

**AUDIT REPORT  
OF THE  
CITY OF CROFTON**

**OCTOBER 1, 2019, THROUGH SEPTEMBER 30, 2020**

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**Issued on May 7, 2021**

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:

- Sharol Lawhead, Mayor
- Don Meink, Council Member (started March 2019)
- Larry Peitz, Council Member
- Arlene Steffen, Council Member (started March 2019; term expired December 2020)
- Illa Roeder, Council Member (started October 2019)

In January 2019, Kathy Nohr was hired as the City Clerk. In October 2019, Illa Roeder was appointed and sworn in as a Council member. In January 2020, the City hired Lisa Skroch as a part-time office employee. In May 2020, Kathy Nohr resigned as the City Clerk, and Lisa Skroch was hired to fill the vacated City Clerk position. In December 2020, Lisa Skroch was appointed as City Treasurer, and Arlene Steffen was hired as the City Clerk.



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2020, 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, 2020, 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, 2020, 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 May 6, 2021, 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

May 6, 2021

CITY OF CROFTON  
**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES - CASH BASIS**  
**STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS**  
September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 5,376	\$ 282,861	\$ 288,237
Cash on Hand with County Treasurer	9,124	-	9,124
Accounts Receivable	-	55,035	55,035
Restricted Cash and Cash Equivalents	268,632	-	268,632
Total Current Assets	283,132	337,896	621,028
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	6,496	6,496
Capital Assets			
Land	-	85,360	85,360
Construction in Progress	-	123,070	123,070
Depreciable Assets (Net)	-	199,779	199,779
Total Noncurrent Assets	-	414,705	414,705
<b>TOTAL ASSETS</b>	<b>283,132</b>	<b>752,601</b>	<b>1,035,733</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	-	33,325	33,325
Accrued Expenses	-	2,584	2,584
Total Current Liabilities	-	35,909	35,909
Noncurrent Liabilities			
Customer Deposits	-	6,496	6,496
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>42,405</b>	<b>42,405</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	408,209	408,209
Restricted for:			
Police	522	-	522
Street	47,023	-	47,023
Special Revenue	161,874	-	161,874
Debt Retirement	61,027	-	61,027
Unrestricted	12,686	301,987	314,673
<b>TOTAL NET POSITION</b>	<b>\$ 283,132</b>	<b>\$ 710,196</b>	<b>\$ 993,328</b>

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, 2020

Functions/Programs:	Disbursements/ Expenses	Program Receipts/Revenues	Net (Disbursements/Expenses)		
			Receipts/Revenue and Changes in Net Position		
			Primary Government		
		Charges for Services	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>					
General Government	\$ 289,395	\$ -	\$ (289,395)	\$ -	\$ (289,395)
Public Health and Safety	93,473	-	(93,473)	-	(93,473)
Public Works	179,844	-	(179,844)	-	(179,844)
Culture and Recreation	81,407	124	(81,283)	-	(81,283)
Community Development	16,780	-	(16,780)	-	(16,780)
Debt Service	107,999	-	(107,999)	-	(107,999)
Total Governmental Activities	<u>768,898</u>	<u>124</u>	<u>(768,774)</u>	<u>-</u>	<u>(768,774)</u>
<b>Business-Type Activities:</b>					
Water	275,884	283,823	-	7,939	7,939
Sewer	78,125	141,971	-	63,846	63,846
Sanitation	57,960	60,141	-	2,181	2,181
Total Business-Type Activities	<u>411,969</u>	<u>485,935</u>	<u>-</u>	<u>73,966</u>	<u>73,966</u>
Total Primary Government	<u>\$ 1,180,867</u>	<u>\$ 486,059</u>	<u>(768,774)</u>	<u>73,966</u>	<u>(694,808)</u>
<b>General Receipts/Revenues:</b>					
Taxes:					
Property Taxes - General Purposes			225,875	-	225,875
City Sales Taxes			81,375	-	81,375
City Motor Vehicle Sales Taxes			16,741	-	16,741
Tax Increment Financing			2,040	-	2,040
Licenses and Permits			2,000	-	2,000
Intergovernmental			126,924	-	126,924
Use of Money and Property & Other Local Receipts			115,220	-	115,220
Special Assessments			51,838	-	51,838
Other Miscellaneous Receipts/Revenues			7,160	1,554	8,714
Total General Receipts/Revenues			<u>629,173</u>	<u>1,554</u>	<u>630,727</u>
Increase in Net Position			(139,601)	75,520	(64,081)
Net Position - Beginning of year			<u>422,733</u>	<u>634,676</u>	<u>1,057,409</u>
Net Position - End of year			<u>\$ 283,132</u>	<u>\$ 710,196</u>	<u>\$ 993,328</u>

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

CITY OF CROFTON  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES**  
**GOVERNMENTAL FUNDS - CASH BASIS**  
September 30, 2020

	General Fund	Street Fund	Special Revenue Fund	Debt Retirement Fund	Total
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,376	\$ -	\$ -	\$ -	\$ 5,376
Cash on Hand with County Treasurer	7,310	1,814	-	-	9,124
Restricted Cash and Cash Equivalents	522	45,209	161,874	61,027	268,632
<b>TOTAL ASSETS</b>	<b>\$ 13,208</b>	<b>\$ 47,023</b>	<b>\$ 161,874</b>	<b>\$ 61,027</b>	<b>\$ 283,132</b>
<b>FUND BALANCE</b>					
Restricted	\$ 522	\$ 47,023	\$ 161,874	\$ 61,027	\$ 270,446
Unassigned	12,686	-	-	-	12,686
<b>TOTAL CASH BASIS FUND BALANCES</b>	<b>\$ 13,208</b>	<b>\$ 47,023</b>	<b>\$ 161,874</b>	<b>\$ 61,027</b>	<b>\$ 283,132</b>

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, 2020

	General Fund	Street Fund	Special Revenue Fund	Debt Retirement Fund	Total
<b>RECEIPTS</b>					
Taxes	\$ 190,538	\$ 50,037	\$ 85,456	\$ -	\$ 326,031
Intergovernmental	24,512	102,412	-	-	126,924
Charges for Services	124	-	-	-	124
Use of Money and Property & Other Local Receipts	111,571	-	3,649	-	115,220
Licenses and Permits	2,000	-	-	-	2,000
Special Assessments	-	-	-	51,838	51,838
Miscellaneous	7,160	-	-	-	7,160
<b>TOTAL RECEIPTS</b>	<b>335,905</b>	<b>152,449</b>	<b>89,105</b>	<b>51,838</b>	<b>629,297</b>
<b>DISBURSEMENTS</b>					
General Government	289,395	-	-	-	289,395
Public Health and Safety	93,473	-	-	-	93,473
Public Works	-	179,844	-	-	179,844
Culture and Recreation	70,545	-	10,862	-	81,407
Community Development	2,879	-	13,901	-	16,780
Debt Service					
Principal	-	-	25,000	50,000	75,000
Interest	-	-	444	32,135	32,579
Fees and Penalties	-	-	20	400	420
<b>TOTAL DISBURSEMENTS</b>	<b>456,292</b>	<b>179,844</b>	<b>50,227</b>	<b>82,535</b>	<b>768,898</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<b>(120,387)</b>	<b>(27,395)</b>	<b>38,878</b>	<b>(30,697)</b>	<b>(139,601)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt Proceeds	-	-	-	-	-
Loan Proceeds	-	-	-	-	-
Transfers In	118,373	-	16,613	-	134,986
Transfers Out	(130,426)	-	(4,560)	-	(134,986)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>(12,053)</b>	<b>-</b>	<b>12,053</b>	<b>-</b>	<b>-</b>
<b>Net Change in Cash Basis Fund Balances</b>	<b>(132,440)</b>	<b>(27,395)</b>	<b>50,931</b>	<b>(30,697)</b>	<b>(139,601)</b>
<b>CASH BASIS FUND BALANCES - BEGINNING</b>	<b>145,648</b>	<b>74,418</b>	<b>110,943</b>	<b>91,724</b>	<b>422,733</b>
<b>CASH BASIS FUND BALANCES - ENDING</b>	<b>\$ 13,208</b>	<b>\$ 47,023</b>	<b>\$ 161,874</b>	<b>\$ 61,027</b>	<b>\$ 283,132</b>

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

CITY OF CROFTON  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS - ACCRUAL BASIS**  
September 30, 2020

	Sewer Fund	Water Fund	Sanitation Fund	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 149,052	\$ 138,075	\$ (4,266)	\$ 282,861
Accounts Receivable	15,434	32,853	6,748	55,035
<b>Total Current Assets</b>	<b>164,486</b>	<b>170,928</b>	<b>2,482</b>	<b>337,896</b>
<b>Noncurrent Assets</b>				
Restricted Assets - Cash	-	6,496	-	6,496
<b>Capital Assets</b>				
Land	41,930	41,930	1,500	85,360
Construction in Progress	123,070	-	-	123,070
Depreciable Assets	220,093	908,457	-	1,128,550
Accumulated Depreciation	(188,244)	(740,527)	-	(928,771)
<b>Total Noncurrent Assets</b>	<b>196,849</b>	<b>216,356</b>	<b>1,500</b>	<b>414,705</b>
<b>TOTAL ASSETS</b>	<b>361,335</b>	<b>387,284</b>	<b>3,982</b>	<b>752,601</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	96	33,229	-	33,325
Sales Tax Payable	873	1,711	-	2,584
<b>Total Current Liabilities</b>	<b>969</b>	<b>34,940</b>	<b>-</b>	<b>35,909</b>
<b>Noncurrent Liabilities</b>				
Customer Deposits	-	6,496	-	6,496
<b>TOTAL LIABILITIES</b>	<b>969</b>	<b>41,436</b>	<b>-</b>	<b>42,405</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	196,849	209,860	1,500	408,209
Unrestricted	163,517	135,988	2,482	301,987
<b>TOTAL NET POSITION</b>	<b>\$ 360,366</b>	<b>\$ 345,848</b>	<b>\$ 3,982</b>	<b>\$ 710,196</b>

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, 2020

	Sewer Fund	Water Fund	Sanitation Fund	Total
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 141,971	\$ 283,823	\$ 60,141	\$ 485,935
Miscellaneous	-	1,554	-	1,554
<b>TOTAL OPERATING REVENUES</b>	<u>141,971</u>	<u>285,377</u>	<u>60,141</u>	<u>487,489</u>
<b>OPERATING EXPENSES:</b>				
Personnel Services	35,726	35,263	2,400	73,389
Professional Fees	474	7,400	25	7,899
Materials and Supplies	3,023	256	-	3,279
Repairs and Maintenance	4,292	14	-	4,306
Utilities	8,870	1,073	-	9,943
Contracted Services	2,493	7,302	55,535	65,330
Cost of Goods Sold	-	204,249	-	204,249
Capital Outlay/Improvements	22,491	-	-	22,491
Depreciation	1,355	18,151	-	19,506
Miscellaneous	(599)	2,176	-	1,577
<b>TOTAL OPERATING EXPENSES</b>	<u>78,125</u>	<u>275,884</u>	<u>57,960</u>	<u>411,969</u>
<b>OPERATING INCOME (LOSS)</b>	<u>63,846</u>	<u>9,493</u>	<u>2,181</u>	<u>75,520</u>
<b>CHANGE IN NET POSITION</b>	63,846	9,493	2,181	75,520
<b>TOTAL NET POSITION, BEGINNING</b>	<u>296,520</u>	<u>336,355</u>	<u>1,801</u>	<u>634,676</u>
<b>TOTAL NET POSITION, ENDING</b>	<u>\$ 360,366</u>	<u>\$ 345,848</u>	<u>\$ 3,982</u>	<u>\$ 710,196</u>

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

CITY OF CROFTON  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS - ACCRUAL BASIS**  
For the Year Ended September 30, 2020

	Sewer Fund	Water Fund	Sanitation Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received From Customers	\$ 138,597	\$ 272,595	\$ 58,287	\$ 469,479
Cash Paid For Contractual Services	(2,493)	(7,302)	(55,535)	(65,330)
Cash Paid For Personnel Services	(37,017)	(37,932)	(2,400)	(77,349)
Cash Paid for Sewer Plant Project	(123,070)	-	-	(123,070)
Other Cash Expenses	(49,925)	(204,296)	(4,627)	(258,848)
Net Cash Provided by (Used in) Operating Activities	<u>(\$73,908)</u>	<u>23,065</u>	<u>(4,275)</u>	<u>(\$55,118)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<u>(\$73,908)</u>	<u>23,065</u>	<u>(4,275)</u>	<u>(\$55,118)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	222,960	121,506	9	344,475
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 149,052</u>	<u>\$ 144,571</u>	<u>\$ (4,266)</u>	<u>\$ 289,357</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	\$ 63,846	\$ 9,493	\$ 2,181	\$ 75,520
Adjustments to Reconcile:				
Depreciation	1,355	18,151	-	19,506
Change in Assets & Liabilities:				
Decrease (Increase) in Accounts Receivable	(3,374)	(14,982)	(1,854)	(20,210)
Decrease in Inventory	-	572	-	572
Increase in Construction in Progress	(123,070)	-	-	(123,070)
Increase (Decrease) in Accounts Payable	(12,247)	19,775	(4,602)	2,926
Increase in Sales Tax Payable	873	1,711	-	2,584
Decrease in Customer Deposits	-	(8,986)	-	(8,986)
Increase (Decrease) in Payroll Liabilities	(1,291)	(2,669)	-	(3,960)
Total Adjustments	<u>(137,754)</u>	<u>13,572</u>	<u>(6,456)</u>	<u>(130,638)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (73,908)</u>	<u>\$ 23,065</u>	<u>\$ (4,275)</u>	<u>\$ (55,118)</u>

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

CITY OF CROFTON

**NOTES TO THE FINANCIAL STATEMENTS**

For the Fiscal Year Ended September 30, 2020

**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 (Cum. Supp. 2020).

**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 2019-2020 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 City entered into a lease agreement on September 1, 2005, which was set to expire December 31, 2024. On November 4, 2019, the City entered into a new lease agreement, replacing the previous agreement, with the agreement continuing to at least December 31, 2039.

**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, 2020.

**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 \$572,489, including County Treasurer balances. The bank balance for all funds was \$619,333. For purposes of classifying categories of custodial risk, the bank balances of the City's deposits, as of September 30, 2020, were either entirely insured or collateralized with securities held by the City's agent in the City's name.

The City's unrestricted deposits of cash are pooled in one demand bank account. While the Sanitation Fund had a negative cash and cash equivalents balance as of September 30, 2020, the City did not have any negative bank balances at year end.

**B. Restricted Assets**

The restricted assets as of September 30, 2020, are as follows:

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Fund	Governmental Activities	Business-Type Activities	Total
General	\$ 522		\$ 522
Street	\$ 47,023		\$ 47,023
Special Revenue	\$ 161,874		\$ 161,874
Debt Retirement	\$ 61,027		\$ 61,027
Water		\$ 6,496	\$ 6,496
<b>Total Cash and Cash Equivalents</b>	<b>\$ 270,446</b>	<b>\$ 6,496</b>	<b>\$ 276,942</b>

C. Accounts Receivable

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2020, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 15,434
Water Fund	\$ 32,853
Sanitation Fund	\$ 6,748
<b>Total</b>	<b>\$ 55,035</b>

D. Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

Business-Type Activities:	Balance at October 1, 2019	Additions	Disposals	Balance at September 30, 2020
Capital Assets Not Depreciated:				
Land	\$ 85,360	\$ -	\$ -	\$ 85,360
Construction in Progress	\$ -	\$ 123,070	\$ -	\$ 123,070
Total Capital Assets Not Depreciated, at Historical Cost	\$ 85,360	\$ 123,070	\$ -	\$ 208,430
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	\$ (909,265)	\$ (19,506)	\$ -	\$ (928,771)
Total Accumulated Depreciation	\$ (909,265)	\$ (19,506)*	\$ -	\$ (928,771)
Depreciable Capital Assets, Net	\$ 219,285	\$ (19,506)	\$ -	\$ 199,779
Business-Type Capital Assets, Net	\$ 304,645	\$ 103,564	\$ -	\$ 408,209

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

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

*Construction in Progress:* During fiscal year 2020, the City began work on a wastewater collection and treatment system project. Starting in November 2019, the City paid for professional engineering services for this project, totaling \$123,070. As of September 30, 2020, the project was still ongoing, and no depreciation expense was recorded for fiscal year 2020.

**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, 2020:

Business-Type Activities:	Balance at October 1, 2019	Additions	Deductions	Balance at September 30, 2020
<b>Liabilities:</b>				
Accounts Payable	\$ 30,399	\$ 33,325	\$ 30,399	\$ 33,325
Accrued Expenses	\$ 3,960	\$ -	\$ 3,960	\$ -
Sales Tax Payable	\$ -	\$ 2,584	\$ -	\$ 2,584
Customer Deposits	\$ 15,482	\$ 2,200	\$ 11,186	\$ 6,496
Total Liabilities	<u>\$ 49,841</u>	<u>\$ 38,109</u>	<u>\$ 45,545</u>	<u>\$ 42,405</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 Fund	General-Cemetery	\$ 1,319
General Fund	General-Police	\$ 49,704
General Fund	General-Recreation: Baseball	\$ 3,050
General Fund	General-Recreation: Softball	\$ 1,344
General Fund	General-Recreation: Pool	\$ 5,088
General Fund	General-Recreation: Camping Garden	\$ 28,734
General Fund	General-Recreation: Auditorium	\$ 29,134
General Fund	Special Revenue Fund – Economic Development	\$ 12,053
Special Revenue Fund – Economic Development	Special Revenue Fund – LOST: Economic Development	\$ 4,560
<b>Total</b>		<b>\$ 134,986</b>

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 \$12,460.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. **OTHER NOTES** (Continued)

**B. Risk Management**

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

**C. Commitments and Contingencies**

**Construction and Commitments**

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, 2020.

**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 2020, the City made the final debt payment of \$25,000 in principal, plus \$444 in interest, related to this bond.
- 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 2020, the City paid principal and interest, totaling \$82,135, related to this bond. The following represents future payments required on this bond:

Fiscal Year	Principal	Interest	Total
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	\$ 55,000.00	\$ 26,646.25	\$ 81,646.25
2026-2030	\$ 285,000.00	\$ 110,020.00	\$ 395,020.00
2031-2035	\$ 325,000.00	\$ 60,307.50	\$ 385,307.50
2036-2037	\$ 150,000.00	\$ 5,775.00	\$ 155,775.00
<b>Total Payments</b>	<b>\$ 1,015,000.00</b>	<b>\$ 321,288.75</b>	<b>\$ 1,336,288.75</b>

CITY OF CROFTON

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

4. **OTHER NOTES** (Concluded)

**Tax Increment Financing**

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

**D. Interlocal Agreements**

The City has the following interlocal agreements in effect as of September 30, 2020:

<b><u>Parties to Agreement</u></b>	<b><u>Description</u></b>
Knox County	Assistance for oil road repairs along City roads and joint use of City property for a cold-mix preparation and storage site.
Knox County Development Agency	Coordination, education, and service to increase the knowledge of economic development and help preserve Knox County community's economic growth.
Ponca Tribe of Nebraska	Clarify authority of City and services to be provided for City property held in trust for the benefit of the Ponca Tribe.
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 May 6, 2021, the date on which the financial statements were available for issue.

CITY OF CROFTON

OTHER INFORMATION

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

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

For the Year Ended September 30, 2020

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>RECEIPTS</b>			
Property Taxes	\$ 174,158	\$ 225,875	\$ 51,717
State Highway Allocation	97,965	98,880	915
State Municipal Equalization	25,591	24,513	(1,078)
State Motor Vehicle	5,400	3,532	(1,868)
Other State Receipts	125,300	-	(125,300)
Local Motor Vehicle	30,000	16,741	(13,259)
City Sales Tax	80,000	81,375	1,375
Other Local Receipts	470,113	665,870	195,757
Transfers In Other Than Surplus	102,533	-	(102,533)
<b>TOTAL RECEIPTS</b>	<b>1,111,060</b>	<b>1,116,786</b>	<b>5,726</b>
<b>DISBURSEMENTS</b>			
General Government	231,040	289,395	(58,355)
Public Health and Safety	64,500	93,473	(28,973)
Public Works - Streets & Other	251,500	179,844	71,656
Culture and Recreation	125,000	81,407	43,593
Community Development	43,753	16,780	26,973
Debt Service	150,500	107,999	42,501
Sanitation	59,500	57,960	1,540
Sewer	284,500	78,125	206,375
Water	82,687	275,884	(193,197)
Transfers Out Other Than Surplus	102,533	-	102,533
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 1,395,513</b>	<b>1,180,867</b>	<b>\$ 214,646</b>
Net Change in Cash Basis Fund Balance		(64,081)	
<b>ACCRUAL/CASH BASIS FUND</b>			
<b>BALANCE - BEGINNING</b>		<b>1,057,409</b>	
<b>ACCRUAL/CASH BASIS FUND</b>			
<b>BALANCE - ENDING</b>		<b>\$ 993,328</b>	

**Notes to the Budgetary Comparison Schedule**

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



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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CITY OF CROFTON  
**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, 2020, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated May 6, 2021. 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 May 6, 2021.

### **City's Response to Findings**

The City's response to the findings identified in our audit are described in the separate management letter. 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.



May 6, 2021

Craig Kubicek, CPA, CFE  
Assistant Deputy Auditor



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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May 6, 2021

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, 2020, and have issued our report thereon dated May 6, 2021. 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. One City employee 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 final payroll and adjustments. 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. During testing, the APA noted several assets that should have been added to this list, including vehicles and other items.
- During the audit, the City did not provide documentation to support that the City Council approved the fees for garage sale entry, candidate filing, park shower, and sale of scrap iron. The City received a total of \$1,778 from the sale of scrap iron during fiscal year 2020.
- On February 3, 2021, the APA received an email from a citizen with questions about the City's fiscal year 2020 audit. At that time, the APA had not been engaged to complete the City's audit and was unaware the City intended for the APA to complete the audit, as the City had not contacted the APA or requested the APA to submit a bid for the audit.

Later that day, the City contacted the APA and expressed that they intended for our office to perform the audit. On March 17, 2021, the APA sent the City its engagement letter and began working on the audit. The APA received the City's financial reports on March 19, 2021. Due to this short notice provided by the City, the City's audit was not completed by March 31, 2021, as required by State statute.

- During the audit, it was noted that the City did not provide accurate and timely financial reports to the City Council, as required by State statute. The fiscal year 2020 Profit & Loss and Balance Sheet reports provided by the City were run multiple months after September 2020. The APA observed that the amounts reported on these reports varied from month to month, as described below:
  - The September 30, 2020, Balance Sheet report run in November 2020 showed total assets that were \$9,500 higher than the report provided to the APA as of fieldwork in March 2021.
  - The fiscal year 2020 Profit & Loss report run in November 2020 reflected a net income that was over \$43,000 less than the net income from the Profit & Loss report provided to the APA as of fieldwork in March 2021.

Even though there were variances between these reports, they ultimately appear to be materially correct, and the APA determined that no adjustment was necessary. The variances are likely due to the City having not closed its accounts in its accounting system when the fiscal year ended on September 30, 2020. The City completed the closing of its accounts in March 2021.

- During the review of Board meeting minutes, the APA noted that the June 1, 2020, and July 6, 2020, meeting minutes did not include a listing of approved claims. Several 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.

Neb. Rev. Stat. § 19-2903 (Reissue 2012) provides, in relevant part, the following:

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

Neb. Rev. Stat. § 17-606(1) (Cum. Supp. 2020) states, in relevant part, the following:

*[H]e or she shall, at the end of every month, and as often as may be required, render an account to the city council or village board of trustees, under oath, showing the state of the treasury at the date of such account and the balance of money in the treasury. He or she shall also accompany such accounts with a statement of all receipts and disbursements, together with all warrants redeemed and paid by him or her, which warrants, with any and all vouchers held by him or her, shall be filed with his or her account in the clerk's office. If the city treasurer or village treasurer fails to render his or her account within twenty days after the end of the month, or by a later date established by the city council or village board of trustees, the mayor of a city of the second class or the chairperson of the village board of trustees with the advice and consent of the trustees may use this failure as cause to remove the city treasurer or village treasurer from office.*

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 final payroll and adjustments; 2) a capitalization policy that provides a threshold for when items should be added to the City's inventory list; 3) documentation to support that the City Council approved all municipal fees; 4) the City allow for sufficient time for an audit to be completed within six months of the fiscal year end, as required by State statute; 5) the City Treasurer is providing accurate and timely financial reports to the City Council in accordance with State statute; and 6) Board official proceedings include the claims approved.

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. This would include performing an annual inventory of all items on the list to ensure items were properly added or removed.
- All fees charged by the City are approved, as well as documented, by the City Council.
- Sufficient time is allowed for the completion and submission of the City's audit by the deadline established by State statute.
- The City Treasurer is providing accurate and timely financial reports to the City Council in accordance with State statute.
- Board official proceedings include the claims approved.

*City's Response: The payroll errors that were occurring during the previous fiscal year have clouded the reporting for the present fiscal year. The Internal Revenue Service became involved because of our failure to file the 941 reports. In May of 2020, the change of office personnel prompted a search for the original documents related to the city's Cafeteria 125 plan, and for the original and amended IRA documents. At the same time we wanted to verify the percentages of salary and benefits allocated to each fund. The employees have been asked to note time spent in various fund areas of employment, a spread sheet has been developed to note the correct overtime amounts based on labor laws, and we are still awaiting confirmation of filings with the IRS through an agent assigned to bring our records into compliance.*

*We had talked with our accountant about the capitalization, and chosen \$1000.00 as the cut off point. In light of the costs of our current economy, we will discuss with Clerkbooks staff if that is appropriate, and clarify how we can make that clear in our book entries. We will develop a procedure, a list of items, and a policy for adding and removing. We will ask for Council approval of that policy, and then include it in an office procedure document.*

*Fees will be examined and properly addressed in a fee schedule. After approval by the Council, they will become a part of the city record and included in an office procedure document.*

*The timely completion of, and proper inclusion of, all financial statements should be much enhanced by an office procedure document which sets out procedure and time lines. We now have two employees plus the management to allow for documented review of all allocations of income and expense. Our goal is timely and accurate records, which are easily followed by the general public.*

## **2. Payroll Procedure Issues**

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

### ***Payroll Adjustments***

For two employees tested, payroll was adjusted incorrectly after it was processed and paid, resulting in incorrect payroll tax withholdings. These two employees both selected to receive a "cash-in-lieu" payment rather than be covered under the City's medical coverage under the City's Cafeteria 125 plan. The original paystub for the March 23, 2020, paychecks correctly showed these payments as gross wages and subject to all payroll taxes. However, the adjustment made after payroll was processed removed this payment from gross wages and showed it as an after-tax adjustment. The following table summarizes the original withholdings and the withholding amounts after the adjustments were made.

Description/Tax	Employee 1			Employee 2		
	Original	After Adjustments	Difference	Original	After Adjustments	Difference
Federal Income Tax	\$ 158.00	\$ 197.36	\$ (39.36)	\$ 131.00	\$ 112.00	\$ 19.00
Social Security	\$ 127.48	\$ 115.11	\$ 12.37	\$ 124.61	\$ 113.99	\$ 10.62
Medicare	\$ 29.81	\$ 26.92	\$ 2.89	\$ 29.14	\$ 26.65	\$ 2.49
State Income Tax	\$ 69.32	\$ 57.72	\$ 11.60	\$ 61.45	\$ 52.22	\$ 9.23
Net Pay	\$ 1,566.19	\$ 1,566.19	\$ -	\$ 1,532.74	\$ 1,463.83	\$ 68.91

The APA also noted that the City amended its Internal Revenue Service (IRS) Form 941 and the State’s Form 941 for Federal and State withholdings for these adjustments and other adjustments made by the City. As a result, these amendments would include the incorrect adjustments made by the City. Furthermore, there is a potential risk of amounts reported on the employees’ 2020 W-2s being incorrect.

The “FAQs for government entities regarding Cafeteria Plans” information, which is found on the IRS website, states, in relevant part, the following:

*A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements of and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pretax basis. Participants in a cafeteria plan must be permitted to choose among at least one taxable benefit (such as cash) and one qualified benefit.*

\* \* \* \*

*If an employee elects to receive cash instead of any qualified benefit, it is treated as wages subject to all employment taxes.*

(Emphasis added.) Good internal controls require procedures to ensure the following: 1) any taxable benefit (e.g., cash-in-lieu of City coverage) provided by the City is subject to all employment taxes in the payroll system in accordance with applicable IRS codes and publications; 2) the City analyzes the impact of any possible payroll adjustments and, if determined necessary, adjustments are made using the correct methods within the system, and appropriate amendments to IRS and State forms are completed; and 3) any adjustments made to payroll and other disbursements are correct and adequately supported.

Without such procedures, there an increased risk for not only noncompliance with applicable Federal regulations but also loss, misuse, or theft of City funds. Furthermore, there is an increased risk of a potential liability against the City or employees when payroll taxes are incorrect.

We recommend the City implement procedures to ensure the following: 1) any taxable benefit (e.g., cash-in-lieu of City coverage) provided by the City is subject to all employment taxes in the payroll system in accordance with applicable IRS regulations and publications; 2) the City analyzes the impact of any possible payroll adjustments and, if determined necessary, adjustments are made using the correct means within the system and appropriate amendments to IRS and State forms are completed; and 3) any adjustments made to payroll and other disbursements are correct and adequately supported.

**Overtime Pay**

One hourly employee was not paid at the correct rate for 8.25 hours of overtime worked. During one workweek in the pay period August 1, 2020, to August 15, 2020, this employee worked 48.5 hours; however, she was paid for only 0.25 hours of overtime. As a result, gross wages were \$66 less than the amount actually earned.

Title 29 CFR § 553.232 (July 1, 2019) states, in relevant part, the following:

*If a public agency pays employees subject to section 7(k) for overtime hours worked in cash wages rather than compensatory time off, such wages must be paid at one and one-half times the employees’ regular rates of pay.*

Title 29 CFR § 778.101 (July 1, 2019) states, in relevant part, the following:

*As a general standard, section 7(a) of the Act provides 40 hours as the maximum number that an employee subject to its provisions may work for an employer in any workweek without receiving additional compensation at not less than the statutory rate for overtime. Hours worked in excess of the statutory maximum in any workweek are overtime hours under the statute . . . .*

Good internal controls require procedures to ensure that employee payroll complies with applicable Federal regulations.

Without such procedures, there is an increased risk of not only failure to comply with applicable Federal regulations but also loss, misuse, or theft of City funds.

We recommend the City implement procedures to ensure employee payroll complies with applicable Federal regulations.

### ***Other Payroll Issues***

The APA also noted the following issues:

- For one employee, the Internal Revenue Service (IRS) Form W-4 on file did not agree to actual filing status, exemptions, and additional income tax withholdings in the City's payroll system.
- For all employees tested with retirement contributions, the City failed to maintain the retirement election forms to support the retirement contribution percentage elected by the employee.
- The City failed to remit retirement contributions to the retirement plan provider in a timely manner for multiple months during the fiscal year. The last retirement remittance in fiscal year 2020 was made in February 2020. As of September 30, 2020, the retirement balance held by the City was \$7,979.99. This balance was remitted on November 4, 2020.
- Payroll approval was not documented in the August 3, 2020, or September 8, 2020, meeting minutes.

Good internal controls require procedures to ensure the following: 1) required payroll forms are maintained for subsequent review; 2) payroll taxes and other deductions are withheld appropriately; 3) retirement contributions are remitted in a timely manner; and 4) payroll is approved by the City Council, and such approval is documented in the meeting minutes.

Without such procedures, there is an increased risk of tax withholdings and other deductions being incorrect, possibly creating a liability for the City or employee.

A similar payroll comment was noted in the prior year audit.

We recommend the City implement procedures to ensure the following: 1) required payroll forms are maintained for subsequent review; 2) payroll taxes and other deductions are withheld appropriately; 3) retirement contributions are remitted in a timely manner; and 4) payroll is approved by the City Council, and such approval is documented in the meeting minutes.

*City's Response: The four recommendations of the APA are the goals of the City. As mentioned earlier, our efforts have been, and continue to be focused on the correct payments of wages and benefits, as well as the proper recording and reporting of those items.*

### **3. Bank Reconciliation Procedures**

During our audit, we noted that the September 30, 2020, reconciliation was inaccurate. On the City's copy, which was completed in November 2020, the following issues were noted:

Description	Amount
October 2019 deposit, which cleared the bank in October 2019, was still shown as an outstanding deposit as of 9/30/20.	\$ 731.73
Duplicate May 2020 interest entry.	\$ 61.19
Duplicate July 2020 interest entry.	\$ 64.47
<b>Total</b>	<b>\$ 857.39</b>

Furthermore, per the City’s reconciliation, the book balance of \$352,236.11 did not agree to the book balance on the City’s balance sheet of \$359,839.30, a variance of \$7,603.19. Due to that discrepancy, the APA requested the reconciliation to support the new book balance. This new reconciliation also included multiple errors, as noted below:

Description	Amount
October 2019 deposit, which cleared the bank in October 2019, was still shown as an outstanding deposit as of 9/30/20.	\$ 731.73
Duplicate May 2020 interest entry.	\$ 61.19
Check 3286 was written and cleared the bank in January 2019; however, this check was still shown as outstanding as of September 30, 2020.	\$ (857.47)
<b>Total</b>	<b>\$ (64.55)</b>

Furthermore, the APA noted that a \$705.06 deposit was recorded in the City’s accounting system on March 9, 2020; however, this amount never cleared the bank. Two checks also cleared the bank for less than the amount recorded in the system, which resulted in the book balance being understated by \$1,038.74. After accounting for these errors, the remaining unknown variance between the book balance in the system and the reconciled book balance was overstated by \$635.

Good internal controls require procedures to ensure that accurate monthly reconciliations are performed, the City’s financial information is recorded properly, and any variances are researched, identified, and resolved in a timely manner.

Without such procedures, there is an increased risk of not only the financial statements being misstated but also loss, misuse, or theft of City funds.

A similar comment was noted in the prior year report.

We recommend the City implement procedures to ensure accurate monthly reconciliations are performed, the City’s financial information is recorded properly, and any variances are researched, identified, and resolved in a timely manner.

*City’s Response: This issue should be completely resolved with an office procedure and oversight that resolves problems in a timely manner.*

**4. Utility Receipt Procedures**

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

***Utility Billing Issues***

During the audit, we noted multiple issues with the May 2020 utility billing for Crofton Community Schools (School), as follows: 1) meter reading fees of \$3 were not charged; 2) the football field was not being billed timely for its water and sewer usage; and 3) the City does not have any procedures to ensure self-reported meters are verified periodically.

In performing the audit fieldwork in April 2021, the APA noted that the City has, as of January 2021, installed new water meters for the School and is performing the meter readings instead of the School. In addition, the meter reading fees are currently being charged.

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 incurred.

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

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 incurred.

### ***Accounts Receivable***

During fiscal year 2020, 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, 2020, the City's accounting records showed an accounts receivable balance of \$55,035; however, during testing of that balance, the following issues were noted:

- The accounts receivable aging schedule 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 \$5,907.57, that 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 the 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: Management is aware that some accounts have lacked oversight because of age of equipment, Covid, and general past practices. Efforts to improve this situation have had some positive results. We will also be employing a newer version of ClerkBooks Utilities which we hope will help in the endeavor.*

### **5. Unauthorized Bank Signer**

During the audit, the APA identified one City bank account whose authorized signature card had not been properly updated. The account's signature card still listed a former employee who terminated in May 2020.

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

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

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

*City's Response: Although a visit to the bank was made to update the signature cards, apparently there was an oversight. It is a good argument for the procedure of the audit that gives us this information so we can rectify the mistake. This has been taken care of. We will consider how an office procedure can allow for regular check ups on our accounts.*

**6. Disbursement Process**

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

***Duplicate Payments***

The City paid one company twice, resulting in a duplicate payment, as summarized in the table below:

Vendor	Date	Amount
Art's Garbage Service	9/1/2020	\$ 4,952.60
Art's Garbage Service	9/28/2020	\$ 4,952.60

The City received a credit on the next month's billing. 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.

***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 City charged \$322.93 for a payment to Hot Water Products West on January 30, 2020; however, the receipt totaled only \$308.35. According to the receipt for this purchase, the charge included sales tax of \$20.17.

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
1/22/2020	First Bankcard	Late Fee	\$ 39.00
1/24/2020	First Bankcard	Interest	\$ 12.35
5/22/2020	First Bankcard	Late Fee	\$ 39.00
5/26/2020	First Bankcard	Interest	\$ 16.91
<b>Total</b>			<b>\$ 107.26</b>

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.

### ***Lack of Adequate Documentation***

The City lacked sufficient documentation for several purchases, including missing invoices and credit card charges. The following was noted:

- For one \$29,351 payment to Jebro Inc., the City did not have adequate documentation on file. The City obtained documentation from the vendor after the APA's request.
- For one \$910.83 credit card charge from USA Blue Book, the City could not provide the receipt supporting the purchase.
- One credit card receipt supporting a payment to USPS was not itemized.

Neb. Rev. Stat. § 13-610(4) (Reissue 2012) requires all purchases with a political subdivision's purchasing card to be supported by an itemized receipt, as follows:

*An itemized receipt for purposes of tracking expenditures shall accompany all purchasing card purchases. In the event that a receipt does not accompany such a purchase, purchasing card privileges shall be temporarily or permanently suspended in accordance with rules and regulations adopted and promulgated by the political subdivision.*

(Emphasis added.) Good internal control requires procedures to ensure proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the City's purchasing card.

Without such procedures, there is an increased risk for not only loss or misuse of public funds but also noncompliance with State statute.

We recommend the City implement procedures to ensure proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the City's purchasing card.

*City's Response: Although certain procedures have worked well under prior accountability management, there seems to be some rather glaring holes in oversight. Again, a well planned and followed office procedure guideline will hopefully alleviate most if not all of these problems.*

## **7. 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 18-2155 (Reissue 2012, Cum. Supp. 2020). However, the City was unable to obtain all of the required items, and it appears unlikely that such documentation will become available. Because this project started in 2014, the APA does not anticipate that the City will be able to obtain the missing documents; however, action should be taken to ensure that such documentation exists for any future projects.

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 ensure also 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 compliance with applicable provisions of the Community Development Law. Those same procedures should ensure also the proper distribution of ad valorem tax amounts.

*City's Response: It remains a goal to search files for more information and to pursue the provisions of the Community Development Law in order to use the available resources effectively while responsibly following the guidelines.*

\* \* \* \* \*

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.

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, and 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.

Sincerely,



Craig Kubicek, CPA, CFE  
Assistant Deputy Auditor