

**AUDIT REPORT
OF THE
CITY OF CROFTON**

OCTOBER 1, 2020, THROUGH SEPTEMBER 30, 2021

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Issued on March 30, 2022

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
- Bob Evans, Council Chairperson (started December 2020)
- James Murphy, Council Member (started December 2020)
- Don Meink, Council Member (ended December 2020)
- Larry Peitz, Council Member
- Arlene Steffen, Council Member (term expired December 2020)
- Illa Roeder, Council Member

In December 2020, Lisa Skroch was appointed as City Treasurer, and Arlene Steffen was hired as the City Clerk.



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CITY OF CROFTON

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Crofton, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities – cash basis, the business-type activities – accrual basis, and each major fund – cash basis for the governmental funds and accrual basis for the proprietary funds – of the City of Crofton (City), as of and for the year ended September 30, 2021, 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 City'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 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, as of September 30, 2021, 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, as of September 30, 2021, 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 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 26 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* and considering the City's internal control over financial reporting and compliance.



Craig Kubicek, CPA, CFE
Deputy Auditor
Lincoln, Nebraska

March 29, 2022

CITY OF CROFTON
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES – CASH BASIS
STATEMENT OF NET POSITION – BUSINESS-TYPE ACTIVITIES – ACCRUAL BASIS
September 30, 2021

| | Primary Government | | |
|--------------------------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 98,740 | \$ 266,947 | \$ 365,687 |
| Cash on Hand with County Treasurer | 4,834 | - | 4,834 |
| Accounts Receivable | - | 50,770 | 50,770 |
| Restricted Cash and Cash Equivalents | 464,453 | - | 464,453 |
| Total Current Assets | <u>568,027</u> | <u>317,717</u> | <u>885,744</u> |
| Noncurrent Assets | | | |
| Restricted Cash and Cash Equivalents | - | 5,115 | 5,115 |
| Capital Assets | | | |
| Land | - | 85,360 | 85,360 |
| Construction in Progress | - | 123,070 | 123,070 |
| Depreciable Assets (Net) | - | 180,274 | 180,274 |
| Total Noncurrent Assets | <u>-</u> | <u>393,819</u> | <u>393,819</u> |
| TOTAL ASSETS | <u>568,027</u> | <u>711,536</u> | <u>1,279,563</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable | - | 125 | 125 |
| Accrued Expenses | - | 2,332 | 2,332 |
| Total Current Liabilities | <u>-</u> | <u>2,457</u> | <u>2,457</u> |
| Noncurrent Liabilities | | | |
| Customer Deposits | - | 5,115 | 5,115 |
| TOTAL LIABILITIES | <u>-</u> | <u>7,572</u> | <u>7,572</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | - | 388,704 | 388,704 |
| Restricted for: | | | |
| Street Maintenance and Projects | 60,525 | - | 60,525 |
| Coronavirus Relief and Assistance | 58,671 | - | 58,671 |
| Recycling Grants | 10,880 | - | 10,880 |
| Park and Pool Projects | 57,517 | - | 57,517 |
| Community Development | 39,014 | - | 39,014 |
| Economic Development | 41,817 | - | 41,817 |
| Infrastructure | 88,298 | - | 88,298 |
| Debt Service | 106,775 | - | 106,775 |
| State Payroll Withholdings | 2,043 | - | 2,043 |
| Unrestricted | <u>102,487</u> | <u>315,260</u> | <u>417,747</u> |
| TOTAL NET POSITION | <u>\$ 568,027</u> | <u>\$ 703,964</u> | <u>\$ 1,271,991</u> |

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

CITY OF CROFTON
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES – CASH BASIS
STATEMENT OF ACTIVITIES – BUSINESS-TYPE ACTIVITIES – ACCRUAL BASIS
For the Year Ended September 30, 2021

| Functions/Programs: | Disbursements/ Expenses | Program Receipts/Revenues | | Net (Disbursements/Expenses) Receipts/Revenue and Changes in Net Position | | |
|---------------------------------------------------|----------------------------|---------------------------|------------------------------------------|------------------------------------------------------------------------------|-----------------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | |
| General Government | \$ 90,540 | \$ - | \$ - | \$ (90,540) | \$ - | \$ (90,540) |
| Public Health and Safety | 62,407 | - | - | (62,407) | - | (62,407) |
| Public Works | 99,937 | - | 116,603 | 16,666 | - | 16,666 |
| Culture and Recreation | 95,311 | - | - | (95,311) | - | (95,311) |
| Community Development | 22,254 | - | - | (22,254) | - | (22,254) |
| Capital Projects | 3,375 | - | - | (3,375) | - | (3,375) |
| Debt Service | 81,663 | - | - | (81,663) | - | (81,663) |
| Total Governmental Activities | 455,487 | - | 116,603 | (338,884) | - | (338,884) |
| Business-Type Activities: | | | | | | |
| Water | 337,768 | 294,265 | - | - | (43,503) | (43,503) |
| Sewer | 94,111 | 141,565 | - | - | 47,454 | 47,454 |
| Sanitation | 72,625 | 62,442 | - | - | (10,183) | (10,183) |
| Total Business-Type Activities | 504,504 | 498,272 | - | - | (6,232) | (6,232) |
| Total Primary Government | \$ 959,991 | \$ 498,272 | \$ 116,603 | (338,884) | (6,232) | (345,116) |
| General Receipts/Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property Taxes - General Purposes | | | | 228,761 | - | 228,761 |
| City Sales Taxes | | | | 94,555 | - | 94,555 |
| City Motor Vehicle Sales Taxes | | | | 22,142 | - | 22,142 |
| Tax Increment Financing | | | | 4,058 | - | 4,058 |
| Licenses and Permits | | | | 3,798 | - | 3,798 |
| Grants and Contributions Not Restricted to | | | | | | |
| Specific Programs | | | | 88,974 | - | 88,974 |
| Use of Money and Property & Other Local Receipts | | | | 111,287 | - | 111,287 |
| Special Assessments | | | | 45,411 | - | 45,411 |
| Other Miscellaneous Receipts/Revenues | | | | 24,793 | - | 24,793 |
| Total General Receipts/Revenues | | | | 623,779 | - | 623,779 |
| Increase in Net Position | | | | 284,895 | (6,232) | 278,663 |
| Net Position - Beginning of Year | | | | 283,132 | 710,196 | 993,328 |
| Net Position - End of Year | | | | \$ 568,027 | \$ 703,964 | \$ 1,271,991 |

The notes to the financial statements are an integral part of this statement. - 6 -

CITY OF CROFTON
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS – CASH BASIS
September 30, 2021

| | General Fund | Street Fund | Special Revenue Fund | Debt Retirement Fund | Total |
|---------------------------------------|-------------------|------------------|----------------------------|----------------------------|-------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 98,740 | \$ - | \$ - | \$ - | \$ 98,740 |
| Cash on Hand with County Treasurer | 3,747 | 1,087 | - | - | 4,834 |
| Restricted Cash and Cash Equivalents | 2,043 | 59,438 | 296,197 | 106,775 | 464,453 |
| TOTAL ASSETS | \$ 104,530 | \$ 60,525 | \$ 296,197 | \$ 106,775 | \$ 568,027 |
| FUND BALANCE | | | | | |
| Restricted: | | | | | |
| Street Maintenance and Projects | \$ - | \$ 60,525 | \$ - | \$ - | \$ 60,525 |
| Coronavirus Relief and Assistance | - | - | 58,671 | - | 58,671 |
| Recycling Grants | - | - | 10,880 | - | 10,880 |
| Park and Pool Projects | - | - | 57,517 | - | 57,517 |
| Community Development | - | - | 39,014 | - | 39,014 |
| Economic Development | - | - | 41,817 | - | 41,817 |
| Infrastructure | - | - | 88,298 | - | 88,298 |
| Debt Service | - | - | - | 106,775 | 106,775 |
| State Payroll Withholdings | 2,043 | - | - | - | 2,043 |
| Unassigned | 102,487 | - | - | - | 102,487 |
| TOTAL CASH BASIS FUND BALANCES | \$ 104,530 | \$ 60,525 | \$ 296,197 | \$ 106,775 | \$ 568,027 |

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, 2021

| | General Fund | Street Fund | Special Revenue Fund | Debt Retirement Fund | Total |
|---------------------------------------------------------------|-------------------|------------------|-------------------------|----------------------------|-------------------|
| RECEIPTS | | | | | |
| Taxes | \$ 194,117 | \$ 56,786 | \$ 98,613 | \$ - | \$ 349,516 |
| Intergovernmental | 19,423 | 116,603 | 69,551 | - | 205,577 |
| Use of Money and Property & Other Local Receipts | 101,867 | - | 9,420 | - | 111,287 |
| Licenses and Permits | 3,798 | - | - | - | 3,798 |
| Special Assessments | - | - | - | 45,411 | 45,411 |
| Miscellaneous | 24,743 | 50 | - | - | 24,793 |
| TOTAL RECEIPTS | 343,948 | 173,439 | 177,584 | 45,411 | 740,382 |
| DISBURSEMENTS | | | | | |
| General Government | 90,540 | - | - | - | 90,540 |
| Public Health and Safety | 62,407 | - | - | - | 62,407 |
| Public Works | - | 99,937 | - | - | 99,937 |
| Culture and Recreation | 87,985 | - | 7,326 | - | 95,311 |
| Community Development | 11,694 | - | 10,560 | - | 22,254 |
| Capital Projects | - | - | 3,375 | - | 3,375 |
| Debt Service | | | | | |
| Principal | - | - | - | 50,000 | 50,000 |
| Interest | - | - | - | 31,223 | 31,223 |
| Fees and Penalties | - | - | - | 440 | 440 |
| TOTAL DISBURSEMENTS | 252,626 | 99,937 | 21,261 | 81,663 | 455,487 |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS | 91,322 | 73,502 | 156,323 | (36,252) | 284,895 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | - | - | - | 82,000 | 82,000 |
| Transfers Out | - | (60,000) | (22,000) | - | (82,000) |
| TOTAL OTHER FINANCING SOURCES | - | (60,000) | (22,000) | 82,000 | - |
| Net Change in Cash Basis Fund Balances | 91,322 | 13,502 | 134,323 | 45,748 | 284,895 |
| CASH BASIS FUND BALANCES - BEGINNING | 13,208 | 47,023 | 161,874 | 61,027 | 283,132 |
| CASH BASIS FUND BALANCES - ENDING | \$ 104,530 | \$ 60,525 | \$ 296,197 | \$ 106,775 | \$ 568,027 |

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, 2021

| | Sewer Fund | Water Fund | Sanitation Fund | Total |
|----------------------------------|-------------------|-------------------|--------------------|-------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 199,177 | \$ 82,126 | \$ (14,356) | \$ 266,947 |
| Accounts Receivable | 14,277 | 29,838 | 6,655 | \$ 50,770 |
| Total Current Assets | 213,454 | 111,964 | (7,701) | 317,717 |
| Noncurrent Assets | | | | |
| Restricted Assets - Cash | - | 5,115 | - | 5,115 |
| Capital Assets | | | | |
| 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 | (189,598) | (758,678) | - | (948,276) |
| Total Noncurrent Assets | 195,495 | 196,824 | 1,500 | 393,819 |
| TOTAL ASSETS | 408,949 | 308,788 | (6,201) | 711,536 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 114 | 11 | - | 125 |
| Sales Tax Payable | 1,015 | 1,317 | - | 2,332 |
| Total Current Liabilities | 1,129 | 1,328 | - | 2,457 |
| Noncurrent Liabilities | | | | |
| Customer Deposits | - | 5,115 | - | 5,115 |
| TOTAL LIABILITIES | 1,129 | 6,443 | - | 7,572 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 195,495 | 191,709 | 1,500 | 388,704 |
| Unrestricted | 212,325 | 110,636 | (7,701) | 315,260 |
| TOTAL NET POSITION | \$ 407,820 | \$ 302,345 | \$ (6,201) | \$ 703,964 |

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, 2021

| | Sewer Fund | Water Fund | Sanitation Fund | Total |
|--------------------------------------|-------------------|-------------------|--------------------|-------------------|
| OPERATING REVENUES | | | | |
| Charges for Services | \$ 141,565 | \$ 294,265 | \$ 62,442 | \$ 498,272 |
| TOTAL OPERATING REVENUES | <u>141,565</u> | <u>294,265</u> | <u>62,442</u> | <u>498,272</u> |
| OPERATING EXPENSES: | | | | |
| Personnel Services | 48,098 | 42,505 | 7,656 | 98,259 |
| Professional Fees | 687 | 3,117 | - | 3,804 |
| Materials and Supplies | 444 | 1,665 | - | 2,109 |
| Repairs and Maintenance | 6,207 | - | - | 6,207 |
| Utilities | 9,522 | 1,169 | - | 10,691 |
| Contracted Services | 26,153 | 47,983 | 64,969 | 139,105 |
| Cost of Goods Sold | - | 220,943 | - | 220,943 |
| Depreciation | 1,355 | 18,151 | - | 19,506 |
| Miscellaneous | 1,645 | 2,235 | - | 3,880 |
| TOTAL OPERATING EXPENSES | <u>94,111</u> | <u>337,768</u> | <u>72,625</u> | <u>504,504</u> |
| OPERATING INCOME (LOSS) | <u>47,454</u> | <u>(43,503)</u> | <u>(10,183)</u> | <u>(6,232)</u> |
| CHANGE IN NET POSITION | 47,454 | (43,503) | (10,183) | (6,232) |
| TOTAL NET POSITION, BEGINNING | <u>360,366</u> | <u>345,848</u> | <u>3,982</u> | <u>710,196</u> |
| TOTAL NET POSITION, ENDING | <u>\$ 407,820</u> | <u>\$ 302,345</u> | <u>\$ (6,201)</u> | <u>\$ 703,964</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, 2021

| | Sewer Fund | Water Fund | Sanitation Fund | Total |
|---------------------------------------------------------------------------------------------------|-------------------|--------------------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received From Customers | \$ 142,722 | \$ 297,280 | \$ 62,535 | \$ 502,537 |
| Cash Paid For Contractual Services | (26,153) | (47,983) | (64,969) | (139,105) |
| Cash Paid For Personnel Services | (48,098) | (42,505) | (7,656) | (98,259) |
| Other Cash Expenses | (18,346) | (264,122) | - | (282,468) |
| Net Cash Provided by (Used in) Operating Activities | <u>50,125</u> | <u>(57,330)</u> | <u>(10,090)</u> | <u>(17,295)</u> |
| NET INCREASE (DECREASE) IN CASH | <u>50,125</u> | <u>(57,330)</u> | <u>(10,090)</u> | <u>(17,295)</u> |
| CASH AND CASH EQUIVALENTS - BEGINNING | 149,052 | 144,571 | (4,266) | 289,357 |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 199,177</u> | <u>\$ 87,241</u> | <u>\$ (14,356)</u> | <u>\$ 272,062</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | | | |
| Operating Income (Loss) | \$ 47,454 | \$ (43,503) | \$ (10,183) | \$ (6,232) |
| Adjustments to Reconcile: | | | | |
| Depreciation | 1,355 | 18,151 | - | 19,506 |
| Change in Assets & Liabilities: | | | | |
| Decrease (Increase) in Accounts Receivable | 1,157 | 3,015 | 93 | 4,265 |
| Increase (Decrease) in Accounts Payable | 18 | (33,218) | - | (33,200) |
| Increase in Sales Tax Payable | 141 | (394) | - | (253) |
| Decrease in Customer Deposits | - | (1,381) | - | (1,381) |
| Total Adjustments | <u>2,671</u> | <u>(13,827)</u> | <u>93</u> | <u>(11,063)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 50,125</u> | <u>\$ (57,330)</u> | <u>\$ (10,090)</u> | <u>\$ (17,295)</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, 2021

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 and is mainly funded by State and Federal monies.

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. As of September 30, 2021, the City held funds for the following purposes: Street Maintenance and Projects; Coronavirus Relief and Assistance; Recycling Grants; Park and Pool Projects; Community Development; Economic Development; and Infrastructure.

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:

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

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

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

C. **Measurement Focus, 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 by the County Treasurer 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 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 with the Cedar Knox Public Power District 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** (Concluded)

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. 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.

- 1) The City prepares a budget for the fiscal year commencing October 1. The budget includes proposed expenditures and resources available.
- 2) The budget is published with subsequent public hearings to obtain taxpayer comments.
- 3) Prior to September 20, the City Council adopts the budget, which is then filed with the appropriate State and County officials.
- 4) Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end, and any revisions require board approval.
- 5) 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 being delinquent on May 1 and the second half being delinquent on September 1.
- 6) The City adopts a budget by ordinance for all funds.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detailed 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 \$840,089, including County Treasurer balances. The bank balance for all funds was \$866,767. For purposes of classifying categories of custodial risk, the bank balances of the City’s deposits, as of September 30, 2021, 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, 2021, the City did not have any negative bank balances at year end.

B. Restricted Assets

The restricted assets as of September 30, 2021, are as follows:

| Fund | Purpose | Governmental Activities | Business-Type Activities | Total |
|--------------------------------|-----------------------------------|--------------------------------|---------------------------------|-------------------|
| General | State Payroll Withholdings | \$ 2,043 | | \$ 2,043 |
| Street | Street Maintenance and Projects | \$ 60,525 | | \$ 60,525 |
| Special Revenue | Coronavirus Relief and Assistance | \$ 58,671 | | \$ 58,671 |
| Special Revenue | Recycling Grants | \$ 10,880 | | \$ 10,880 |
| Special Revenue | Park and Pool Projects | \$ 57,517 | | \$ 57,517 |
| Special Revenue | Community Development | \$ 39,014 | | \$ 39,014 |
| Special Revenue | Economic Development | \$ 41,817 | | \$ 41,817 |
| Special Revenue | Infrastructure | \$ 88,298 | | \$ 88,298 |
| Debt Retirement | Debt Service | \$ 106,775 | | \$ 106,775 |
| Water | Water Deposits | | \$ 5,515 | \$ 5,515 |
| Total Restricted Assets | | \$ 465,540 | \$ 5,515 | \$ 471,055 |

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

C. **Accounts Receivable**

Accounts receivable of the business-type activities consist of utilities receivables. As of September 30, 2021, the City had the following receivables:

| Fund | Amount |
|-----------------|------------------|
| Sewer Fund | \$ 14,277 |
| Water Fund | \$ 29,838 |
| Sanitation Fund | \$ 6,655 |
| Total | \$ 50,770 |

D. **Capital Assets**

Capital asset activity for the year ended September 30, 2021, was as follows:

| | Balance at October 1, 2020 | Additions | Disposals | Balance at September 30, 2021 |
|----------------------------------------------------------|-------------------------------|--------------------|-------------|----------------------------------|
| Business-Type Activities: | | | | |
| Capital Assets Not Depreciated: | | | | |
| Land | \$ 85,360 | \$ - | \$ - | \$ 85,360 |
| Construction in Progress | \$ 123,070 | \$ - | \$ - | \$ 123,070 |
| Total Capital Assets Not Depreciated, at Historical Cost | \$ 208,430 | \$ - | \$ - | \$ 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 | \$ (928,771) | \$ (19,505) | \$ - | \$ (948,276) |
| Total Accumulated Depreciation | \$ (928,771) | \$ (19,505)* | \$ - | \$ (948,276) |
| Depreciable Capital Assets, Net | \$ 199,779 | \$ (19,505) | \$ - | \$ 180,274 |
| Business-Type Capital Assets, Net | \$ 408,209 | \$ (19,505) | \$ - | \$ 388,704 |

*Depreciation expense was charged to the functions as follows:

| | |
|-------------------------------------------------------------|-----------------|
| Sewer | \$ 1,354 |
| Water | <u>\$18,151</u> |
| Total Depreciation Expense, for Business-type Activities | \$19,505 |

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. Subsequent to the fiscal year 2021, the City received \$124,700 as a settlement from the original engineering firm after it was determined that this firm would be unable to complete the project. As of fieldwork in late February 2022, the City was pursuing other options for this project.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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, 2021:

| Business-Type Activities: | Balance at October 1, 2020 | Additions | Deductions | Balance at September 30, 2021 |
|------------------------------|-------------------------------|-----------------|------------------|----------------------------------|
| Liabilities: | | | | |
| Accounts Payable | \$ 33,325 | \$ 125 | \$ 33,325 | \$ 125 |
| Sales Tax Payable | \$ 2,584 | \$ 2,332 | \$ 2,584 | \$ 2,332 |
| Customer Deposits | \$ 6,496 | \$ - | \$ 1,381 | \$ 5,115 |
| Total Liabilities | <u>\$ 42,405</u> | <u>\$ 2,457</u> | <u>\$ 37,290</u> | <u>\$ 7,572</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 |
|---------------------------------------------|----------------------|------------------|
| Special Revenue Fund - Street | Debt Retirement Fund | \$ 60,000 |
| Special Revenue Fund - LOST: Infrastructure | Debt Retirement Fund | \$ 22,000 |
| Total | | \$ 82,000 |

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 \$11,629.

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 fiscal year 2020, the Auditor of Public Accounts noted the settlement to the former City Administrator and City Attorney exceeded the City insurance coverage by \$37,000. The settlement approved was \$54,000 with insurance covering \$17,000. The City also settled with a former employee during the period. The City paid \$8,800 of the settlement with insurance covering \$5,000. No settlements were noted during fiscal year 2021.

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. **OTHER NOTES** (Continued)

C. **Commitments and Contingencies**

Construction and Commitments

The Sharon Street Construction Project was completed during the prior fiscal year, and multiple assessments on that project are still outstanding as of September 30, 2021.

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:

- 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. The bond payable balance as of September 30, 2021, was \$965,000. The City has the ability to levy taxes as necessary to cover the annual required principal and interest payments over the term of this bond. Future tax resources will be used to pay off the bond. The following represents future payments required on this bond:

| Fiscal Year | Principal | Interest | Total |
|-----------------------|----------------------|----------------------|------------------------|
| 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 | \$ 55,000.00 | \$ 25,202.50 | \$ 80,202.50 |
| 2027-2031 | \$ 290,000.00 | \$ 101,477.50 | \$ 391,477.50 |
| 2032-2036 | \$ 340,000.00 | \$ 47,978.75 | \$ 387,978.75 |
| 2037 | \$ 75,000.00 | \$ 1,443.75 | \$ 76,443.75 |
| Total Payments | \$ 965,000.00 | \$ 290,066.25 | \$ 1,255,066.25 |

Tax Increment Financing

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

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

4. **OTHER NOTES** (Concluded)

D. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2021:

| <u>Parties to Agreement</u> | <u>Description</u> |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Knox County | Assistance for oil road repairs along City roads and joint use of City property for a cold-mix preparation and storage site. |
| Knox County Development Agency | Coordination, education, and service to increase the knowledge of economic development and help preserve Knox County community's economic growth. |
| Crofton Fire District 5 | Fire protection services |
| League of Nebraska Municipalities (LNM) | Membership/Operate a risk management pool for the purpose of providing to members risk management services and insurance coverages. |
| Northeast Nebraska Economic Development District (NENEDD) | Membership/Member governmental entities can jointly use authority for economic development programs. |

E. Subsequent Events

Management has evaluated subsequent events through March 29, 2022, the date on which the financial statements were available for issue.

CITY OF CROFTON

SUPPLEMENTARY 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, 2021**

| | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------------------------|---------------------|---------------------|---------------------------------------------------------|
| RECEIPTS | | | |
| Property Taxes | \$ 179,759 | \$ 232,819 | \$ 53,060 |
| Federal Receipts | 600,000 | - | (600,000) |
| State Highway Allocation | 88,819 | 116,603 | 27,784 |
| State Municipal Equalization | 17,802 | 19,423 | 1,621 |
| State Motor Vehicle | 3,600 | 407 | (3,193) |
| Other State Receipts | 500 | - | (500) |
| Local Motor Vehicle | 20,000 | 22,142 | 2,142 |
| City Sales Tax | 95,000 | 94,555 | (445) |
| Other Local Receipts | 125,200 | 752,705 | 627,505 |
| TOTAL RECEIPTS | 1,130,680 | 1,238,654 | 107,974 |
| DISBURSEMENTS | | | |
| General Government | 425,000 | 90,540 | 334,460 |
| Public Health and Safety | 112,100 | 62,407 | 49,693 |
| Public Works - Streets & Other | 295,000 | 99,937 | 195,063 |
| Culture and Recreation | 70,000 | 95,311 | (25,311) |
| Community Development | 12,932 | 22,254 | (9,322) |
| Miscellaneous | 15,000 | - | 15,000 |
| Capital Projects | - | 3,375 | (3,375) |
| Debt Service | 82,000 | 81,663 | 337 |
| Sanitation | 55,000 | 72,625 | (17,625) |
| Sewer | 25,000 | 94,111 | (69,111) |
| Water | 195,000 | 337,768 | (142,768) |
| TOTAL DISBURSEMENTS | \$ 1,287,032 | 959,991 | \$ 327,041 |
| Net Change in Cash Basis Fund Balance | | 278,663 | |
| ACCRUAL/CASH BASIS FUND BALANCE - BEGINNING | | 993,328 | |
| ACCRUAL/CASH BASIS FUND BALANCE - ENDING | | \$ 1,271,991 | |

Notes to the Budgetary Comparison Schedule

As described in Note 1 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 29, 2022. 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as 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 City'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 of 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 in a separate letter dated March 29, 2022.

City's Response to Findings

The City's response to the findings identified in our audit is described in a 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, 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.



Craig Kubicek, CPA, CFE
Deputy Auditor
Lincoln, Nebraska

March 29, 2022



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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March 29, 2022

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, 2021, and have issued our report thereon dated March 29, 2022. 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's 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** herein.
- 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 \$1,000. In addition, formal written procedures did not exist for when items should be added to or removed from the inventory list or how often that list should be reviewed.
- The City utilized credit cards during fiscal year 2021, totaling \$13,553. During the audit, it was noted that the City did not have a formal, written purchasing card policy outlining procedures for safeguarding City assets when using the City cards, including such allowable purchases and authorized individuals.
- For the remittance of April, June, and September 2021 sale taxes, the City failed to calculate and report the correct amounts for local option sales taxes collected. As a result, the City remitted \$119 more than was collected for these three months. As of fieldwork in late February 2022, the City was aware of these errors but had not corrected them.

Neb. Rev. Stat. § 13-610 (Reissue 2012) authorizes political subdivisions in Nebraska to establish a purchasing card program. Subsection (1) of that statute says, in relevant part, “The governing body shall determine the type of purchasing card or cards utilized in the purchasing card program and shall approve or disapprove those persons who will be assigned a purchasing card.” Subsection (4) provides for the suspension of card privileges “in accordance with rules and regulations adopted and promulgated by the political subdivision.” Likewise, subsection (6) states, “No officer or employee of a political subdivision shall use a political subdivision purchasing card for any unauthorized use as determined by the governing body.”

Ensuring that City purchasing cards are used only for authorized purposes, or the privilege of their use is properly suspended, as required by law, is difficult, if not impossible, without formal municipal guidelines or, as referenced in statute, “rules and regulations adopted and promulgated by the political subdivision” to establish the parameters for such legitimate use.

Further, without a proper segregation of duties and an effective control environment, there is an increased risk for the 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) adequate controls over the City’s purchasing cards, including an approved card policy that outlines procedures for the allowable use of the cards and designates authorized users; and 4) a policy to ensure that sales tax remittance is correctly calculated and reported.

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.
- A formal purchasing card policy is implemented to outline procedures for the proper use of the City’s cards, including the designation of allowable purchases and authorized users.
- Sales tax remittance is correctly calculated and reported.

City’s Response: The City is using both the Clerk and the Treasurer as well as management to do follow-up checking of entries into the accounting system, as well as doing checking on added amounts on deposit slips. We do know we need to document more, and we are working on an office procedure. The Clerk has been doing on-line continuing education courses to help us understand all of the facets of the positions. We are working on our inventory, and the capitalization process in the books. The sales tax should not be a problem with training and use of available resources. We have set some policies in the use of the cards, but we need to get them in writing and check that they are always in use.

2. Payroll Procedure Issues

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

Incorrect Tax Withholdings

For two employees tested, the amounts withheld for taxes were calculated incorrectly. Both employees elected to receive a “cash-in-lieu” payment of \$500 per month rather than elect medical coverage under the City’s Cafeteria 125 plan. Taxes were not correctly withheld from this additional “cash-in-lieu” payment. The following table summarizes the incorrect withholding amounts:

| Description/Tax | Employee 1 | | | Employee 2 | | |
|--------------------|-----------------|--------------------|------------|-----------------|--------------------|------------|
| | APA Calculation | Actual Withholding | Difference | APA Calculation | Actual Withholding | Difference |
| Federal Income Tax | \$ 184.69 | \$ 155.00 | \$ (29.69) | \$ 309.61 | \$ 279.75 | \$ (29.86) |
| Social Security | \$ 141.83 | \$ 126.33 | \$ (15.50) | \$ 140.56 | \$ 125.06 | \$ (15.50) |
| Medicare | \$ 33.17 | \$ 29.54 | \$ (3.63) | \$ 32.87 | \$ 29.25 | \$ (3.62) |
| State Income Tax | \$ 84.12 | \$ 68.38 | \$ (15.74) | \$ 77.62 | \$ 62.12 | \$ (15.50) |
| Net Pay | \$ 1,741.82 | \$ 1,756.00 | \$ 14.18 | \$ 1,576.88 | \$ 1,556.06 | \$ (20.82) |

The “FAQs for government entities regarding Cafeteria Plans” information, which is found on the Internal Revenue Service (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 that any taxable benefit (e.g., cash-in-lieu payments) provided by the City is subject to all employment taxes in the payroll system in accordance with applicable IRS codes and publications.

Timesheets

For one paycheck tested, the hours on the pay stub did not agree with those on the employee’s timesheet. The employee was scheduled to be on call for one weekend during the pay period. The employee noted on his timesheet, however, that a different employee worked as the on-call employee during that weekend. Nevertheless, the employee who was originally scheduled but did not work was still paid for the weekend. Because of this, the employee’s gross wages were overpaid by \$50.

Good internal controls require procedures to ensure that employees are paid only for work actually performed.

Approved Pay Rates

One employee tested was being paid less than the rate approved by the City Council. For the July 22, 2021, paycheck, the employee was paid \$14 per hour; however, Ordinance #8519 set the employee’s pay rate at \$16 per hour as of September 1, 2019. For the pay period tested, the employee’s gross wages were underpaid by \$93.

Good internal controls require procedures to ensure that all employees are paid the correct wage rate, as approved by the City Council.

Lack of Proper Payroll Approval

All payroll checks for three pay periods tested, totaling \$5,384, were issued before the underlying claims were approved by the City Council. The table below provides a summary of the premature payments:

| Name/Vendor | Amount | Approval Date | Check Date | Days Paid Before Approval |
|--------------|-----------------|---------------|------------|---------------------------|
| Employee 1 | \$ 1,498 | 7/7/2021 | 6/23/2021 | 14 |
| Employee 2 | \$ 1,756 | 8/2/2021 | 7/22/2021 | 11 |
| Employee 3 | \$ 574 | 8/2/2021 | 7/22/2021 | 11 |
| Employee 4 | \$ 1,556 | 10/4/2021 | 9/22/2021 | 12 |
| Total | \$ 5,384 | | | |

The City's normal procedure is to preapprove payroll and other routine bills, such as water, garbage, insurance, etc., prior to the actual payment dates. The City Council then approves the final amounts paid at the next meeting. For these paychecks tested, however, the meeting minutes prior to the payment dates do not document a preapproval of payroll.

Neb. Rev. Stat. § 17-614(1)(a) (Supp. 2021) sets out the proper method for the appropriation or payment of money by the City, as follows:

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

(Emphasis added.) Good internal control requires procedures to ensure that all payroll claims are approved by the City Council prior to payment, and such approval is adequately documented in the minutes of the meeting during which it occurred.

Retirement Contribution Forms

For one employee tested, the City failed to obtain an updated retirement election form to support the change in the retirement contribution percentage elected by the employee.

Good internal controls require procedures to ensure that required payroll forms are updated when employees make changes to withholdings, including retirement deductions.

Without such procedures, there is an increased risk of incorrect paychecks, noncompliance with applicable Federal regulations, and the loss or misuse of City funds.

A similar payroll comment was noted in the prior year's report.

We recommend the City implement procedures to ensure the following: 1) any taxable benefit (e.g., cash-in-lieu payments) provided by the City is subject to all employment taxes in the payroll system in accordance with applicable IRS regulations and publications; 2) employees are paid only for work actually performed; 3) all wages paid agree to the wage rates approved by the City Council; 4) payroll claims are approved by the City Council prior to payment, and such approval is adequately documented in the minutes of the meeting during which it occurred; and 5) required payroll forms are updated when employees make changes to withholdings.

City's Response: The payroll issues continue to be based on old habits. We need to make better use of the resources we have, and create a trail of accountability. Again, this will be addressed in our office procedure guidelines.

3. Receipt Procedures

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

Pool Receipts

The City did not maintain adequate records detailing all amounts collected at the City's swimming pool. The City tracked pool receipts using a spreadsheet that noted the number of passes for the day. The City also lacked adequate procedures to verify that all pool ticket sales were accounted for, deposited at the bank, and properly recorded in the municipal accounting system. Most pool receipts are cash, which increases the risk that monies could be misappropriated. Per the City's accounting system, the pool receipts collected during the fiscal year 2021 totaled \$11,006.

Additionally, for one Daily Deposit Form tested, the amount recorded for sales of daily passes could not be recalculated. The APA calculated \$200 of daily pass sales while the City recorded \$220 of daily pass sales. Furthermore, the City appears to have stopped using the Pool Concessions Inventory sheet used in previous audits. As a result, the APA could not match concessions sales to concessions inventory.

Good internal control requires procedures to ensure the maintenance of adequate records detailing all amounts collected at the City's swimming pool. Those same procedures should ensure also that all pool ticket sales are accounted for, deposited at the bank, and properly recorded in the municipal accounting system.

Without such procedures, there is increased risk for the loss or misuse of City funds or assets.

A similar issue was noted in the fiscal year 2019 report.

We recommend the City implement procedures to ensure the maintenance of adequate records detailing all amounts collected at the City's swimming pool. Those same procedures should ensure also that all pool ticket sales are accounted for, deposited at the bank, and properly recorded in the municipal accounting system.

Utility Receipts

During the audit, the APA noted that for the utility billing for Crofton Community Schools in June 2021, the football field was not being billed each month for its water and sewer usage.

Good internal control requires procedures to ensure that all municipal utility customers pay the proper fee each month, including the full amount for all water usage.

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

A similar comment was noted in the prior year's report.

We recommend the City implement procedures to ensure the City bills all of its utility customers properly each month.

Utility Accounts Receivable

During fiscal year 2021, 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, 2021, the City's accounting records showed an accounts receivable balance of \$50,770; however, during testing of that balance, the following issues were noted:

- The accounts receivable aging schedule had 40 customer accounts with negative balances, totaling \$3,983. Of these 40 customer accounts, 23 accounts had negative balances with no current billing activity or payments, totaling \$1,283.
- The accounts receivable aging schedule had 216 customer accounts with positive balances, totaling \$47,152. Of these 216 customer accounts, 25 accounts had significant positive balances, totaling \$7,307, that were past due by at least 90 days. These customer records had no current billing activity or payments.
- The accounts receivable aging schedule had an adjustment amount called "zzz State Auditor Adjustment" of \$7,712. This is a prior adjustment made by the City to increase the total accounts receivable balance; however, the City does not expect to receive this amount, as there is no customer who actually owes this amount.
- The accounts receivable aging schedule had an unknown variance of \$111 when compared to the reported accounts receivable balance in the City's accounting system as of September 30, 2021.

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. Those same procedures should also include a periodic review of the accounts receivable listing to ensure its accuracy, and any discrepancies noted should be resolved in a timely manner.

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

A similar comment was noted in the prior year’s report.

We recommend the City implement procedures for tracking municipal utility customer accounts receivable to ensure their proper financial presentation. Those same procedures should also include a periodic review of the accounts receivable listing to ensure its accuracy, and any discrepancies noted should be resolved in a timely manner.

City’s Response: The City is aware of the possibilities of misstatements in the pool receipts. We are working with the pool employees to find a reasonable way to produce a better way of accountability. Management is aware of the utility accounts receivable. Some of the old accounts are waiting to be cleared. Some of the more recent are there because of our policies during Covid. A recent effort to clear these up has been promising, and we believe we will continue to make progress.

4. Bank Reconciliation Procedures

During our audit, we noted that the September 30, 2021, reconciliation originally prepared by the City in October 2021 was inaccurate. In addition, the book balance on this reconciliation of \$564,017 did not agree to the book balance on the general ledger/trial balance of \$576,433, a variance of \$12,416. The reconciliation included the following errors:

| Description | Amount |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Amount was shown on the City’s 9/30/2021 reconciliation as an outstanding deposit. However, this was a duplicate May 2020 interest entry. | \$ 61.19 |
| Amount was shown on the City’s 9/30/2021 reconciliation as an outstanding deposit, but the amount was deposited on 12/29/2020. | \$ 155.10 |
| Amounts were shown on the City’s 9/30/2021 reconciliation as outstanding checks; however, these were duplicate entries. | \$ (10,456.02) |
| Amount was shown on the City’s 9/30/2021 reconciliation as an outstanding check; however, this was reissued and cleared on 5/11/2021. | \$ (2,176.41) |
| Total | \$ (12,416.14) |

After the City’s reconciliation was originally completed, the City made corrections prior to the APA’s request for financial reports that corrected these errors. However, the following errors still existed after these corrections:

| Description | Amount |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Amount was shown on the City’s 9/30/2021 reconciliation as an outstanding deposit dated 3/11/2021; however, this amount never cleared the bank. | \$ 100.00 |
| Amount was shown on the City’s 9/30/2021 reconciliation as an outstanding check. Per the general ledger, this check was reissued for \$1,956.79 and cleared on 5/1/2021. | \$ (940.63) |
| Total | \$ (840.63) |

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’s 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: The bank reconciliation must be a primary focus. Management plans to work with the accounting consultants to find the necessary entries that will clear these issues. Office and accounting procedure must insist upon the accuracy and timeliness of this procedure.

5. Disbursement Issues

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 | Payable Date | Paid Date | Amount |
|------------------|--------------|-----------|-----------|
| Municipal Supply | 1/22/2021 | 2/2/2021 | \$ 316.02 |
| Municipal Supply | 1/22/2021 | 3/2/2021 | \$ 316.02 |

The City received a credit on the next month’s billing; however, the City did not discover this overpayment until September 2021.

Good internal controls and sound business practices require procedures to ensure that municipal expenses are paid only once. If a duplicate payment is discovered, those same procedures should ensure that a credit or refund is obtained in a timely manner.

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

A similar finding was noted in the City’s audit report for the prior year.

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

Claims Not Properly Approved

During testing of the City’s claims, the APA identified the following checks, totaling \$39,784, which were issued before the underlying claims were approved by the City Council. Details of the premature payments are included in the table below:

| Name/Vendor | Amount | Approval Date | Check Date | Days Paid Before Approval |
|---------------------------------|------------------|---------------|------------|---------------------------|
| Cedar Knox Rural Water District | \$ 29,083 | 7/7/2021 | 6/28/2021 | 9 |
| Art’s Garbage Service | \$ 5,708 | 8/2/2021 | 7/13/2021 | 20 |
| EMC Insurance | \$ 4,993 | 5/3/2021 | 4/24/2021 | 9 |
| Total | \$ 39,784 | | | |

Additionally, the APA noted that one City check for \$66,069 was paid but not included on the claims listing to be approved by the City Council. The table below provides details of the unapproved payment:

| Name/Vendor | Check Date | Amount |
|---------------|------------|-----------|
| BOK Financial | 12/9/2020 | \$ 66,069 |

The City’s normal procedure is to preapprove payroll and other routine bills, such as water, garbage, insurance, etc., prior to the actual check date. The City Council then approves the final amounts paid at the next meeting. For the three claims approved after payment, however, the minutes of the meetings prior to the check dates did not document a preapproval of these costs.

Neb. Rev. Stat. § 17-614(1)(a) (Supp. 2021) sets out the proper method for the appropriation or payment of money by the City, as follows:

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

(Emphasis added.) Good internal control requires procedures to ensure that all claims are approved by the City Council prior to payment, and such approval is adequately documented in the minutes of the meeting during which it occurred.

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

We recommend the City Council implement procedures to ensure all claims are approved by the Council prior to payment, and such approval is adequately documented in the minutes of the meeting during which it occurred.

Lack of Adequate Documentation

The City lacked sufficient documentation for one credit card purchase, totaling \$736. The credit card statement provided showed a charge of \$836 on October 8, 2020, for “USA Blue Book 800-548-1234 IL.” Attached to the credit card statement was an invoice from USA Blue Book showing that maintenance equipment, totaling \$825 plus freight of \$11, was purchased and shipped on October 8, 2020. The City provided a credit memo document, dated October 21, 2020, showing that the equipment purchased on October 8, 2020, was returned, and the City was credited for the cost of the equipment. However, the City recorded \$736 to its Small Equipment, Rental, and Repair expense account on October 31, 2020. The City was unable to provide documentation to support this claim of \$736.

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: The failure to list the pre-approved payments is due to procedure. In fact, the Council is given a list of estimated. Apparently, the later actual was not included. The actual was not included in the minutes, because it was pre-approved. We have corrected that. We have separated the accounting on the credit cards in order to produce less confusion on those entries, and to produce a total on a check that more likely agrees with the statement. Careful checking of the entries into the system when starting the closing process should help recognition of errors. This again is helped by using the eyes of two separate people when available. Sometimes the error is not that there is no receipt, but that the receipt is believed to be from an incorrect vendor, perhaps because of similarity and shortening of names.

6. Tax Increment Financing

In 2014, the City utilized tax increment financing (TIF) to assist a local developer, Cmart, LLC, in acquiring property, demolishing an existing structure, and site preparation. At that time, the City's Community Redevelopment Authority issued bonds in the amount of \$62,000 for this TIF project. As identified in the fiscal year 2017 audit, the City lacked procedures for tracking the ad valorem taxes received and paid to Cmart, LLC, as compared to the bond payments or bond amortization schedule. The ad valorem taxes should be remitted for only 15 years unless the debt is paid off earlier.

In addition, the City did not have documentation to support: 1) the veracity of related project expenses; 2) the proper performance of mandatory substandard and blight studies; and 3) the existence of required redevelopment plans. The City has worked to obtain such supporting documents to ensure full compliance with the Community Development Law, which is set out at Neb. Rev. Stat. §§ 18-2101 to 18-2155 (Reissue 2012, Cum. Supp. 2020, Supp. 2021). 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 report for the prior year.

We recommend the City implement procedures for maintaining 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: Although our records are lacking in the Tax Increment Financing, we continue to find files that have been boxed or piled. Management is still hopeful of finding more records. Current payment of taxes are properly accounted for.

* * * * *

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
Deputy Auditor