedures to ensure that payment for services is made after the services are rendered.

#### ***Lack of Supporting Documentation***

Six of 24 disbursements tested either contained no documentation at all or did not contain adequate documentation to support the expenditure. Additionally, two of these disbursements included payments for sales tax.

Date	Payee	Description	Amount	Issue
1/18/2016	Wilfred Tramp	Land Purchase	\$51,169	The City agreed to make three annual payments on October 1 of each year beginning in 2014. The City failed to make the 10/1/15 payment until 1/18/16, resulting in additional interest owed to the payee. However, the City calculated the additional interest owed using a monthly rate instead of a daily rate, resulting in an overpayment of \$102. There was no documentation on hand to support the monthly rate used to calculate interest owed due to late payment, rather than using a daily rate.
9/7/2016	Marty O'Connor	Investigative Services	\$1,612	No contract or agreement was obtained for these services to ensure the amounts invoiced to the City were appropriate.
1/18/2016	First Dakota National Bank	Credit Card Payment	\$424	There was no supporting documentation for three of four transactions included on the credit card claim. Additionally, the City inappropriately paid \$8 in sales tax.
3/3/2016	First Bank Card	Credit Card Payment	\$397	There were no itemized receipts for two of four transactions included on the credit card claim. Additionally, one of four credit card transactions had only a handwritten note to support it. Furthermore, the City inappropriately paid \$8 in sales tax.

# CITY OF CROFTON

## COMMENTS AND RECOMMENDATIONS (Continued)

### 5. Disbursement Processes (Continued)

Date	Payee	Description	Amount	Issue
3/15/2016	First Bank Card	Credit Card Payment	\$191	There were no itemized receipts for one of five transactions included on the credit card claim. Additionally, four of five credit card transactions had no supporting documentation.
3/3/2016	First Bank Card	Credit Card Payment	\$28	There were no itemized receipts for two of four transactions included on the credit card claim. Additionally, one of four credit card transactions had no supporting documentation.
<b>Total</b>			<b>\$53,821</b>	

The APA identified also one disbursement that was paid twice, for a total of \$3,888, based on the same invoice. The first payment was made to Art's Garbage Service for monthly garbage services provided for February 2016, based on an invoice dated February 9, 2016. Another payment for the same amount was made on March 3, 2016, based on the same invoice. Per a review of subsequent payments made to Art's Garbage Service, it appears that the second payment of \$3,888 was applied towards the April 2016 invoice; however, the City had no documentation on hand for the April 2016 invoice or to show that the \$3,888 payment was ever credited to the City's account.

The documentation provided by the City was inadequate to meet the requirements of Neb. Rev. Stat. § 17-714 (Reissue 2012), which provides, in relevant part, the following:

*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.*

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

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

### ***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 states the City and "its sublessees and concessionaires . . . shall obtain from a reputable insurance company or companies 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."

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 5. **Disbursement Processes** (Concluded)

Based on the information provided, the APA determined that the Association is not a component unit of the City. Nevertheless, the City paid for the Crofton Golf Course's liability insurance until April 6, 2016. The Association appears to have reimbursed the City for insurance costs through March 5, 2016; however, an insurance audit was performed that resulted in increased premiums, totaling \$798, for the Association. Additionally, the City incurred expenses of \$912 for insurance from March 5, 2016, through April 6, 2016. Therefore, the Association appears to owe the City \$1,710 for insurance costs. When asked, the City could not provide documentation to support how much the Association owed for insurance costs.

A good internal control plan requires procedures to ensure that amounts due to the City are appropriately pursued. Such plan should also ensure that disbursements are paid only after Council approval, checks are signed by appropriate City personnel, and sufficient documentation for payments is obtained. This finding is considered a material weakness. A similar finding was noted in the prior year audit report.

We recommend the Council implement procedures to ensure the following:

- All claims are properly approved prior to payment.
- Checks have the two signatures, either the Mayor or the Council President and the Clerk, required by statute.
- Claims are paid only after services have been rendered.
- Documentation to support financial transactions is obtained prior to payment and is appropriately maintained.
- Significant transactions are supported by written contracts or agreements.
- Sales tax is not paid on City purchases.
- The City is reimbursed for any insurance paid on behalf of the Association.

*City's Response: The city takes note of the auditor's finding. It does however add that the majority of the errors occurred prior to the auditor's release of last year's findings and the replacement of certain key staff members. Many of these errors have been since corrected. The city also makes note that several of these items are statements of best practice. The city strives for best practice wherever practicable. Best practice is not always practicable, however. The city will follow up with the Golf Association regarding the insurance matter.*

#### 6. **Payroll Processes**

The Auditor of Public Accounts (APA) noted the following issues with the City of Crofton's (City) payroll process:

##### ***Internal Control Issues***

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

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 6. **Payroll Processes** (Continued)

- The City lacked an ordinance approving the compensation of its employees and officials for the first half of the fiscal year. 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 Council (Council) approved an ordinance noting the pay rate ranges for employees during the February 2016 Council meeting.
- The October 2015 through February 2016 payroll was not approved by the Council, which conflicts with Neb. Rev. Stat. § 17-614(1) (Cum. Supp. 2016). That statute says, in relevant part, 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 March 2016 through April 2016 payroll was paid prior to Council approval, which is also not in accordance with State statute. For these months, the Council approved the payroll amounts in the month after they were paid. For May 2016 and after, the Council approved estimated payroll prior to payroll being paid by the City. Actual payroll costs were sometimes, but not always, approved after the fact at a later Council meeting.
- The City did not maintain the Employment Eligibility Verification Forms or I-9 Forms for any of its employees hired after November 1986.
- The net pay for two of five employees tested could not be recalculated by the APA, as the City did not have W-4 Forms on file for the 2015 Tax year; therefore, the APA did not know the number of exemptions claimed or the filing status used to withhold taxes on the employees’ paychecks. Based upon the employees’ W-4 forms for the 2016 tax year, one employee appears to have been underpaid \$115, and the other appears to have been underpaid \$13 for the paycheck reviewed.
- The City withheld an additional \$150 in Federal income taxes and \$100 in State income taxes from one employee’s paycheck; however, the amounts withheld did not agree to those specified on the signed IRS Form W-4 on file, which designated only an additional \$25 to be withheld from each paycheck.
- One employee tested was paid an additional \$7; however, no documentation was on hand to support why the employee received this additional amount. Per discussion with the City Manager, it is believed the employee received the additional amount due to a payroll correction.

Good internal control requires procedures to ensure the following: 1) all payroll claims are paid only after Council approval; 2) Federally required I-9 forms are maintained; and 3) documentation is maintained for all payroll amounts and withholdings. Without such procedures, there is an increased risk for the loss or misuse of City funds.

#### ***Recording of Personnel Payroll Costs***

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.”

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**6. Payroll Processes** (Continued)

Additionally, City Resolution No. 16-8, approved on September 7, 2016, states the following:

*The Mayor and City Council may also expend certain monies on expenses, labor or other costs associated with a particular project or improvement. The costs of such expenses shall be assessed to the applicable budget fund(s).*

*The proper manner in which to classify/account for such improvement or expense by fund is to estimate by percentage the total contract costs, expense, or salary dedicated to a certain improvement (and/or project). Such costs shall be proportionately be assessed to each fund. Such percentage estimates will be made on a periodic basis, as deemed prudent.*

Until December 23, 2015, the paychecks of one employee tested were split among different funds – with 50% being coded to the Street Fund, 20% being coded to the General Fund, 15% being coded to the Sewer Fund, and 15% being coded to the Water Fund. Starting with the December 23, 2015, paycheck, however, the employee’s wages were coded completely to the General Fund. The City lacked documentation to support the method used to allocate these payroll costs to the various funds. Per discussion with the City Manager, the employee’s payroll should have been split in a manner similar to that for the first three months of the fiscal year. The APA proposed an adjustment to make the coding of the employee’s payroll consistent for the entire fiscal year, based upon coding done in the first two and-a-half months. See the table below for amounts that had to be adjusted out of the General Fund and into other funds:

<b>Fund</b>	<b>Amount</b>
Street	\$25,947
Sewer	7,784
Water	7,784
General	(41,515)
<b>Total</b>	<b>\$ -</b>

Total personnel costs incurred by the City for this employee were \$58,523 for the fiscal year.

When the APA received the revised QuickBooks file on March 12, 2017, the City changed this employee’s payroll coding to “Maintenance Split,” meaning that it should be split as noted above. Additionally, on the revised QuickBooks file, the City also changed two other employees’ pay to this same maintenance split. The APA proposed an adjustment to move payroll charges, totaling \$32,263, to the proper funds.

Additionally, during payroll testing, the APA noted that the payroll of both the former and current City Clerk (Clerk) was coded entirely to the General Fund. Although the City Clerk’s duties included depositing receipts for trash, sewer, and water billings, no payroll was coded to these funds during the fiscal year. The personnel costs incurred by the City for the former and current City Clerk totaled \$23,225 for the fiscal year. Without adequate procedures in place to ensure payroll costs are properly coded, there is an increased risk that material misstatements will occur and remain undetected.



## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 6. **Payroll Processes** (Concluded)

##### ***Retirement Withholdings***

The City withheld amounts from certain employees' pay for contribution to a retirement IRA. The amount withheld for one employee did not agree to that specified in the signed plan document on file. The employee's agreement stated that the withholding amount would be 3% of gross pay; however, the City withheld 5% of gross pay.

Good internal control requires procedures to ensure retirement withholding amounts agree to those specified in the signed plan agreements on file. Without such procedures, there is an increased risk for the loss or misuse of City funds.

This finding is considered a material weakness. A similar finding was noted in the prior year's audit report.

We recommend the Council implement procedures to ensure the following:

- All payroll claims are paid only after Council approval.
- I-9 forms are maintained on file.
- Documentation is maintained for all City employee payroll amounts, withholdings, and to support how payroll is coded in the accounting system.
- Retirement withholdings for City employees agree to the amounts specified in the signed plan documents on file.

*City's Response: The city will no longer rely on Excel Spreadsheets for recording the payroll coding. Staff is in the process of completing I-9 forms.*

#### 7. **Receipt Processes, Including Utility Billing and Collection**

##### ***Utility Billing and Collection***

The City of Crofton (City) lacked adequate procedures to ensure that monthly utility charges, including those for water, sewer, and sanitation services, were correctly billed, collected, and entered into the City's accounting system. A similar finding was noted in the prior year's audit.

##### ***Process for the First Half of the Fiscal Year***

During the beginning of the fiscal year through April 1, 2016, 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 payment for utilities was to be provided monthly to the City. A City employee then recorded this information into manual spreadsheets. The spreadsheets included the number of gallons of water used each month, the monthly water, sewer, and sanitation rates, the monthly total amounts due, monthly payment information, and the beginning and ending balances or credits. The last self-reported utility bill was on April 1, 2016, for March 2016 usage. 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.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

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

The Auditor of Public Accounts (APA) reviewed the manual spreadsheets maintained by the City and noted various errors regarding the amounts billed to customers, including the following:

- For eight billings, the spreadsheet indicated that there was no water usage for the month billed; however, the City did not bill each of the customers the minimum charge for water fees. The APA determined that \$196 was not properly billed.
- For one customer, the spreadsheet indicated that the customer used 2,000 gallons of water; however, the City charged only \$20 for water fees instead of the correct amount of \$30 (\$25 for the first 1,000 gallons and an additional \$5 for the remaining 1,000 gallons).
- For one customer, the City failed to bill \$53.26 for monthly sewer fees.
- The City did not bill one customer in January 2016 for December 2015 utility fees. The APA determined that \$74 should have been billed for the month for water, sewer, and garbage fees.

#### *Process for the second Half of the Fiscal Year*

Beginning with the April 15, 2016, billing, the City started utilizing accounting software, QuickBooks, to track the utility activity and balances during the fiscal year. Beginning with this billing, City staff read water meters with a wand and handwrote each customer's reading onto a spreadsheet. These meter reading spreadsheets were then used to calculate the water usage to be charged for each customer. Because the meter readings were handwritten onto a spreadsheet and there was no secondary review to ensure that the billings were correct, there was an increased risk for inaccurate billings during the year.

Upon receiving the original QuickBooks file from the City in November 2016, the APA noted that the utility billings for October 1, 2015, through April 1, 2016, were not recorded as receivable amounts in QuickBooks, and payments received were not applied to customer accounts. This would have made it impossible for the City to determine which customers were behind on billings and how much each customer owed. Additionally, the APA was unable to determine the accounts receivable balance for the Sewer Fund, Water Fund, and Sanitation Fund, as of September 30, 2016, for financial statement purposes. The APA requested that the City correct its QuickBooks file. See Comment and Recommendation Number 1 – Financial Statement Issues herein for more information regarding the QuickBooks revisions received.

When a revised QuickBooks file was received on February 7, 2017, the APA attempted to recalculate the accounts receivable balance based upon the old QuickBooks file and taking into consideration billings that the City added and receipts that were moved to customer accounts. Based upon this information, the accounts receivable balance should have been \$48,137 in the new QuickBooks file. However the new QuickBooks file was showing an accounts receivable balance of \$70,997, for a variance of \$22,860. The APA notified the City of this variance, and the final QuickBooks file received on March 17, 2017, was revised to lower this variance.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

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

However, due to both the numerous changes made to the QuickBooks files prior to receiving the final version on March 17, 2017, as noted in Comment and Recommendation Number 1 herein, and other issues detailed below, the APA is unable to determine whether the accounts receivable is presented accurately in the financial statements.

Because of the variance noted in the accounts receivable balance at September 30, 2016, and the testing noted below, the APA selected a few accounts and obtained independent payment records from the entities selected to determine if the utility payments remitted to the City agreed to the City's receipts in QuickBooks. The following issues were noted:

<b>Entity</b>	<b>Amount Paid Per Entity Records for 10/1/15 – 8/15/16 Billings</b>	<b>Amount Received Per City Records for 10/1/15 – 8/15/16 Billings</b>	<b>Variance</b>
Entity 1	\$6,796	\$6,256	(\$540)
Entity 2	5,367	4,354	(1,013)
Entity 3	773	298	(475)
Entity 4	638	661	23
<b>Totals</b>	<b>\$13,574</b>	<b>\$11,569</b>	<b>(\$2,005)</b>

*Utility Billing Testing*

Additionally, during testing of 25 utility billings, the APA noted the following:

- For five billings, the amount billed or paid was not in accordance with the fees set by the City Council (Council). Those errors were due to the failure to assess a late fee, not entering an April 1, 2016, billing into QuickBooks, and rounding the gallons of water used. The errors noted totaled \$80.
- For one individual, the City charged \$7 for an extra tote. The City did not have a listing identifying which customers should be billed for an extra tote.
- One customer paid \$99 for a monthly utility billing, which included a correct \$5 late fee. When the billing was entered into QuickBooks, however, the total amount due was shown as \$94, making it appear as though the customer overpaid by \$5.
- The amount paid by one customer for the monthly utility billing was correct; however, when entering the billing into QuickBooks, the City entered \$40 less than the amount due and paid, making it appear as though the customer overpaid by \$40.
- The balances due from each customer as of September 30, 2015, were not entered into QuickBooks correctly. The APA found that 11 of 24 accounts did not have the correct balance. This was primarily because a lump sum of \$7,712 was designated as "State Auditor Adjustment" and entered as a single accounts receivable item, rather than being divided into the separate amounts owed by each customer. Without splitting the amount by customer, the City would not know how much each customer truly owed.

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

- For 10 utility receipts tested, the customers' deposits were not correctly recorded into QuickBooks, as the City never posted the receipts to cash. Instead, the monies remained in an "Undeposited Funds" account. This resulted in cash being understated by \$3,002.
- The City recorded only the lump sum of utility payment receipts on the bank deposit slips from October 2015 through January 2016; therefore, the APA was unable to trace individual customer payments to the bank deposits for 6 of 23 receipts tested. The January 13, 2016, deposit slip below contains an example of such a lump-sum utility receipt deposit:

- A few residents with their own sewers were not charged for that particular utility by the City. The City did not have a list of properties with their own sewers, which increased the risk of incorrect billings.
- The City charges a lower sanitation rate for seniors. The City did not maintain a listing of residents who qualified for this reduced rate.
- The City has a sanitation agreement with a private trash hauler to provide garbage services for customers in the City. The agreement states, “The City will provide a list of residential addresses and what service level is provided at each address. This will be kept updated on a monthly basis.” Per discussion with City staff, the City has not provided the hauler with a list of residential addresses per the agreement. Additionally, the City lacks procedures to ensure that all customers who are receiving garbage services through the hauler are being billed appropriately.

CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

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

*Utility Rates*

Utility rates that became effective in March 2015 and January 2016 were not approved by ordinance. The rates effective for the January 1, 2016, billing were approved by Council Resolution at the February 3, 2016, Council meeting, which was after the City started charging the rates and also was not in accordance with State statute. Additionally, the Resolution approved by the Council set the water read fee at \$5; however, beginning in January 2016, a water read fee of \$3 was charged to customers. Not until April 13, 2016, did the Council approve a water read fee of \$3.

Below are the rates the City charged for water, sewer, and sanitation services during fiscal year 2016:

Type of Service	Rates for March 2015 through December 2015 Billings	Rates for January 2016 through September 2016 Billings
Water	\$23.16 for the first 1,000 gallons and \$4.75 + 6.5% tax for each additional 1,000 gallons	\$25 for the first 1,000 gallons and \$5 for each additional 1,000 gallons
Sewer	\$26.63 Varying commercial rates	\$32.00 Varying commercial rates
Sanitation	\$11.65 senior rate \$13.85 residential Businesses were not covered.	\$12 senior rate \$14 residential Businesses were not covered.

Additionally, the sanitation rates approved by the Council were \$11.65 for seniors and \$13.85 for residential. However, the City rounded up those fees, charging sanitation rates of \$12 and \$14, respectively, for the January 2016 through September 2016 billings.

Neb. Rev. Stat. § 17-538 (Reissue 2012) requires the City's water utility rates 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 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.*

Good internal control and sound business practices require procedures to ensure that utility rates charged not only agree to Council approval or other support but also are set by ordinance, when required.

## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

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

##### *Customer Water Deposits*

The City did not have an adequate method to track customer water deposits on hand. When starting water service, customers are required to pay the City a \$50 deposit. Amounts on hand at the City were shown as a liability, as these amounts were paid back to the customers when they no longer need water service. When new service was started, the City completed a Water Meter Deposit Form (Form) noting the customer and the amount paid to the City. The APA obtained copies of Forms completed during fiscal year 2016 and compared these to amounts recorded in QuickBooks. Based upon this, it appears that the water deposits noted in the system were understated by \$200 at September 30, 2016.

A good internal control plan requires procedures to track utility deposits and receipts to ensure not only their proper financial presentation but also that customers pay the proper monthly fees. Without such procedures, there is an increased risk for both inaccurate financial presentation and the loss of City funds.

The total amount billed during fiscal year 2016 was \$392,763 and the total amount collected by the City on those billings during fiscal year 2016 was \$337,719.

We recommend the City implement procedures to ensure it bills all customers properly each month, and the correct amounts, including late fees, are entered into QuickBooks and paid by customers monthly. We also recommend the City review accounts receivable balances to ensure the amounts are accurate by customer. Furthermore, we recommend the City set its water and sewer rates by ordinance, as directed by statute. Additionally, in compliance with the sanitation agreement, we recommend the City provide the hauler with the promised listing of residential addresses needing garbage services. Finally, we recommend the City track accurately any water deposits received and paid out.

##### ***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 that noted user names and whether the individual purchased a Family Pass, Single Pass, Youth Pass, or Lessons. For daily passes, the spreadsheet included only a count by date. Procedures were not adequate to ensure that all pool receipts were accounted for, deposited at the bank, and properly recorded in the accounting system. The majority of pool receipts are cash, which increases the risk that monies could be misappropriated. Per the City's original accounting system file, the pool receipts collected during the fiscal year totaled \$14,093. Per the City's accounting system file dated March 12, 2017, the pool receipts for that same period totaled \$13,091.

Good internal control procedures require that sufficient documentation be maintained to support the amount recorded in the accounting records. Without such procedures, there is an increased risk for the 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)

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

We recommend the City establish procedures to ensure all monies received for use of the pool are recorded in the accounting system and deposited into to the City's bank account.

***Housing Loan Program Receipts***

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

In April 2006, this individual received a loan in the amount of \$18,126 and was scheduled to repay the City \$110 per month for 240 months. However, the required repayments have been sporadic, resulting in approximately only a third of them being paid over the last 10 years. Loan amounts received during last fiscal year were applied to payments due from 2008 and 2009. As a result, the interest due on this loan has increased significantly. The following chart depicts the interest and loan balances that have accrued since 2009.

<b>Fiscal Year End</b>	<b>Interest Calculated</b>	<b>Total Amount Due</b>
Balance at May 2009		\$16,127
9/30/2009	\$215	\$16,342
9/30/2010	\$654	\$16,996
9/30/2011	\$680	\$17,676
9/30/2012	\$707	\$18,383
9/30/2013	\$735	\$19,118
9/30/2014	\$765	\$19,883
9/30/2015	\$795	\$20,678
9/30/2016	\$827	\$21,505

The other participant appears to be making regular payments to the City; however, a \$58 payment remains in arrears. As a result of the fiscal year 2015 audit, the APA recommended the City review its collection procedures to ensure amounts due are kept current. However, one of the participants continues to be significantly behind on amounts due. According to recent discussions with the City, this individual was thought to have passed away; however, this does not appear to be the case.

Good business practice requires sufficient collection procedures to ensure amounts owed to the City are collected in accordance with payment schedules. Without such procedures, there is an increased risk for the loss or misuse of City funds.

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

# CITY OF CROFTON

## COMMENTS AND RECOMMENDATIONS (Continued)

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

This finding is considered a material weakness. A similar finding was noted in the prior year's audit report.

*City's Response: The city will continue to make efforts to improve the utility billing and collection processes. The city pool receipt process requires that staff account for every single item sold at the pool. It is difficult to develop a process that is more accountable, without entirely eliminating the use of cash at the pool. The difference in the accounting system was due to a mislabeling of receipts in the Quickbooks program. The city will continue to make efforts to collect on the housing rehab fund. It should be noted that much improvement was made in each of these areas over the prior fiscal year.*

### 8. Tax Increment Funding Issues

In 2014, the City of Crofton (City) utilized tax increment financing (TIF) to assist a local developer, Cmart, LLC, in acquiring property, demolishing an existing structure, and preparing the site for new construction. At that time, the City's Community Redevelopment Authority issued bonds in the amount of \$62,000 for this TIF project. Due to City employee turnover, however, the current City staff, including the Manager, was unaware of the TIF project's inner workings or the existence of any documentation relating thereto. Not until the developer contacted City staff sometime in 2016 did they become aware of the TIF project. As a result, the City lacked adequate documentation to ascertain its full compliance with the Community Development Law, which is set out at Neb. Rev. Stat. §§ 18-2101 to 18-2144 (Reissue 2012, Cum. Supp. 2016), and certain supplemental statutes.

In addition, the City failed to remit the proper TIF amount to the developer. The City received \$2,298 from the Knox County Treasurer during the fiscal year; however, it remitted only \$2,059.

The following summary was included in the 2015 TIF Project Report to the Legislature, which was prepared by the Nebraska Department of Revenue:

<b>CTL Project Name</b> TIF CSMART, LLC		<b>Project Date</b> 2014	<b>City</b> CROFTON	<b>Remarks</b> Name of Project: Cmart, LLC Acre Tracts Pt SE1/4 SE1/4 Section 23-32-2 (1.40 Acres), Crofton Description: TIF funds used for site acquisition for commercial building, demolition of existing structure and site preparation for commercial development.		
<b>School</b> : CROFTON 96		<b>Class</b> :	3			
<b>Schcode</b> : 54-0096			<b>CTL-ID#</b> 54-0951			
		<b>Year</b>	<b>Base Value</b>	<b>Excess Value</b>	<b>Tax Rate</b>	<b>TIF Base Tax</b>
		2014	62,610	0	1.766764	1,106.17
		2015	62,610	256,375	1.700236	4,358.98
		<b>Total</b>				2,170.69
						4,358.98
<b>Current Year</b>	<b>Base Value</b>	<b>Excess Value</b>				
Residential	0	0				
Commercial	62,610	256,375				
Industrial	0	0				
Other	0	0				



## CITY OF CROFTON

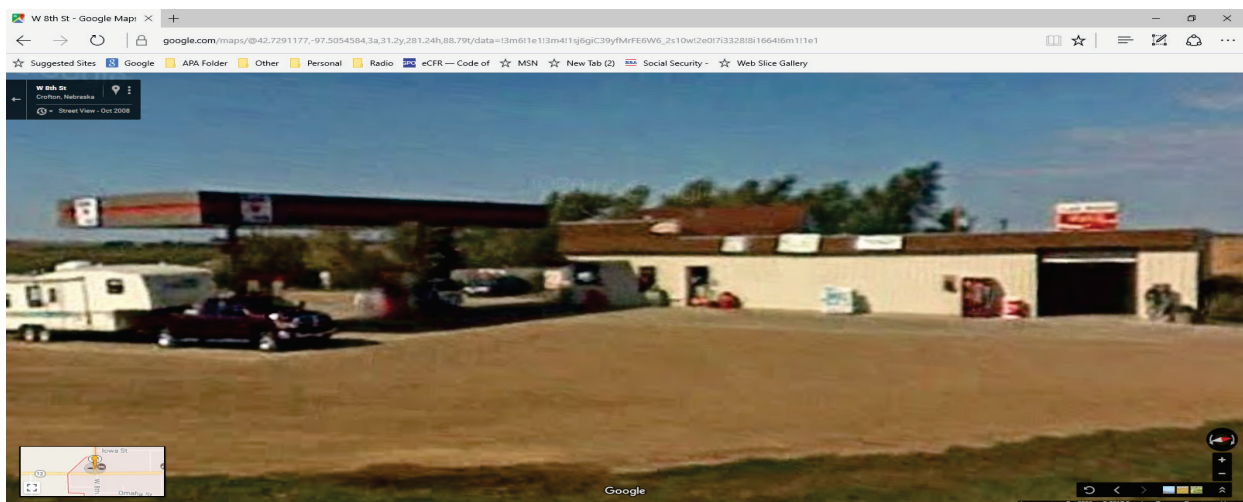
### COMMENTS AND RECOMMENDATIONS (Continued)

#### 8. Tax Increment Funding Issues (Continued)

The City currently has no invoices or other documentation to support related project expenses, the performance of substandard and blight studies, redevelopment plans, or the performance of a cost-benefit analysis. Therefore, the Auditor of Public Accounts (APA) could not test specific TIF compliance with the Community Development Law, which would have included, among other things, ensuring the following: 1) project expenditures were both allowable and greater than the indebtedness; 2) the area was properly declared substandard and blighted prior to the redevelopment plan; 3) a public hearing for the redevelopment plan was held; and 4) the redevelopment plan contained the required elements and was properly approved.

Through a review of the Knox County Assessor's records, the APA did observe that the TIF property was purchased by the developer for \$80,000 in 2013. The APA has included below images of the purchased property in both its original state and its current state after TIF improvements.

Original property per Google maps:



Current property (after TIF improvements) per Knox County Assessor:



## CITY OF CROFTON

### COMMENTS AND RECOMMENDATIONS (Continued)

#### 8. **Tax Increment Funding Issues** (Concluded)

Good internal control requires procedures to ensure that TIF amounts are remitted correctly, and the proper documentation is maintained to ensure compliance with all applicable provisions of the Community Development Law. Without such procedures, there is an increased risk for the loss or misuse of TIF funds.

We recommend the City implement procedures to ensure the TIF project addressed herein – or any other project undertaken pursuant to the Community Development Law – is adequately documented, and amounts paid to developers are correct. If, as described herein, such documentation cannot be obtained, those unsupported projects costs should be returned to the County Treasurer for redistribution.

*City's Response: The city will seek the necessary documents and make the necessary corrections.*

#### 9. **Sales Tax Remittances**

The City was late in remitting State and local sales and use taxes for the months of June 2015 through January 2016. For transactions that occurred during that eight-month period, the City did not remit the local sales and use taxes owed to the State of Nebraska until March 2016. According to the Nebraska Department of Revenue's website, the Nebraska and Local Sales and Use Tax Return (Form 10) is due on the 20th of the month following the tax period covered by the return. The taxes remitted for the eight-month time period totaled \$9,376.

Additionally, the APA was unable to trace gross sales and services and net taxable sales reported on the Form 10 for all eight months to the City's accounting system. Furthermore, the APA noted that the sales tax collection fee for January 2016 was calculated incorrectly, causing a \$31 underpayment of State and local sales and use tax.

All sales tax remittances during the fiscal year were recorded as an expense in the Water Fund. Because the City also collects sales tax on sewer billings, however, the remittances should have been split between the Water Fund and the Sewer Fund. The APA devised estimated amounts that should have been recorded to the Sewer Fund and the Water Fund by calculating the percentage of billings collected during the fiscal year and splitting the total remitted to the Department of Revenue. The total sales tax amount recorded to the Water Fund was \$19,160. The APA proposed that amount be adjusted to record \$7,664 to the Sewer Fund.

A good internal control plan requires procedures to ensure that the Form 10 is submitted in a timely fashion, and all amounts recoded thereon are accurate and adequately supported. Without such procedures, there is an increased risk of error, and the City could incur interest and penalties. A similar finding was noted in the prior year's audit report.

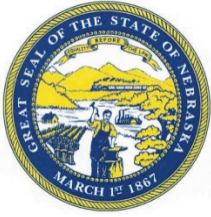
CITY OF CROFTON

**COMMENTS AND RECOMMENDATIONS**  
(Concluded)

**9. Sales Tax Remittances** (Concluded)

We recommend the City implement procedures to ensure the Form 10 is submitted timely, and all amounts recorded thereon are accurate and adequately supported.

*City's Response: The city will work with our accountant to make any necessary corrections that have not already been made.*



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2016, 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.

### **Basis for Qualified Opinion within the Business-Type Activities**

The financial statements referred to above include recording accounts receivable amounts due to the City as of September 30, 2016. However, the City's financial records lacked sufficient audit evidence to materially support the accounts receivable amounts due to the City for the business-type activities, specifically the utility accounts. The amount by which this would affect assets, revenues, and net position within the financial statements, has not been determined.

### **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, 2016, 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, except for the matter described in the "Basis for Qualified Opinion within the Business-Type Activities" paragraph, 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, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Accounting**

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

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements, which collectively comprise the City of Crofton's basic financial statements. Other information on page 61 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other information on page 61 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 April 12, 2017, 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.

April 12, 2017



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, 2016

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 67,579	\$ 134,360	\$ 201,939
Cash on Hand with County Treasurer	6,958	-	6,958
Accounts Receivable	-	77,306	77,306
Inventory	-	8,000	8,000
Restricted Cash and Cash Equivalents	185,574	-	185,574
Total Current Assets	260,111	219,666	479,777
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	19,200	19,200
Capital Assets			
Land	-	85,360	85,360
Depreciable Assets (Net)	-	277,803	277,803
Total Noncurrent Assets	-	382,363	382,363
<b>TOTAL ASSETS</b>	260,111	602,029	862,140
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	-	18,297	18,297
Accrued Expenses	-	2,518	2,518
Total Current Liabilities	-	20,815	20,815
Noncurrent Liabilities			
Customer Deposits	-	19,200	19,200
<b>TOTAL LIABILITIES</b>	-	40,015	40,015
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	363,163	363,163
Restricted for:			
Infrastructure	106,478	-	106,478
Streets	(54,671)	-	(54,671)
Housing Rehab	19,287	-	19,287
Capital Improvements	115,118	-	115,118
Unrestricted	73,899	198,851	272,750
<b>TOTAL NET POSITION</b>	\$ 260,111	\$ 562,014	\$ 822,125

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, 2016

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
<b>Governmental Activities:</b>						
General Government	\$ 167,042	\$ -	\$ -	\$ (167,042)	\$ -	\$ (167,042)
Public Health and Safety	98,523	-	-	(98,523)	-	(98,523)
Public Works	772,321	-	-	(772,321)	-	(772,321)
Culture and Recreation	90,157	13,091	1,595	(75,471)	-	(75,471)
Community Development	69,573	-	-	(69,573)	-	(69,573)
Debt Service	1,117,024	-	-	(1,117,024)	-	(1,117,024)
Total Governmental Activities	2,314,640	13,091	1,595	(2,299,954)	-	(2,299,954)
<b>Business-Type Activities:</b>						
Water	216,556	205,058	-	-	(11,498)	(11,498)
Sewer	49,764	128,248	-	-	78,484	78,484
Sanitation	45,919	46,289	-	-	370	370
Total Business-Type Activities	312,239	379,595	-	-	67,356	67,356
<b>Total Primary Government</b>	<b>\$ 2,626,879</b>	<b>\$ 392,686</b>	<b>\$ 1,595</b>	<b>(2,299,954)</b>	<b>67,356</b>	<b>(2,232,598)</b>
<b>General Receipts/Revenues:</b>						
Bond Proceeds, Net				1,088,990	-	1,088,990
Taxes:						
Property Taxes - General Purposes				121,556	-	121,556
City Sales Taxes				66,414	-	66,414
City Motor Vehicle Sales Taxes				15,267	-	15,267
Property Taxes - Township/Street Purposes				16,090	-	16,090
Motor Vehicle Taxes				14,424	-	14,424
Tax Increment Financing				2,298	-	2,298
Intergovernmental				231,934	-	231,934
Loan Proceeds				52,000	-	52,000
Other Miscellaneous Receipts/Revenues				18,817	-	18,817
Total General Receipts/Revenues				1,627,790	-	1,627,790
Increase in Net Position				(672,164)	67,356	(604,808)
Net Position - Beginning of year, as restated				932,275	494,658	1,426,933
Net Position - End of year				\$ 260,111	\$ 562,014	\$ 822,125

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, 2016

	General Fund	Street Fund	Housing Rehab Fund	Capital Projects Fund	Total
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 67,579	\$ -	\$ -	\$ -	\$ 67,579
Cash on Hand with County Treasurer	6,320	638	-	-	6,958
Restricted Cash and Cash Equivalents	106,478	(55,309)	19,287	115,118	185,574
<b>TOTAL ASSETS</b>	<u>\$ 180,377</u>	<u>\$ (54,671)</u>	<u>\$ 19,287</u>	<u>\$ 115,118</u>	<u>\$ 260,111</u>
<b>FUND BALANCE</b>					
Restricted	\$ 106,478	\$ (54,671)	\$ 19,287	\$ 115,118	\$ 186,212
Unassigned	73,899	-	-	-	73,899
<b>TOTAL CASH BASIS FUND BALANCES</b>	<u>\$ 180,377</u>	<u>\$ (54,671)</u>	<u>\$ 19,287</u>	<u>\$ 115,118</u>	<u>\$ 260,111</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, 2016

	General Fund	Street Fund	Housing Rehab Fund	Capital Projects Fund	Total
<b>RECEIPTS</b>					
Taxes	\$ 202,394	\$ 31,357	\$ -	\$ -	\$ 233,751
Intergovernmental	142,121	92,111	-	-	234,232
Charges for Services	13,091	-	-	-	13,091
Operating Grants and Contributions	1,595	-	-	-	1,595
Miscellaneous	17,808	173	657	179	18,817
<b>TOTAL RECEIPTS</b>	<b>377,009</b>	<b>123,641</b>	<b>657</b>	<b>179</b>	<b>501,486</b>
<b>DISBURSEMENTS</b>					
General Government	167,042	-	-	-	167,042
Public Health and Safety	98,523	-	-	-	98,523
Public Works	480	144,625	-	627,216	772,321
Culture and Recreation	90,157	-	-	-	90,157
Community Development	69,573	-	-	-	69,573
Debt Service					
Principal	102,000	4,372	-	1,000,000	1,106,372
Interest	4,264	32	-	6,356	10,652
<b>TOTAL DISBURSEMENTS</b>	<b>532,039</b>	<b>149,029</b>	<b>-</b>	<b>1,633,572</b>	<b>2,314,640</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<b>(155,030)</b>	<b>(25,388)</b>	<b>657</b>	<b>(1,633,393)</b>	<b>(1,813,154)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond Proceeds, Net	-	-	-	1,088,990	1,088,990
Loan Proceeds	52,000	-	-	-	52,000
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>52,000</b>	<b>-</b>	<b>-</b>	<b>1,088,990</b>	<b>1,140,990</b>
<b>Net Change in Cash Basis Fund Balances</b>	<b>(103,030)</b>	<b>(25,388)</b>	<b>657</b>	<b>(544,403)</b>	<b>(672,164)</b>
<b>CASH BASIS FUND BALANCES - BEGINNING - as restated</b>	<b>283,407</b>	<b>(29,283)</b>	<b>18,630</b>	<b>659,521</b>	<b>932,275</b>
<b>CASH BASIS FUND BALANCES - ENDING</b>	<b>\$ 180,377</b>	<b>\$ (54,671)</b>	<b>\$ 19,287</b>	<b>\$ 115,118</b>	<b>\$ 260,111</b>

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, 2016

	Sewer Fund	Water Fund	Sanitation Fund	Total
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 103,829	\$ 30,742	\$ (211)	\$ 134,360
Accounts Receivable	23,051	46,164	8,091	77,306
Inventory	-	8,000	-	8,000
Total Current Assets	126,880	84,906	7,880	219,666
Noncurrent Assets				
Restricted Assets - Cash	-	19,200	-	19,200
Capital Assets				
Land	41,930	41,930	1,500	85,360
Depreciable Assets	220,093	908,456	-	1,128,549
Accumulated Depreciation	(182,823)	(667,923)	-	(850,746)
Total Noncurrent Assets	79,200	301,663	1,500	382,363
<b>TOTAL ASSETS</b>	206,080	386,569	9,380	602,029
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	2,318	15,979	-	18,297
Payroll Liabilities	247	247	-	494
Sales Tax Payable	746	1,278	-	2,024
Total Current Liabilities	3,311	17,504	-	20,815
Noncurrent Liabilities				
Customer Deposits	-	19,200	-	19,200
<b>TOTAL LIABILITIES</b>	3,311	36,704	-	40,015
<b>NET POSITION</b>				
Net Investment in Capital Assets	79,200	282,463	1,500	363,163
Unrestricted	123,569	67,402	7,880	198,851
<b>TOTAL NET POSITION</b>	\$ 202,769	\$ 349,865	\$ 9,380	\$ 562,014

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, 2016

	Sewer Fund	Water Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 128,248	\$ 205,058	\$ 46,289	\$ 379,595
OPERATING EXPENSES:				
Personnel Services	15,012	14,482	-	29,494
Professional Fees	14,975	1,780	-	16,755
Materials and Supplies	748	5,667	81	6,496
Repairs and Maintenance	1,241	6,120	-	7,361
Utilities	7,693	1,726	-	9,419
Contracted Services	-	155,824	45,838	201,662
Depreciation	1,355	18,151	-	19,506
Miscellaneous	8,740	12,806	-	21,546
TOTAL OPERATING EXPENSES	<u>49,764</u>	<u>216,556</u>	<u>45,919</u>	<u>312,239</u>
OPERATING INCOME (LOSS)	<u>78,484</u>	<u>(11,498)</u>	<u>370</u>	<u>67,356</u>
CHANGE IN NET POSITION	78,484	(11,498)	370	67,356
TOTAL NET POSITION, BEGINNING - as restated	<u>124,285</u>	<u>361,363</u>	<u>9,010</u>	<u>494,658</u>
TOTAL NET POSITION, ENDING	<u><u>\$ 202,769</u></u>	<u><u>\$ 349,865</u></u>	<u><u>\$ 9,380</u></u>	<u><u>\$ 562,014</u></u>

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

**CITY OF CROFTON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS - ACCRUAL BASIS**  
For the Year Ended September 30, 2016

	Sewer Fund	Water Fund	Sanitation Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received From Customers	\$ 119,650	\$ 181,680	\$ 43,860	\$ 345,190
Cash Paid For Contractual Services	-	(156,696)	(45,838)	(202,534)
Cash Paid For Personnel Services	(17,420)	(16,797)	(184)	(34,401)
Other Cash Expenses	(33,289)	(29,997)	(81)	(63,367)
Net Cash Provided by (Used in) Operating Activities	68,941	(21,810)	(2,243)	44,888
<b>NET INCREASE (DECREASE) IN CASH</b>	68,941	(21,810)	(2,243)	44,888
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	34,888	71,752	2,032	108,672
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 103,829</u>	<u>\$ 49,942</u>	<u>\$ (211)</u>	<u>\$ 153,560</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>				
Operating Income (Loss)	78,484	(11,498)	370	67,356
Adjustments to Reconcile:				
Depreciation	1,355	18,151	-	19,506
Change in Assets & Liabilities:				
(Increase) in Accounts Receivable	(8,598)	(23,628)	(2,429)	(34,655)
Increase in Accounts Payable	1,606	1	-	1,607
Increase in Customer Deposits	-	250	-	250
(Decrease) in Sales Tax Payable	(1,498)	(2,771)	-	(4,269)
(Decrease) in Payroll Liabilities	(2,408)	(2,315)	(184)	(4,907)
Total Adjustments	(9,543)	(10,312)	(2,613)	(22,468)
Net Cash Provided by (Used in) Operating Activities	<u>68,941</u>	<u>(21,810)</u>	<u>(2,243)</u>	<u>44,888</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, 2016

#### 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 2015-2016 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 governmental and by fund for business-type activities.

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

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

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

##### **Interfund Transfers**

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

## **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

#### **A. Fund Accounting Requirements**

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

#### **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.

**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, 2016.

**E. Budgetary Data**

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

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

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

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



CITY OF CROFTON

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**E. Budgetary Data** (Concluded)

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

**F. Deficit Balances**

The Street Fund had a deficit fund balance of \$54,671 and the Sanitation Fund had negative cash and cash equivalents of \$211. Disbursements were made from the funds without having the necessary balance available. The General Fund covered the cost of the negative balances in the Street Fund and the Sanitation 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.

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

CITY OF CROFTON

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**A. Cash** (Concluded)

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 \$406,713. The bank balance for all funds was \$425,365. For purposes of classifying categories of custodial risk, the bank balances of the City's deposits, as of September 30, 2016, were either entirely insured or collateralized with securities held by the City's agent in the City's name.

**B. Restricted Assets**

The restricted assets as of September 30, 2016, are as follows:

Type of Restricted Assets	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$185,574	\$19,200	\$204,774

The General Fund has \$106,478 of cash restricted for infrastructure. The Street Fund has a negative restricted cash balance of \$55,309 restricted for street improvements. See Comment and Recommendation Number 3 regarding this negative balance. The Housing Rehab Fund has \$19,287 of cash restricted for housing rehabilitation. The Capital Projects Fund has \$115,118 of cash restricted for capital projects. The Water Fund has \$19,200 of cash restricted for customer deposits.

**C. Accounts Receivable**

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2016, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 23,051
Water Fund	\$ 46,164
Sanitation Fund	\$ 8,091
<b>Total</b>	<b>\$ 77,306</b>

The City lacked financial records to materially support the accounts receivable amounts due to the City at September 30, 2016, for the business-type activities, specifically the utility accounts. See Comment and Recommendation Number 7 regarding this issue.

## CITY OF CROFTON

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**D. Capital Assets**

Capital asset activity for the year ended September 30, 2016, was as follows:

<u>Business-type Activities:</u>	<u>Balance at October 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at September 30, 2016</u>
Capital Assets Not Depreciated:				
Land	\$85,360	\$ -	\$ -	\$85,360
Depreciable Capital Assets:				
Infrastructure	\$1,128,549	\$ -	\$ -	\$1,128,549
Total Depreciable Capital Assets, at historical cost	\$1,128,549	\$ -	\$ -	\$1,128,549
Less Accumulated Depreciation for:				
Infrastructure	(\$831,240)	(\$19,506)	\$ -	(\$850,746)
Total Accumulated Depreciation	(\$831,240)	(\$19,506)*	\$ -	(\$850,746)
Depreciable Capital Assets, Net	\$297,309	(\$19,506)	\$ -	\$277,803
Business-type Capital Assets, Net	\$382,669	(\$19,506)	\$ -	\$363,163

\*Depreciation expense was charged to the functions as follows:

Sewer	\$ 1,355
Water	\$18,151
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, 2016:

<u>Business-type Activities:</u>	<u>Balance at October 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at September 30, 2016</u>
Liabilities:				
Accounts Payable	\$16,690	\$18,297	\$16,690	\$18,297
Accrued Expenses	\$11,694	\$2,518	\$11,694	\$2,518
Customer Deposits	\$18,950	\$250	\$0	\$19,200
Total Liabilities	\$47,334	\$21,065	\$28,384	\$40,015

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

**F. Prior Period Adjustments**

The City did not record all deposited activity in the prior period. There was a deposit of monies reimbursed by the former Clerk totaling \$11,766; however, this amount had been deposited into a bank account that was frozen. The City recorded the deposit in QuickBooks on October 2, 2015. The APA adjusted the General Fund balance, as follows:

September 30, 2015 Ending Balance	\$271,641
APA Adjustment	\$11,766
Adjusted Beginning Balance	\$283,407

Additionally, the accounts receivable balances at September 30, 2015, did not take into account those amounts billed on October 1, 2015, for services provided in September 2015, within the water, sewer, and sanitation funds. Therefore, the APA adjusted the balances as follows:

September 30, 2015 Ending Balance (Sewer)	\$115,128
APA Adjustment	\$9,157
Adjusted Beginning Balance	\$124,285

September 30, 2015 Ending Balance (Water)	\$345,771
APA Adjustment	\$15,592
Adjusted Beginning Balance	\$361,363

September 30, 2015 Ending Balance (Sanitation)	\$5,156
APA Adjustment	\$3,854
Adjusted Beginning Balance	\$9,010

**G. Interfund Transactions**

The City did not have any operating transfer among funds during the fiscal year.

**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 2016 was \$3,557 and the amount contributed by employees was \$4,487.

# 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, 2016, the City had the following construction obligations:

Project	Contract Amount	Paid Through 9/30/2016	Remaining Contract Commitment	Expected Completion Date
Sharon Street Project:	\$831,843	\$759,878	\$71,965	December 2016

#### Short-Term Debt

The City established a \$100,000 line of credit in March 2015. On January 19, 2016, the City received an additional \$52,000. The interest rate on the outstanding principal balance is 2.25%. The City paid off the line of credit during the fiscal year and also paid \$301 in interest. The following represents the short-term debt activity for the year ended September 30, 2016:

Description	Beginning Balance	Draws	Repayments	Ending Balance
Line of Credit	\$25,000	\$52,000	\$77,000	\$0

#### Long-Term Debt

The City's long-term debt is recorded in the General 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 and the bond and loan proceeds were recorded as Other Financing Sources. The following is a brief description of each debt instrument:

- Various purpose bonds, Series 2010, dated August 10, 2010, for \$240,000 were issued to provide funding for a street project. The bonds are due July 15, 2020, with interest rates ranging from .85% to 3.55%. During the fiscal year, the City repaid \$25,000 in principal, plus \$3,963 in interest, related to this bond.
- Notes payable for street equipment, dated January 15, 2011, at 5% interest. The note was paid off during the fiscal year in which the City repaid \$4,372 in principal and \$32 in interest.

# CITY OF CROFTON

## NOTES TO THE FINANCIAL STATEMENTS (Concluded)

### C. Commitments and Contingencies (Concluded)

- Street, Sewer, and Storm Water Sewer Improvement Bond, Series 2016, dated July 15, 2016, for \$1,100,000 par value was issued during the fiscal year. The City deposited \$1,088,990 in net proceeds during the year, which was net of the underwriter's discount and wire transfer fee. The City did not make any repayments during the fiscal year related to this bond. The Series 2015 bond was paid off during the fiscal year, and interest payments of 6,356 were paid.

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

	2010 Bond Payable			2016 Bond Payable	
	Principal	Interest		Principal	Interest
2017	\$ 25,000	\$ 3,288		\$ 1,100,000	\$ 11,000
2018	\$ 25,000	\$ 2,538		\$ -	\$ -
2019	\$ 25,000	\$ 1,738		\$ -	\$ -
2020	\$ 25,000	\$ 888		\$ -	\$ -
<b>Totals</b>	<b>\$ 100,000</b>	<b>\$ 8,452</b>		<b>\$ 1,100,000</b>	<b>\$ 11,000</b>

### Tax Increment Financing

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

### D. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2016:

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
Knox and Madison County	Services related to the Juvenile Justice Grant.
Ponca Tribe of Nebraska	Clarify authority of City and services to be provided for City property held in trust for the benefit of the Ponca Tribe

### E. Subsequent Events

Management has evaluated subsequent events through April 12, 2017, 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**

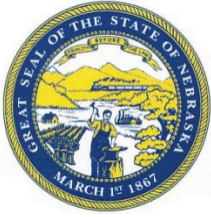
**BUDGET AND ACTUAL - GENERAL ALL-PURPOSE FUND**

For the Year Ended September 30, 2016

	General All-Purpose Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>RECEIPTS</b>				
Property Taxes	\$ 140,164	\$ 134,893	\$ 137,646	\$ 2,753
State Highway Allocation	79,053	80,172	88,093	7,921
State Municipal Equalization	18,816	18,816	19,036	220
Other Intergovernmental Receipts	382	33,350	127,103	93,753
City Sales Tax	90,000	90,000	81,681	(8,319)
Other Local Receipts	463,000	463,000	1,568,512	1,105,512
<b>TOTAL RECEIPTS</b>	<u>791,415</u>	<u>820,231</u>	<u>2,022,071</u>	<u>1,201,840</u>
<b>DISBURSEMENTS</b>				
General Government	206,500	235,170	167,042	68,128
Public Health and Safety	98,000	109,000	98,523	10,477
Public Works - Streets	258,830	1,008,830	772,321	236,509
Culture and Recreation	50,000	57,000	90,157	(33,157)
Community Development	15,000	83,000	69,573	13,427
Debt Service	989,990	1,033,000	1,117,024	(84,024)
Sanitation	47,000	50,000	45,919	4,081
Sewer	56,000	35,000	49,764	(14,764)
Water	175,000	180,000	216,556	(36,556)
<b>TOTAL DISBURSEMENTS</b>	<u>\$ 1,896,320</u>	<u>\$ 2,791,000</u>	<u>2,626,879</u>	<u>\$ 164,121</u>
Net Change in Accrual/Cash Basis Fund Balance			<u>(604,808)</u>	
<b>ACCRUAL/CASH BASIS FUND BALANCE - BEGINNING</b>			<u>1,426,933</u>	
<b>ACCRUAL/CASH BASIS FUND BALANCE - ENDING</b>			<u><u>\$ 822,125</u></u>	

**Notes to the Budgetary Comparison Schedule**

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



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated April 12, 2017. 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 (Financial Statement Issues), Comment Number 3 (Control Environment), Comment Number 4 (Accounting Errors), Comment Number 5 (Disbursement Processes), Comment Number 6 (Payroll Processes), and Comment Number 7 (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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Comments Section of our report as Comment Number 5 (Disbursement Processes) and Comment Number 7 (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 (Repayments of Alleged Misappropriation of City Monies), Comment Number 8 (Tax Increment Funding Issues), and Comment Number 9 (Sales Tax Remittances).

### **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.

April 12, 2017



Craig Kubicek, CPA, CFE  
Assistant Deputy Auditor