

**AUDIT REPORT
OF THE
CITY OF CROFTON**

OCTOBER 1, 2018, THROUGH SEPTEMBER 30, 2019

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Issued on March 31, 2020

CITY OF CROFTON

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CITY OF CROFTON

BACKGROUND

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

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

- Wendell Strom, Mayor (term expired January 2019)
- Sharol Lawhead, Mayor (started December 2018)
- Tom Allen, Council Member (resigned December 2018)
- Ted Hillman, Council Member (term expired January 2019)
- Don Meink, Council Member (started May 2018; term expired January 2019)
- Sharol Lawhead, Council Member (resigned December 2018)
- Pam Berendsen, Council Member (started December 2018; resigned September 2019)
- Larry Pietz, Council Member (started December 2018)
- Arlene Steffen, Council Member (started March 2019)

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

In January 2018, Marla Wortmann was hired as City Clerk (Clerk) with Diane Allen becoming the assistant to the Clerk. Sharol Lawhead was sworn in as City Mayor, and Pam Berendsen and Larry Peitz were sworn in as new Council members in December 2018. In January 2019, Marla Wortmann resigned from the Clerk's position and, in the same month, the City Council hired Kathy Nohr to replace her as the Clerk. In January 2019, the City Council also terminated the contract between the City and Hendrix Consulting and Law, which vacated both the City Attorney's and City Manager's positions. James McNally was then appointed as the new City Attorney.

In March 2019, Don Meink and Arlene Steffen were sworn in as new Council members. Pam Berendsen resigned as a Council member in September 2019. Subsequent to the audit period, Illa Roeder was appointed and sworn in as a Council member in October 2019.



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CITY OF CROFTON

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Crofton, NE

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities – cash basis, the business-type activities – accrual basis, and each major fund – cash basis for the governmental funds and accrual basis for the proprietary funds – of the City of Crofton, Nebraska, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities and each major governmental fund of the City of Crofton, as of September 30, 2019, and the respective changes in cash-basis financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the City of Crofton, as of September 30, 2019, and the respective changes in financial position and, where applicable, the cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters – Basis of Accounting

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

Other Matters

Report on Supplementary Information

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

The budgetary comparison information on page 25 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, 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.



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor

March 30, 2020

CITY OF CROFTON
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS
September 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 95,628	\$ 328,993	\$ 424,621
Cash on Hand with County Treasurer	7,480	-	7,480
Accounts Receivable	-	34,825	34,825
Inventory	-	572	572
Restricted Cash and Cash Equivalents	319,625	-	319,625
Total Current Assets	<u>422,733</u>	<u>364,390</u>	<u>787,123</u>
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	15,482	15,482
Capital Assets			
Land	-	85,360	85,360
Depreciable Assets (Net)	-	219,285	219,285
Total Noncurrent Assets	<u>-</u>	<u>320,127</u>	<u>320,127</u>
TOTAL ASSETS	<u>422,733</u>	<u>684,517</u>	<u>1,107,250</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	-	30,399	30,399
Accrued Expenses	-	3,960	3,960
Total Current Liabilities	<u>-</u>	<u>34,359</u>	<u>34,359</u>
Noncurrent Liabilities			
Customer Deposits	-	15,482	15,482
TOTAL LIABILITIES	<u>-</u>	<u>49,841</u>	<u>49,841</u>
NET POSITION			
Net Investment in Capital Assets	-	304,645	304,645
Restricted for:			
Police	44,139	-	44,139
Street	74,418	-	74,418
Special Revenue	110,943	-	110,943
Debt Retirement	91,724	-	91,724
Unrestricted	<u>101,509</u>	<u>330,031</u>	<u>431,540</u>
TOTAL NET POSITION	<u>\$ 422,733</u>	<u>\$ 634,676</u>	<u>\$ 1,057,409</u>

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

CITY OF CROFTON
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF ACTIVITIES - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS
For the Year Ended September 30, 2019

Functions/Programs:	Program		Net (Disbursements/Expenses)		
	Receipts/Revenues		Receipts/Revenue and Changes in Net Position		
	Disbursements/ Expenses	Charges for Services	Primary Government		Total
			Governmental Activities	Business-Type Activities	
Governmental Activities:					
General Government	\$ 116,784	\$ -	\$ (116,784)	\$ -	\$ (116,784)
Public Health and Safety	73,153	-	(73,153)	-	(73,153)
Public Works	92,763	-	(92,763)	-	(92,763)
Culture and Recreation	81,206	13,333	(67,873)	-	(67,873)
Community Development	19,651	-	(19,651)	-	(19,651)
Debt Service	126,692	-	(126,692)	-	(126,692)
Total Governmental Activities	510,249	13,333	(496,916)	-	(496,916)
Business-Type Activities:					
Water	244,001	230,736	-	(13,265)	(13,265)
Sewer	111,819	139,398	-	27,579	27,579
Sanitation	63,895	56,371	-	(7,524)	(7,524)
Total Business-Type Activities	419,715	426,505	-	6,790	6,790
Total Primary Government	\$ 929,964	\$ 439,838	(496,916)	6,790	(490,126)
General Receipts/Revenues:					
Taxes:					
Property Taxes - General Purposes			187,350	-	187,350
City Sales Taxes			73,791	-	73,791
City Motor Vehicle Sales Taxes			31,918	-	31,918
Tax Increment Financing			4,000	-	4,000
Licenses and Permits			4,735	-	4,735
Intergovernmental			128,242	-	128,242
Use of Money and Property			110,535	-	110,535
Special Assessments			32,414	-	32,414
Other Miscellaneous Receipts/Revenues			14,193	2,537	16,730
Total General Receipts/Revenues			587,178	2,537	589,715
Increase in Net Position			90,262	9,327	99,589
Net Position - Beginning of year			332,471	625,349	957,820
Net Position - End of year			\$ 422,733	\$ 634,676	\$ 1,057,409

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, 2019

	General Fund	Street Fund	Special Revenue Fund	Debt Retirement Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ 95,628	\$ -	\$ -	\$ -	\$ 95,628
Cash on Hand with County Treasurer	5,881	1,599	-	-	7,480
Restricted Cash and Cash Equivalents	44,139	72,819	110,943	91,724	319,625
TOTAL ASSETS	\$ 145,648	\$ 74,418	\$ 110,943	\$ 91,724	\$ 422,733
FUND BALANCE					
Restricted	\$ 44,139	\$ 74,418	\$ 110,943	\$ 91,724	\$ 321,224
Unassigned	101,509	-	-	-	101,509
TOTAL CASH BASIS FUND BALANCES	\$ 145,648	\$ 74,418	\$ 110,943	\$ 91,724	\$ 422,733

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, 2019

	General Fund	Street Fund	Special Revenue Fund	Debt Retirement Fund	Total
RECEIPTS					
Taxes	\$ 173,003	\$ 46,265	\$ 77,791	\$ -	\$ 297,059
Intergovernmental	25,511	102,731	-	-	128,242
Charges for Services	51	-	13,055	227	13,333
Use of Money and Property	106,444	57	3,704	330	110,535
Licenses and Permits	4,735	-	-	-	4,735
Special Assessments	-	-	-	32,414	32,414
Miscellaneous	6,424	93	7,676	-	14,193
TOTAL RECEIPTS	316,168	149,146	102,226	32,971	600,511
DISBURSEMENTS					
General Government	116,622	-	162	-	116,784
Public Health and Safety	73,153	-	-	-	73,153
Public Works	-	92,763	-	-	92,763
Culture and Recreation	-	-	81,206	-	81,206
Community Development	3,422	-	16,229	-	19,651
Debt Service					
Principal	-	-	-	92,000	92,000
Interest	-	-	-	34,672	34,672
Fees and Penalties	-	-	-	20	20
TOTAL DISBURSEMENTS	193,197	92,763	97,597	126,692	510,249
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	122,971	56,383	4,629	(93,721)	90,262
OTHER FINANCING SOURCES (USES)					
Transfers In	100,000	-	79,125	44,010	223,135
Transfers Out	(195,756)	-	(27,379)	-	(223,135)
TOTAL OTHER FINANCING SOURCES	(95,756)	-	51,746	44,010	-
Net Change in Cash Basis Fund Balances	27,215	56,383	56,375	(49,711)	90,262
CASH BASIS FUND BALANCES - BEGINNING	118,433	18,035	54,568	141,435	332,471
CASH BASIS FUND BALANCES - ENDING	\$ 145,648	\$ 74,418	\$ 110,943	\$ 91,724	\$ 422,733

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, 2019

	Sewer Fund	Water Fund	Sanitation Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 222,960	\$ 106,024	\$ 9	\$ 328,993
Accounts Receivable	12,060	17,871	4,894	34,825
Inventory	-	572	-	572
Total Current Assets	<u>235,020</u>	<u>124,467</u>	<u>4,903</u>	<u>364,390</u>
Noncurrent Assets				
Restricted Assets - Cash	-	15,482	-	15,482
Capital Assets				
Land	41,930	41,930	1,500	85,360
Depreciable Assets	220,093	908,457	-	1,128,550
Accumulated Depreciation	(186,889)	(722,376)	-	(909,265)
Total Noncurrent Assets	<u>75,134</u>	<u>243,493</u>	<u>1,500</u>	<u>320,127</u>
TOTAL ASSETS	<u>310,154</u>	<u>367,960</u>	<u>6,403</u>	<u>684,517</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	12,343	13,454	4,602	30,399
Payroll Liabilities	1,291	2,669	-	3,960
Total Current Liabilities	<u>13,634</u>	<u>16,123</u>	<u>4,602</u>	<u>34,359</u>
Noncurrent Liabilities				
Customer Deposits	-	15,482	-	15,482
TOTAL LIABILITIES	<u>13,634</u>	<u>31,605</u>	<u>4,602</u>	<u>49,841</u>
NET POSITION				
Net Investment in Capital Assets	75,134	228,011	1,500	304,645
Unrestricted	221,386	108,344	301	330,031
TOTAL NET POSITION	<u>\$ 296,520</u>	<u>\$ 336,355</u>	<u>\$ 1,801</u>	<u>\$ 634,676</u>

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

CITY OF CROFTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS - ACCRUAL BASIS
For the Year Ended September 30, 2019

	Sewer Fund	Water Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 139,398	\$ 230,736	\$ 56,371	\$ 426,505
Miscellaneous	-	2,537	-	2,537
TOTAL OPERATING REVENUES	139,398	233,273	56,371	429,042
OPERATING EXPENSES:				
Personnel Services	65,798	29,333	4,793	99,924
Professional Fees	6,618	11,197	2,555	20,370
Materials and Supplies	3,146	11,528	-	14,674
Repairs and Maintenance	3,088	8,547	-	11,635
Utilities	11,602	499	-	12,101
Contracted Services	19,381	19,875	56,378	95,634
Cost of Goods Sold	-	142,584	-	142,584
Depreciation	1,355	18,151	-	19,506
Miscellaneous	831	2,287	169	3,287
TOTAL OPERATING EXPENSES	111,819	244,001	63,895	419,715
OPERATING INCOME (LOSS)	27,579	(10,728)	(7,524)	9,327
CHANGE IN NET POSITION	27,579	(10,728)	(7,524)	9,327
TOTAL NET POSITION, BEGINNING	268,941	347,083	9,325	625,349
TOTAL NET POSITION, ENDING	\$ 296,520	\$ 336,355	\$ 1,801	\$ 634,676

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, 2019

	Sewer Fund	Water Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 143,265	\$ 246,795	\$ 57,546	\$ 447,606
Cash Paid For Contractual Services	(19,381)	(19,875)	(56,378)	(95,634)
Cash Paid For Personnel Services	(65,546)	(27,033)	(4,849)	(97,428)
Other Cash Expenses	(13,663)	(164,454)	1,878	(176,239)
Net Cash Provided by (Used in) Operating Activities	44,675	35,433	(1,803)	78,305
 NET INCREASE (DECREASE) IN CASH	 44,675	 35,433	 (1,803)	 78,305
 CASH AND CASH EQUIVALENTS - BEGINNING	 178,285	 86,073	 1,812	 266,170
 CASH AND CASH EQUIVALENTS - ENDING	 \$ 222,960	 \$ 121,506	 \$ 9	 \$ 344,475
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	27,579	(10,728)	(7,524)	9,327
Adjustments to Reconcile:				
Depreciation	1,355	18,151	-	19,506
Change in Assets & Liabilities:				
Decrease (Increase) in Accounts Receivable	3,867	12,322	1,175	17,364
Decrease in Inventory		7,428		7,428
Increase (Decrease) in Accounts Payable	11,622	12,328	4,602	28,552
Decrease in Customer Deposits	-	(6,368)	-	(6,368)
Increase (Decrease) in Payroll Liabilities	252	2,300	(56)	2,496
Total Adjustments	17,096	46,161	5,721	68,978
 Net Cash Provided by (Used in) Operating Activities	 \$ 44,675	 \$ 35,433	 \$ (1,803)	 \$ 78,305

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2019

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 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.

The City has also considered all potential component units for which it is financially accountable, as well as other organizations that are either fiscally dependent on the City or maintain a significant relationship with the City, such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City is also considered financially accountable if an organization is fiscally dependent on, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

As required by Generally Accepted Accounting Principles (GAAP), these financial statements present the City (the primary government). No component units were identified.

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.

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 constitutes 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 5 percent of the aggregate amount for all governmental and enterprise funds. Any other fund may be reported as a major fund if the City's officials believe that fund is particularly important to financial statement users.

The City reports the following types of major governmental funds:

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

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

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

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

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

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

C. **Measurement Focus, Basis of Accounting**

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

Measurement Focus

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

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

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Assets, Liabilities, and Equity

Estimates

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

Cash and Cash Equivalents

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

Receivables

In the business-type activities of the government-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 are reflected instead 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, including 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)

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

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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.

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.

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:

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 reduced. Balances are used in that order.

E. **Receipts/Revenues and Disbursements/Expenses**

Sales and Use Tax

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

Property Taxes

The City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest and principal on bonded debt, and 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 2018-2019 are recorded as receipts when received by the County.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

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 must declare its intention to renew the agreement or to allow it to expire as scheduled.

Operating Revenues and Expenses

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

Disbursements/Expenses

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

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

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

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

Interfund Transfers

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

A. Fund Accounting Requirements

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Deposit Laws and Regulations

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

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

C. Revenue Restrictions

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

D. Related Party Transactions

The City conducts business with various members of the City Council. These transactions are conducted in the ordinary course of business and were not material for the year ended September 30, 2019.

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.
- 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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concluded)

- f. The County Clerk certifies a preliminary property tax levy for each fund of the City, which levied property taxes in the county the previous year based on the combined valuation and amount required for the City the prior year. The preliminary levy becomes the final levy unless the governing board passes, by a majority vote, a resolution setting the levy at a different amount.
- g. The property tax requirements resulting from the budget process are utilized by the County Assessor to establish the tax levy. Taxes are levied annually on or before October 15. Real property taxes and personal property taxes are due December 31, with the first half delinquent May 1 and the second half delinquent September 1.
- h. The City adopts a budget by ordinance for all funds.

3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

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

A. Cash

Deposits

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

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

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

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

At year end, the City’s carrying amount of deposits was \$767,208, including County Treasurer balances. The bank balance for all funds was \$766,670. For purposes of classifying categories of custodial risk, the bank balances of the City’s deposits, as of September 30, 2019, 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, 2019, are as follows:

Fund	Governmental Activities	Business-Type Activities	Total
General	\$ 44,139		\$ 44,139
Street	\$ 72,819		\$ 72,819
Special Revenue	\$ 110,943		\$ 110,943
Debt Retirement	\$ 91,724		\$ 91,724
Water		\$ 15,482	\$ 15,482
Total Cash and Cash Equivalents	\$ 319,625	\$ 15,482	\$ 335,107

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

C. Accounts Receivable

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2019, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 12,060
Water Fund	\$ 17,871
Sanitation Fund	\$ 4,894
Total	\$ 34,825

D. Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

Business-Type Activities:	Balance at October 1, 2018	Additions	Disposals	Balance at September 30, 2019
Capital Assets Not Depreciated:				
Land	\$ 85,360	\$ -	\$ -	\$ 85,360
Depreciable Capital Assets:				
Infrastructure	\$ 1,128,550	\$ -	\$ -	\$ 1,128,550
Total Depreciable Capital Assets, at Historical Cost	\$ 1,128,550	\$ -	\$ -	\$ 1,128,550
Less Accumulated Depreciation for:				
Infrastructure	\$ (889,759)	\$ (19,506)	\$ -	\$ (909,265)
Total Accumulated Depreciation	\$ (889,759)	\$ (19,506)*	\$ -	\$ (909,265)
Depreciable Capital Assets, Net	\$ 238,791	\$ (19,506)	\$ -	\$ 219,285
Business-Type Capital Assets, Net	\$ 324,151	\$ (19,506)	\$ -	\$ 304,645

*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, 2019:

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Business-Type Activities:	Balance at October 1, 2018	Additions	Deductions	Balance at September 30, 2019
Liabilities:				
Accounts Payable	\$ 1,847	\$ 30,399	\$ 1,847	\$ 30,399
Accrued Expenses	\$ 1,464	\$ 3,960	\$ 1,464	\$ 3,960
Customer Deposits	\$ 21,850	\$ 1,200	\$ 7,568	\$ 15,482
Total Liabilities	<u>\$ 25,161</u>	<u>\$ 35,559</u>	<u>\$ 10,879</u>	<u>\$ 49,841</u>

F. Interfund Transactions

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

Transfer Out	Transfer In	Amount
General-General	General-Police	\$ 100,000
General-General	Special Revenue Fund – Parks and Recreation	\$ 62,442
General-Infrastructure	Debt Retirement	\$ 26,737
Special Revenue Fund – Infrastructure	Debt Retirement	\$ 17,273
General-Infrastructure	Special Revenue Fund – Infrastructure	\$ 6,576
Special Revenue Fund – Parks and Recreation	Special Revenue Fund – Parks and Recreation Other	\$ 5,547
Special Revenue Fund – LOST: Economic Development	Special Revenue Fund – Economic Development	\$ 4,560
Total		\$ 223,135

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 during the fiscal year was \$9,087. In addition, the City made three make-up contributions for a prior year, totaling \$2,882.

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.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. OTHER NOTES (Continued)

C. Commitments and Contingencies

Construction and Commitments

The Sharon Street Construction Project was completed during the prior fiscal year, and multiple assessments on that project are still outstanding as of September 30, 2019.

Long-Term Debt

The City's long-term debt is recorded in the Debt Retirement Fund, which is for governmental activities. Because this fund operates under the cash basis of accounting, a liability is not recorded in the government-wide financial statements or the governmental fund financial statements. The debt service payments were recorded as disbursements, and the bond and loan proceeds were recorded as Other Financing Sources. The following is a brief description of each debt instrument:

- Various purpose bonds, Series 2010, dated August 10, 2010, for \$240,000, were issued to provide funding for a street project. The bonds are due July 15, 2020, with interest rates ranging from 0.85% to 3.55%. During fiscal year 2019, the City repaid \$25,000 in principal, plus \$1,737.50 in interest, related to this bond. The following represents future payments required on these bonds:

Fiscal Year	Principal	Interest	Total
2020	\$ 25,000.00	\$ 887.50	\$ 25,887.50
Total Payments	\$ 25,000.00	\$ 887.50	\$ 25,887.50

- GO Various Purpose Bond, Series 2017, dated February 14, 2017, for \$1,115,000, was issued with the purpose of paying off the prior Series 2016 Street, Sewer, and Storm Water Sewer Improvement Bond. During fiscal year 2019, the City paid principal and interest, totaling \$83,135, related to this bond. The following represents future payments required on this bond:

Fiscal Year	Principal	Interest	Total
2020	\$ 50,000.00	\$ 32,135.00	\$ 82,135.00
2021	\$ 50,000.00	\$ 31,222.50	\$ 81,222.50
2022	\$ 50,000.00	\$ 30,222.50	\$ 80,222.50
2023	\$ 50,000.00	\$ 29,135.00	\$ 79,135.00
2024	\$ 50,000.00	\$ 27,960.00	\$ 77,960.00
2025-2029	\$ 280,000.00	\$ 118,086.25	\$ 398,086.25
2030-2034	\$ 315,000.00	\$ 71,765.00	\$ 386,765.00
2035-2037	\$ 220,000.00	\$ 12,897.50	\$ 232,897.50
Total Payments	\$ 1,065,000.00	\$ 353,423.75	\$ 1,418,423.75

Tax Increment Financing

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

4. OTHER NOTES (Concluded)

D. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2019:

<u>Parties to Agreement</u>	<u>Description</u>
Knox County	Assistance for oil road repairs along City roads and joint use of City property for a cold-mix preparation and storage site.
Knox County Development Agency	Coordination, education, and service to increase the knowledge of economic development and help preserve Knox County community's economic growth.
Knox and Madison County	Services related to the Juvenile Justice Grant.
Ponca Tribe of Nebraska	Clarify authority of City and services to be provided for City property held in trust for the benefit of the Ponca Tribe.
Crofton Fire District	Fire protection services
League of Nebraska Municipalities (LNM)	Membership/Operate a risk management pool for the purpose of providing to members risk management services and insurance coverages.
Northeast Nebraska Economic Development District (NENEDD)	Membership/Member governmental entities can jointly use authority for economic development programs.

E. Subsequent Events

Management has evaluated subsequent events through March 30, 2020, the date on which the financial statements were available for issue. As noted in Comment and Recommendation Number 3, the City agreed to pay \$54,000 to settle a lawsuit against the City for an alleged breach of contract.

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, 2019

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS			
Property Taxes	\$ 157,081	\$ 187,350	\$ 30,269
State Highway Allocation	94,667	99,321	4,654
State Municipal Equalization	25,595	25,510	(85)
State Motor Vehicle	2,000	3,410	1,410
Other State Receipts	300	-	(300)
Local Motor Vehicle	20,000	31,918	11,918
City Sales Tax	70,000	73,791	3,791
Other Local Receipts	578,000	608,253	30,253
TOTAL RECEIPTS	947,643	1,029,553	81,910
DISBURSEMENTS			
General Government	130,000	116,784	13,216
Public Health and Safety	100,000	73,153	26,847
Public Works - Streets	240,035	92,763	147,272
Culture and Recreation	110,000	81,206	28,794
Community Development	20,000	19,651	349
Debt Service	-	126,692	(126,692)
Sanitation	55,000	63,895	(8,895)
Sewer	120,000	111,819	8,181
Water	220,000	244,001	(24,001)
TOTAL DISBURSEMENTS	\$ 995,035	929,964	\$ 65,071
Net Change in Cash Basis Fund Balance		<u>99,589</u>	
ACCRUAL/CASH BASIS FUND BALANCE - BEGINNING		<u>957,820</u>	
ACCRUAL/CASH BASIS FUND BALANCE - ENDING		<u><u>\$ 1,057,409</u></u>	

Notes to the Budgetary Comparison Schedule

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



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

Mayor and City Council
City of Crofton, Nebraska

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities – cash basis, the business type activities – accrual basis, and each major fund – cash basis for governmental funds and accrual basis for proprietary funds of the City of Crofton, Nebraska (City) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated March 30, 2020. Our report on the basic financial statements disclosed that, as described in Note 1, the City prepares its financial statements for the governmental funds on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Additional Items

We also noted certain matters that we reported to the management of the City of Crofton in a separate letter dated March 30, 2020.

City's Response to Findings

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

Purpose of this Report

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

March 30, 2020



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor



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March 30, 2020

Mayor and City Council
City of Crofton, Nebraska

Dear Mayor and City Council Members:

We have audited the basic financial statements of The City of Crofton (City) for the fiscal year ended September 30, 2019, and have issued our report thereon dated March 30, 2020. In planning and performing our audit of the basic financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants.

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

1. Control Environment

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

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

- The City lacked a documented review of employee timesheets and final payroll. The APA found a number of issues related to payroll processes, as noted in Comment and Recommendation Number 2.
- The City did not have a capitalization policy that provided a threshold for when items should be added to the inventory list. Per past audits, 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.
- The City did not maintain adequate records detailing all amounts collected at the City's swimming pool. The City tracked pool receipts using a spreadsheet that noted 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 accounting file, the pool receipts collected during the fiscal year totaled \$14,368.60.

- During the audit, the City did not provide documentation to support that the City Council approved the fees for auditorium rental, burial plots, park rental, and garage sale entry.
- The September 30, 2019, bank reconciliation provided to the APA included a book balance of \$609,322.87; however, the accounting records (e.g., general ledger, balance sheet), included a book balance of \$611,328.82, a difference of \$2,005.95. This variance is due to one electronic payment, totaling \$2,005.95, which cleared the bank in September 2019, but was recorded in the accounting system with a date of October 14, 2019. This resulted in the payment being excluded from the fiscal year ended September 30, 2019, accounting records.

Without a proper segregation of duties and an effective control environment, there is an increased risk of misuse or misappropriation of City funds. Additionally, good internal control procedures require: 1) a documented review of employee timesheets and final payroll; 2) a capitalization policy that provides a threshold for when items should be added to the City's inventory list; 3) the maintenance of adequate records detailing all amounts collected at the City's swimming pool; 4) documentation to support that the City Council approved all municipal fees; and 5) a process for ensuring the accuracy of information in the City's accounting system.

The lack of such procedures increases the risk of loss or misuse of public funds. This finding was included in the prior audit and continues to be a material weakness.

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

- A separate person is performing a documented review of employee timesheets and final payroll each pay period.
- A capitalization policy and inventory list are approved and maintained.
- City pool revenues are recorded in the accounting system and deposited into the City's bank account.
- All fees charged by the City are approved, as well as documented, by the City Council.
- The bank and book balances maintained by the accounting system are accurate.

City's Response: The mayor and office staff agree with the findings of the Auditor in all recommendations in this area. The mayor asked the second employee to check the time cards as entered by the Clerk last summer. At that time several errors were found and corrected. The payroll accounts as originally set up in the computer files have been difficult to follow and maintain. We have changed the entry procedure as of the end of September 30, 2019, so that the accounts will be clarified. Many of the errors had already been discovered and were being addressed at the time of the audit.

The capitalization policy has been set at \$1000.00 by the office and accounting adviser. This will be noted in policy changes for board approval.

Changes are being discussed for the pool accountability with the pool manager. Office personnel will also need to be more proactive to clarify the deposits of cash.

A search for ordinances and resolutions setting fees is underway. Some fees need to be changed and new ones will be addressed in the official documents, and published for public knowledge.

2. Payroll Procedure Issues

The APA identified the following issues with the City's payroll processes:

Quarterly Tax Filings

The Internal Revenue Service (IRS) Form 941 is the Employer's Quarterly Federal Tax Return used for reporting and paying employee-related taxes to the United States Government. The City is required to withhold Federal taxes from each employee's compensation, including Federal Income Tax, Social Security Tax, and Medicare Tax. The Clerk had been withholding the Federal taxes from the employee's compensation and remitting deposits; however, she failed to file two of the required quarterly Form 941s during the period. The missing filings were for quarter one (January-March) and quarter three (July-September) of 2019. IRS agents visited the City's office in January 2020 to inquire into the failure to file the required forms.

It should be noted that the Clerk had been filing and paying taxes on the quarterly Form 941N, which is the Nebraska Income Tax Withholding Return. The Nebraska Department of Revenue sends the City the quarterly forms to complete.

IRS Publication 15 (Circular E), "Employer's Tax Guide," states the following:

Form 941. *If you paid wages subject to income tax withholding (including withholding on sick pay and supplemental unemployment benefits) or social security and Medicare taxes, you must file Form 941 quarterly even if you have no taxes to report, unless you filed a final return, you receive an IRS notification that you're eligible to file Form 944, or the exceptions discussed later apply.*

That same IRS publication also details penalties and interest for the failure to file the required forms.

Good internal control requires procedures to ensure that Form 941s are filed, as required by Federal law.

Without such procedures, there is an increased risk for not only loss or misuse of City funds but also violation of Federal law.

We recommend the City implement procedures to ensure Form 941s are filed, as required by Federal law.

Employee Health Insurance

City employees were given a \$500-per-month allowance towards their individual health insurance premiums. The City was paying Blue Cross and Blue Shield the monthly premiums; however, the Clerk was not deducting the amount paid over the \$500 from her own, as well as another employee's, pay.

The Clerk's monthly health insurance premium was \$1,153.21; therefore, she should have been taking \$653.21 (the amount over the City's \$500-per-month allowance) out of her monthly pay to cover the additional cost. For five months, however, the City paid all of the Clerk's insurance premiums. When the mistake was finally realized, the Clerk was asked to reimburse the City a total of \$3,919.26, the amount of the premium overpayments that she received. The Clerk started to pay back that debt in August of 2019. Based upon available information, though, the APA calculated that the Clerk has not fully repaid the amount due.

The following is a summary of the City's payments to Blue Cross and Blue Shield for the Clerk's health insurance premiums, including her share of those costs:

Date	Check Number	Amount Paid	Clerk's Share	Monthly Insurance Allowance	Remaining Amount Owed
4/2/2019	3384	\$ 2,917.02	\$ 1,153.21	\$ 500.00	\$ 653.21
4/30/2019	3430	\$ 4,316.25	\$ 2,306.42	\$ 1,000.00	\$ 1,306.42
5/28/2019	3496	\$ 2,370.58	\$ 1,153.21	\$ 500.00	\$ 653.21
6/27/2019	3572	\$ 3,240.80	\$ 1,153.21	\$ 500.00	\$ 653.21
7/29/2019	3652	\$ 2,805.69	\$ 1,153.21	\$ 500.00	\$ 653.21
	Totals	\$ 15,650.34	\$ 6,919.26	\$ 3,000.00	\$ 3,919.26
Amount deducted from Period 8/1/2019 to 8/15/2019					\$ (1,556.77)
Amount Paid in Period 8/1/2019 to 8/15/2019 (Note)					\$ 500.00
Amount deducted from Period 8/16/2019 to 8/31/2019					\$ (1,461.47)
Amount Paid in Period 8/16/2019 to 8/31/2019 (Note)					\$ 500.00
Amount deducted from Period 9/1/2019 to 9/15/2019					\$ (1,060.27)
Amount Paid in Period 9/16/2019 to 9/30/2019					\$ 159.25
Amount Owed					\$ 1,000.00

Note: The Clerk claims these two payments are for not having insurance coverage in February and September 2019. The APA noted a \$250 insurance payment for the pay period ending September 30, 2019, which was paid on October 8, 2019.

The Clerk canceled her insurance coverage after the City's overpayments were discovered, and she is now receiving the \$500 per month as additional pay. In essence, the Clerk received the equivalent of a non-collateralized loan, and there were no provisions for interest or penalties for non-payment. The Clerk provided her own calculation, which included explanations that the \$500 payments were for not having insurance in February and September. The APA questions the \$500 repayment for February 2019, as there was no provision for employees to receive compensation for declining health insurance at that time. The City Council did not adopted such a provision until November 4, 2019.

Good internal controls require procedures, including a review of the payroll detail every pay period, to ensure that municipal payroll is correct, and any employee benefits are administered properly.

Without such procedures, there is an increased risk for the loss of City funds.

We recommend the City implement procedures, including a review of the payroll detail every pay period, to ensure that municipal payroll is correct, and any employee benefits are administered properly. Additionally, the City should work with the Clerk to ensure full reimbursement is received for the amount of her insurance premium overpayments.

Employees Overpaid

The APA noted that two City employees were overpaid during the pay period tested from February 24, 2019, through March 9, 2019. When calculating the employees' regular and overtime hours, the APA found that the overpayments were the result of the Clerk having paid the overtime hours at both the regular and overtime rates.

The APA has summarized the overpayments below:

Type	Employee 1 (Paid)	Employee 1 (APA Calculated)	Employee 2 (Paid)	Employee 2 (APA Calculated)
Regular Hours Worked	84.2	75.53	71.47	65.72
Hourly Rate	\$20	\$20	\$18	\$18
<i>Total Regular</i>	<i>\$1,684.00</i>	<i>\$1,510.60</i>	<i>\$1,286.46</i>	<i>\$1,182.96</i>
Overtime Hours Worked	8.67	8.67	5.77	5.75
Overtime Rate	\$30	\$30	\$27	\$27
<i>Total Overtime</i>	<i>\$260.10</i>	<i>\$260.10</i>	<i>\$155.79</i>	<i>\$155.25</i>
Gross Pay	\$1,944.10	\$1,770.70	\$1,442.25	\$1,338.21
Amount Overpaid	\$173.40		\$104.04	

Based on review of employee timecards, this issue appears to affect other pay periods as well.

Good internal control requires procedures, including a review of the payroll detail every pay period, to prevent overpayments to municipal employees.

Without such procedures, there is an increased risk for the loss of City funds.

We recommend the City implement procedures, including a review of the payroll detail every pay period, to prevent overpayments to municipal employees. Additionally, the City should review and calculate any additional employee overpayments and request reimbursement from the recipients thereof.

Other Issues

The APA identified other issues with the City's payroll process, including payroll taxes for municipal employees not being withheld at the correct rates, per the 2019 tax tables.

Good internal control requires procedures to ensure that employee payroll taxes are withheld at the correct rates.

Without such procedures, there is an increased risk for not only loss or misuse of City funds but also failure to report accurate tax information to the IRS.

We recommend the City implement procedures to ensure payroll taxes for municipal employees are withheld at the correct rates.

City's Response: The mayor has recently requested information from one of the health insurance carriers that hopefully will clarify the program under which the city has been operating. The clarification of the Cafeteria 125 Plan will change the way things have been reported in the past. We want to make sure this is done correctly. There is no excuse for quarterly reports not being filed. We will do a better job of supervising those reports. It was through the discovery of an error in deductions for health insurance that the focus on payroll began. We are now reproducing that payroll in a different format to insure that all reports are substantially correct. We have reset the accounts with the current year of Quickbooks payroll deductions, and will double check the amounts reported as taxable in the separate categories as dictated by the Cafeteria 125, and the IRA benefits. The mayor has requested, and the clerk has complied with the reimbursement due the city. We continue to verify the other employees' hours. This is partially due to practices of the past, clarification of the new handbook procedure, and failure to understand the Quickbooks accounting system. These issues are being addressed.

3. Apparent Lack of Quorum

The APA questions whether the City Council obtained the necessary quorum for meetings held in late December 2018, January 2019, and February 2019, during which votes were cast on agenda items and official municipal action was taken.

The City, which is designated as a city of the second class, operates under a four-member City Council with an elected Mayor; however, two Council members resigned in December 2018, which resulted in half the City Council seats being vacant. Nevertheless, the two remaining City Council members continued to conduct municipal business.

The following table summarizes both the dates of the City Council meetings in question and the City officials who attended them:

Meeting Date	Attendees
12/12/18	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
1/9/19	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
1/14/19*	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
1/23/19	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz
2/13/19	Mayor Lawhead, Councilmember Berendsen, and Councilmember Peitz

*During this meeting, the two remaining City Council members voted to terminate the City’s contract with the Hendrix Law Firm.

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

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

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

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

Per the two statutes above, a “majority of all [four of] the members elected” to the City Council is needed to achieve a quorum for purposes of conducting municipal business. Furthermore, the Mayor may cast a deciding vote when the City Council is deadlocked on any given issue.

According to the minutes of its March 20, 2019, meeting, as set out below, a reconstituted City Council voted to affirm all actions of that previously truncated governing body from December 12, 2019, through March 20, 2019:

Lawhead stated that we want to affirm all the actions of the Council taken from December 12 to the present. Berendsen motioned that the Council adopt Resolution 32019 Affirming and Ratifying all actions of the mayor and council from December 12 and after, seconded by Peitz. Aye M, S, P, B. Resolution adopted.

In late 2018 and early 2019, the Nebraska Attorney General received several complaints from a concerned citizen regarding the City Council’s activities during that time. The Nebraska Attorney General responded with an 11-page letter on May 15, 2019, which concluded with the following:

We conclude that the presence of only two members of the Crofton City Council was insufficient to establish a quorum and, as a result, the members had no legal authority to transact business. We further conclude that the actions of the two members of the city council constituted noncompliance with Neb. Rev. Stat. § 17-105, and did not constitute violations of the Open Meetings Act. Finally, we believe a serious question exists as to whether the city council’s resolution ratified the actions taken by only two members of the Crofton City Council, when those actions were not merely defective but void.

Since there is no legal basis for further action by this office, we are closing our file. If you disagree with the analysis set forth above, you may wish to consult with your private attorney to see what other legal remedies may be available to you.

In addition, after the fiscal year had ended, the City Council agreed to pay \$54,000 (\$37,000 from City funds and \$17,000 from the City’s insurance company) to settle a lawsuit against the City alleging breach of contract and violation of Nebraska’s open meetings laws. The plaintiff in that suit was the Hendrix Law Firm, which claimed that the firm’s three-year contract with the City had been terminated improperly during the January 14, 2019, City Council meeting – which, having being attended by only two members, lacked the quorum necessary to conduct municipal business.

When the City Council attempts to conduct municipal business without a quorum of its membership present, there is an increased risk of not only noncompliance with State statute but also costly litigation. A similar finding was noted in the City's audit report for the prior year.

We recommend the City Council conduct municipal business only when a quorum of its membership is present.

City's Response: At the time that Mayor Lawhead took office in December 2018, she and Tom Allen presented their resignations. This created two vacancies on the council which by law demanded a special election. However, it did leave two council members. It was not that two members were absent. Two members were no longer members. At the request of the then administrator, advice was sought from the Baird-Holme firm in Omaha who had been an adviser for the city in other affairs. That firm wrote that since the law requires over half of the elected members to be present, and since there were only two elected members, 2 of 2 was in fact 100%. Two other law firms accepted that finding and with the need to pay bills and do business, the city moved ahead with a two person board.

We later reconfirmed all of the business in an effort to stop the division in the town. Hopefully, we can move past this issue, especially since no major financial decisions were made, and no decision is in dispute, except for those who would question the quorum. The payment of the lawsuit by the Hendrix was a mutual agreement to avoid further legal cost, and did not state nor imply that the city was found liable of the charges. We feel we have had a quorum for all procedures.

APA Response: As we responded during the fiscal year 2018 audit, "The APA's understanding of the controlling statutory language is that the City would need to count the entire elected membership of the Board (i.e., "all the members elected"), not merely the remaining two Board members, to constitute a quorum." In addition, as included in the comment and recommendation above, the Nebraska Attorney General concluded with the following: "We conclude that the presence of only two members of the Crofton City Council was insufficient to establish a quorum and, as a result, the members had no legal authority to transact business."

4. Utility Receipt Procedures

The APA identified the following issues with the City's utility receipt procedures:

Utility Late Fees

During the audit, the APA noted multiple issues with the August 2019 utility billing for Crofton Community Schools, as follows: 1) meter reading fees of \$3 were not charged; 2) a late fee of \$5 was not charged; and 3) water usage for the football field was not charged during 10 months of the fiscal year, resulting in \$858.35 not being collected by the City.

While reviewing the City's QuickBooks accounting records during audit fieldwork, the APA noted that water usage for the local schools' shared football field was charged in October 2019; however, prior to that, no such charge had been made since November 2018. Water usage for the field during those 10 months totaled 55,400 gallons, for an unbilled amount of \$858.35. Also, the schools paid \$986.21 on August 26, 2019, for July and August 2019; however, no late fee was charged for the delinquent July 2019 payment. Payments are due on the 1st of each month and delinquent on the 10th.

Good internal control requires procedures to ensure that the City bills all of its utility customers properly each month, including charging meter reading fees, late fees, and all water usage costs, as incurred.

Without such procedures, there is an increased risk for the loss of City funds. A similar finding was noted in the City's audit report for the prior year.

We recommend the City implement procedures to ensure the City bills all of its utility customers properly each month, including charging meter reading fees, late fees, and all water usage costs, as incurred.

Customer Water Usage Deposits

During the fiscal year 2019, the City lacked an adequate method for tracking utility customer water usage deposits on hand. When starting water service, customers are required to pay the City a \$50 deposit. Amounts on hand at the City are shown as a liability, as these amounts are paid back to the customers when water service is no longer needed. As of September 30, 2019, the City's accounting records showed a liability balance of \$15,482.57; however, the City was unable to provide a detailed listing of individuals with water usage deposits held by the City to support this balance due. The City is currently trying to correct this liability balance by either refunding deposits or crediting them to customer accounts.

Good internal control requires procedures for tracking utility customer water usage deposits to ensure their proper financial presentation.

Without such procedures, there is an increased risk for both inaccurate financial presentation and the loss of City funds. A similar finding was noted in the City's audit report for the prior year.

We recommend the City continue to research utility customer water usage deposits to ensure their accurate financial presentation.

Accounts Receivable

During fiscal year 2019, the City lacked adequate procedures for ensuring the accuracy of accounts receivable for municipal utility customer billings. Each month, the City creates an accounts receivable balance for the prior month's utility usage. As of September 30, 2019, the City's accounting records showed an accounts receivable balance of \$34,824.51; however, during our testing of that balance, the following issues were noted:

- The accounts receivable aging schedule had multiple customer records with a negative \$50 or \$25 adjustment related to a water usage deposit credit included in the 1-30 day delinquent column. For a number of customer records, the current billings for September 2019, which were paid in October 2019, were not offset by these negative balances.
- In addition to the balances with the negative \$50 or \$25 adjustment, the accounts receivable listing also had multiple customer records with negative balances that had no current billing activity or payments.
- The accounts receivable aging schedule had multiple customer accounts with significant positive balances, totaling \$5,694.05, which were past due by at least 90 days. These customer records had no current billing activity or payments.

The City is currently trying to correct this accounts receivable balance. Good internal control requires procedures for tracking municipal utility customer accounts receivable to ensure their proper financial presentation.

Without such procedures, there is an increased risk for both inaccurate financial presentation and the loss of City funds.

We recommend the City implement procedures for tracking municipal utility customer accounts receivable to ensure their proper financial presentation.

City's Response: The city is working to clarify the utility billing procedure as presented on the Clerkboks program. Any and all policies and exceptions to those policies are being recorded and approved. New applications for service and deposits for same are approved by the council and in place. The final group of deposits have been mailed with a note of sending to the Secretary of State at the end of ninety days. We have a name for every deposit at this point. We are also identifying all problems of accounts receivable and are making adjustments as necessary, and with council approval, to clear those accounts. This procedure will require some personal meetings. In our present situation with the Covid19, we will no doubt delay this until the office can function openly again.

5. Disbursement Process

The APA identified the following issues with the City’s disbursement processes:

Duplicate Payments

The City paid two different companies twice, resulting in duplicate payments, as summarized in the table below:

Name	Date	Amount	APA Notes
Cedar Knox Rural Water Dist.	5/21/2019	\$ 9,754.60	Payment was for water used in May 2019. The second payment was the same payment amount as the first and was a duplicate. The City only paid the remaining balance of the following bill, totaling \$1,220.10.
Cedar Knox Rural Water Dist.	6/6/2019	\$ 9,754.60	
Yankton Janitorial Supply	10/9/2018	\$ 109.70	Payment was for the same invoice; however, the City Council approved \$219.40 on October 10, 2018. The APA noted a credit balance was applied to the City’s account on the April 30, 2019, statement.
Yankton Janitorial Supply	10/10/2018	\$ 109.70	

Good internal control requires procedures for not only preventing duplicate payments but also recouping them promptly when they occur.

Without such procedures, there is an increased risk for the loss of City funds. A similar finding was noted in the City’s audit report for the prior year.

We recommend the City implement procedures for not only preventing duplicate payments but also recouping them promptly when they occur.

Claims Approval

Five out of 27 municipal claims tested by the APA were paid prior to City Council approval, never approved by the City Council, or approved for an estimated amount without the actual amount being subsequently approved.

The following table summarizes the APA’s findings regarding this matter:

Check Number	Check Date	Payee	Amount	Amount Approved by Council	Date Approved by Council	Days Paid Before Approval
3626	7/8/2019	Farmers & Merchants State Bank	\$ 20.00	\$ -	N/A	N/A
N/A	N/A	Crofton Pool	\$ 2,632.24	\$ -	N/A	N/A
Claims Paid, but Never Approved by the Council			\$ 2,652.24	\$ -		
3566	6/18/2019	EMC Insurance	\$ 3,790.78	\$ 4,000.00	6/3/2019	N/A
3562	6/18/2019	Black Hills Energy	\$ 1,708.72	\$ 500.00	6/3/2019	N/A
Claims Approved for an Estimated Amount, but Not the Actual Amount			\$ 5,499.50	\$ 4,500.00		
	9/9/2019	Cedar Knox Public Power	\$ 2,118.54	\$ 2,118.54	10/7/2019	28
Claims Paid Prior to Council Approved			\$ 2,118.54	\$ 2,118.54		

Good internal control requires procedures to ensure that the City Council approves all municipal claims before they are paid. Those same procedures should ensure also that such approval is for actual, as opposed to estimated, amounts.

Without such procedures, there is an increased risk for the loss of City funds.

We recommend the implementation of procedures to ensure the City Council approves all municipal claims before they are paid. Those same procedures should ensure also that such approval is for actual, as opposed to estimated, amounts.

Lack of Claims Listing

During our comparison of the City’s bank account details to claims approved by the City Council, the APA also observed a lack of claims listings in meeting minutes for February 13, 2019, March 20, 2019, and April 1, 2019.

Neb. Rev. Stat. § 84-1413 (Cum. Supp. 2018) of the Open Meetings Act requires the following:

Each public body shall keep minutes of all meetings showing the time, place, members present and absent, and the substance of all matters discussed.

(Emphasis added.) Moreover, Neb. Rev. Stat. § 19-1102 (2019 Neb. Laws, LB 193, § 100) mandates publication of the Board’s official proceedings, which must include, among other things, the purpose of each claim allowed, as follows:

It shall be the duty of each city clerk or village clerk in every city or village having a population of not more than one hundred thousand inhabitants as determined by the most recent federal decennial census or the most recent revised certified count by the United States Bureau of the Census to prepare and publish the official proceedings of the city council or village board of trustees within thirty days after any meeting of the city council or village board of trustees. The publication shall be in a legal newspaper in or of general circulation in the city or village, shall set forth a statement of the proceedings of the meeting, and shall also include the amount of each claim allowed, the purpose of the claim, and the name of the claimant, except that the aggregate amount of all payroll claims may be included as one item. Between July 15 and August 15 of each year, the employee job titles and the current annual, monthly, or hourly salaries corresponding to such job titles shall be published. Each job title published shall be descriptive and indicative of the duties and functions of the position. The charge for the publication shall not exceed the rates provided for in section 23-122.

(Emphasis added.) Without a detailed claims listing in the minutes of each meeting of the City Council, compliance with the above two statutes is doubtful.

Additionally, good internal control requires procedures to ensure that the City Council maintains a detailed listing of all claims approved at each meeting to allow for not only full awareness on the part of the members regarding any expenditures being approved but also financial transparency for the sake of concerned taxpayers.

Without such procedures, there is an increased risk for not only the loss or misuse of City funds but also a lack of both administrative accountability and financial transparency regarding municipal expenditures.

We recommend the City implement procedures to ensure the City Council maintains a detailed listing of all claims approved at each meeting to allow for not only full awareness on the part of the members regarding any expenditures being approved but also financial transparency for the sake of concerned taxpayers.

Improper Payment of Sales Tax, Late Fees, and Interest

The APA noted that the City made improper payments of sales taxes on municipal purchases. Additionally, the City paid late fees and interest penalties on tardy credit card payments.

The following table details the City’s improper payments of sales taxes during the period tested:

Date	Vendor	Invoice Amount	Sales Tax Paid
10/13/18	Intuit	\$ 1,216.48	\$ 79.07
11/19/18	Mind Ware	\$ 74.89	\$ 4.57
2/26/19	Amazon	\$ 182.58	\$ 11.15
Totals		\$ 1,473.95	\$ 94.79

Per Neb. Rev. Stat. § 77-2704.15(1)(a) (Reissue 2018), 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

The following table details the late fees and interest penalties that the City paid to its credit card company during the period tested:

Date	Vendor	Charge	Amount
8/5/19	First Bankcard	Late Fee	\$ 35.00
8/5/19	First Bankcard	Interest	\$ 1.75
Total			\$ 36.75

Good internal controls require procedures to ensure the following: 1) sales taxes are not paid on municipal purchases; and 2) credit card billings are paid timely to avoid unnecessary late fees and interest penalties.

Without such procedures, there is an increased risk for the loss of public funds.

We recommend the City implement procedures to ensure sales taxes are not paid on municipal purchases, and credit card billings are paid timely to avoid unnecessary late fees and interest penalties.

City’s Response: Several requests for more detail for the council has ended with “meeting a deadline” reason for overlooking. The plan is to have the financial package and information on any consideration out to the council the week prior to the meeting. The council should make an effort to view all invoices that they need to peruse prior to the meeting. Pre-approved payments for payroll, insurances, and utilities need to be listed as estimated and actual. The person in charge of timely payments needs to be able to arrange that. New practices of responsibilities are being put into place.

6. Tax Increment Financing

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

As identified in the fiscal year 2017 audit, the City lacked procedures for tracking the ad valorem taxes received and paid to Cmart, LLC, as compared to the bond payments or bond amortization schedule. The ad valorem taxes should be remitted for only 15 years unless the debt is paid off earlier.

In addition, the City did not have documentation to support: 1) the veracity of related project expenses; 2) the proper performance of mandatory substandard and blight studies; and 3) the existence of required redevelopment plans. The City has worked to obtain such supporting documents to ensure full compliance with the Community Development Law, which is set out at Neb. Rev. Stat. §§ 18-2101 to 18-2154 (Reissue 2012, Cum. Supp. 2018, Supp. 2019). However, the City was unable to obtain all of the required items, and it does not appear likely that they will become available.

Good internal control requires procedures for the maintenance of proper documentation to ensure compliance with applicable provisions of the Community Development Law. Those same procedures should also ensure the proper distribution of ad valorem tax amounts.

Without such procedures, there is an increased risk for not only noncompliance with State law but also loss or misuse of public funds. A similar finding was noted in the City’s audit report for the prior year.

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

City's Response: In the past there seems to be some confusion with both the TIF funds and the CDBG funds. The mayor is working with the original benefactors of those programs to clarify the agreements and the time lines. TIF money is clearly designated by the county, and we are getting past the errors of where to include it as money in and out. We will continue to work on this.

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

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

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

Sincerely,



Craig Kubicek, CPA, CFE
Assistant Deputy Auditor