

**AUDIT REPORT
OF THE
CITY OF CROFTON**

OCTOBER 1, 2021, THROUGH SEPTEMBER 30, 2022

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the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
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Issued on March 29, 2023

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 governing 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
- James Murphy, Council Member
- Don Meink, Council Member (started May 2022)
- Larry Peitz, Council Member
- Illa Roeder, Council Member (ended May 2022)

In March 2022, Lisa Skroch resigned as City Treasurer. Subsequent to the audit period, Arlene Steffen retired as City Clerk, Donna Cook was hired as the City Clerk, and Shawntel Tramp was hired as the City Treasurer.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov

PO Box 98917

State Capitol, Suite 2303

Lincoln, Nebraska 68509

402-471-2111, FAX 402-471-3301

auditors.nebraska.gov

CITY OF CROFTON

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Crofton, Nebraska

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities – cash basis, business-type – 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2022, and the respective changes in cash-basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

In our opinion, the accompanying 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – 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 accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

The City has omitted 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, who 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information, page 26, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2023, 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dakota Christensen". The signature is written in a cursive, flowing style.

Dakota Christensen, CPA, CISA, CFE
Audit Manager
Lincoln, Nebraska

March 28, 2023

CITY OF CROFTON
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES - CASH BASIS
STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES - ACCRUAL BASIS
September 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 201,108	\$ 439,523	\$ 640,631
Cash on Hand with County Treasurer	3,819	-	3,819
Accounts Receivable	-	72,135	72,135
Restricted Cash and Cash Equivalents	717,144	-	717,144
Total Current Assets	922,071	511,658	1,433,729
Noncurrent Assets			
Restricted Cash and Cash Equivalents	-	6,865	6,865
Capital Assets			
Land	-	85,360	85,360
Depreciable Assets (Net)	-	160,766	160,766
Total Noncurrent Assets	-	252,991	252,991
TOTAL ASSETS	922,071	764,649	1,686,720
LIABILITIES			
Current Liabilities			
Accrued Expenses	-	11,185	11,185
Total Current Liabilities	-	11,185	11,185
Noncurrent Liabilities			
Customer Deposits	-	6,865	6,865
TOTAL LIABILITIES	-	18,050	18,050
NET POSITION			
Net Investment in Capital Assets	-	246,126	246,126
Restricted for:			
Street Maintenance and Projects	123,277	-	123,277
Federal Relief	117,343	-	117,343
Recycling Grants	3,263	-	3,263
Park and Pool Projects	61,672	-	61,672
Community Development	44,252	-	44,252
Economic Development	57,230	-	57,230
Infrastructure	142,295	-	142,295
Debt Service	168,903	-	168,903
Unrestricted	203,836	500,473	704,309
TOTAL NET POSITION	\$ 922,071	\$ 746,599	\$ 1,668,670

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, 2022

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	\$ 118,209	\$ -	\$ -	\$ (118,209)	\$ -	\$ (118,209)
Public Health and Safety	38,041	-	-	(38,041)	-	(38,041)
Public Works	101,267	-	113,659	12,392	-	12,392
Culture and Recreation	132,575	-	-	(132,575)	-	(132,575)
Economic Development	3,213	-	-	(3,213)	-	(3,213)
Community Development	4,442	-	-	(4,442)	-	(4,442)
Capital Projects	10,000	-	-	(10,000)	-	(10,000)
Debt Service	68,922	-	-	(68,922)	-	(68,922)
Total Governmental Activities	476,669	-	113,659	(363,010)	-	(363,010)
Business-Type Activities:						
Water	281,338	312,793	-	-	31,455	31,455
Sewer	137,496	148,993	-	-	11,497	11,497
Sanitation	66,606	64,659	-	-	(1,947)	(1,947)
Total Business-Type Activities	485,440	526,445	-	-	41,005	41,005
Total Primary Government	<u>\$ 962,109</u>	<u>\$ 526,445</u>	<u>\$ 113,659</u>	<u>(363,010)</u>	<u>41,005</u>	<u>(322,005)</u>
General Receipts/Revenues:						
Taxes:						
Property Taxes - General Purposes				233,915	-	233,915
City Sales Taxes				93,129	-	93,129
City Motor Vehicle Sales Taxes				17,704	-	17,704
Tax Increment Financing				4,295	-	4,295
Licenses and Permits				3,082	-	3,082
Grants and Contributions Not Restricted to						
Specific Programs				82,532	-	82,532
Use of Money and Property				110,389	-	110,389
Special Assessments				129,144	-	129,144
Other Miscellaneous Receipts/Revenues				42,864	1,630	44,494
Total General Receipts/Revenues				<u>717,054</u>	<u>1,630</u>	<u>718,684</u>
Change in Net Position				354,044	42,635	396,679
Net Position - Beginning of year				568,027	703,964	1,271,991
Net Position - End of year				<u>\$ 922,071</u>	<u>\$ 746,599</u>	<u>\$ 1,668,670</u>

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

CITY OF CROFTON
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
September 30, 2022

	General Fund	Street Fund	Special Revenue Fund	Debt Retirement Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ 201,108	\$ -	\$ -	\$ -	\$ 201,108
Cash on Hand with County Treasurer	2,728	1,091	-	-	3,819
Restricted Cash and Cash Equivalents	-	122,186	426,055	168,903	717,144
TOTAL ASSETS	<u>\$ 203,836</u>	<u>\$ 123,277</u>	<u>\$ 426,055</u>	<u>\$ 168,903</u>	<u>\$ 922,071</u>
FUND BALANCE					
Restricted:					
Street Maintenance and Projects	\$ -	\$ 123,277	\$ -	\$ -	\$ 123,277
Federal Relief	-	-	117,343	-	117,343
Recycling Grants	-	-	3,263	-	3,263
Park and Pool Projects	-	-	61,672	-	61,672
Community Development	-	-	44,252	-	44,252
Economic Development	-	-	57,230	-	57,230
Infrastructure	-	-	142,295	-	142,295
Debt Service	-	-	-	168,903	168,903
Unassigned	203,836	-	-	-	203,836
TOTAL CASH BASIS FUND BALANCES	<u>\$ 203,836</u>	<u>\$ 123,277</u>	<u>\$ 426,055</u>	<u>\$ 168,903</u>	<u>\$ 922,071</u>

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

CITY OF CROFTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022

	General Fund	Street Fund	Special Revenue Fund	Debt Retirement Fund	Total
RECEIPTS					
Taxes	\$ 201,258	\$ 50,360	\$ 97,425	\$ -	\$ 349,043
Intergovernmental	21,478	113,659	61,054	-	196,191
Use of Money and Property & Other Local Receipts	104,020	-	6,369	-	110,389
Licenses and Permits	3,082	-	-	-	3,082
Special Assessments	-	-	-	129,144	129,144
Miscellaneous	40,858	-	100	1,906	42,864
TOTAL RECEIPTS	<u>370,696</u>	<u>164,019</u>	<u>164,948</u>	<u>131,050</u>	<u>830,713</u>
DISBURSEMENTS					
General Government	116,329	-	1,880	-	118,209
Public Health and Safety	38,041	-	-	-	38,041
Public Works	-	101,267	-	-	101,267
Culture and Recreation	117,020	-	15,555	-	132,575
Economic Development	-	-	3,213	-	3,213
Community Development	-	-	4,442	-	4,442
Capital Outlay/Projects	-	-	10,000	-	10,000
Debt Service					
Principal	-	-	-	50,725	50,725
Interest	-	-	-	17,957	17,957
Fees and Penalties	-	-	-	240	240
TOTAL DISBURSEMENTS	<u>271,390</u>	<u>101,267</u>	<u>35,090</u>	<u>68,922</u>	<u>476,669</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>99,306</u>	<u>62,752</u>	<u>129,858</u>	<u>62,128</u>	<u>354,044</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash Basis Fund Balances	<u>99,306</u>	<u>62,752</u>	<u>129,858</u>	<u>62,128</u>	<u>354,044</u>
CASH BASIS FUND BALANCES - BEGINNING	<u>104,530</u>	<u>60,525</u>	<u>296,197</u>	<u>106,775</u>	<u>568,027</u>
CASH BASIS FUND BALANCES - ENDING	<u>\$ 203,836</u>	<u>\$ 123,277</u>	<u>\$ 426,055</u>	<u>\$ 168,903</u>	<u>\$ 922,071</u>

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, 2022

	Sewer Fund	Water Fund	Sanitation Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 335,383	\$ 118,095	\$ (13,955)	\$ 439,523
Accounts Receivable	20,387	42,454	9,294	72,135
Total Current Assets	355,770	160,549	(4,661)	511,658
Noncurrent Assets				
Restricted Assets - Cash	-	6,865	-	6,865
Capital Assets				
Land	41,930	41,930	1,500	85,360
Depreciable Assets	220,093	908,457	-	1,128,550
Accumulated Depreciation	(190,955)	(776,829)	-	(967,784)
Total Noncurrent Assets	71,068	180,423	1,500	252,991
TOTAL ASSETS	426,838	340,972	(3,161)	764,649
LIABILITIES				
Current Liabilities				
Payroll Liabilities	4,987	-	4,987	9,974
Sales Tax Payable	904	307	-	1,211
Total Current Liabilities	5,891	307	4,987	11,185
Noncurrent Liabilities				
Customer Deposits	-	6,865	-	6,865
TOTAL LIABILITIES	5,891	7,172	4,987	18,050
NET POSITION				
Net Investment in Capital Assets	71,068	173,558	1,500	246,126
Unrestricted	349,879	160,242	(9,648)	500,473
TOTAL NET POSITION	\$ 420,947	\$ 333,800	\$ (8,148)	\$ 746,599

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, 2022

	Sewer Fund	Water Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 148,993	\$ 312,793	\$ 64,659	\$ 526,445
Miscellaneous	1,630	-	-	1,630
TOTAL OPERATING REVENUES	<u>150,623</u>	<u>312,793</u>	<u>64,659</u>	<u>528,075</u>
OPERATING EXPENSES:				
Personnel Services	77,800	28,835	4,320	110,955
Professional Fees	854	2,347	-	3,201
Materials and Supplies	-	2,378	-	2,378
Repairs and Maintenance	39,493	176	-	39,669
Utilities	8,730	897	-	9,627
Contracted Services	4,530	1,785	62,286	68,601
Cost of Goods Sold	-	225,618	-	225,618
Capital Outlay/Improvements	2,263	-	-	2,263
Depreciation	1,355	18,151	-	19,506
Miscellaneous	2,471	1,151	-	3,622
TOTAL OPERATING EXPENSES	<u>137,496</u>	<u>281,338</u>	<u>66,606</u>	<u>485,440</u>
OPERATING INCOME (LOSS)	<u>13,127</u>	<u>31,455</u>	<u>(1,947)</u>	<u>42,635</u>
CHANGE IN NET POSITION	13,127	31,455	(1,947)	42,635
TOTAL NET POSITION, BEGINNING	<u>407,820</u>	<u>302,345</u>	<u>(6,201)</u>	<u>703,964</u>
TOTAL NET POSITION, ENDING	<u>\$ 420,947</u>	<u>\$ 333,800</u>	<u>\$ (8,148)</u>	<u>\$ 746,599</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, 2022

	Sewer Fund	Water Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 144,513	\$ 301,927	\$ 62,020	\$ 508,460
Cash Paid For Contractual Services	(4,530)	(1,785)	(62,286)	(68,601)
Cash Paid For Personnel Services	(72,813)	(28,835)	667	(100,981)
Other Cash Expenses	(54,034)	(233,588)	-	(287,622)
Net Cash Provided by (Used in) Operating Activities	13,136	37,719	401	51,256
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Reimbursement of Professional Services	123,070	-	-	123,070
Net Cash Provided by Capital and Related Financing Activities	123,070	-	-	123,070
NET INCREASE (DECREASE) IN CASH	136,206	37,719	401	174,326
CASH AND CASH EQUIVALENTS - BEGINNING	199,177	87,241	(14,356)	272,062
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 335,383</u>	<u>\$ 124,960</u>	<u>\$ (13,955)</u>	<u>\$ 446,388</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating Income (Loss)	\$ 13,127	\$ 31,455	\$ (1,947)	\$ 42,635
Adjustments to Reconcile:				
Depreciation	1,355	18,151	-	19,506
Change in Assets & Liabilities:				
Decrease (Increase) in Accounts Receivable	(6,110)	(12,616)	(2,639)	(21,365)
Increase (Decrease) in Accounts Payable	(114)	(11)	-	(125)
Increase (Decrease) in Sales Tax Payable	(109)	(1,010)	-	(1,119)
Increase (Decrease) in Customer Deposits	-	1,750	-	1,750
Increase (Decrease) in Payroll Liabilities	4,987	-	4,987	9,974
Total Adjustments	9	6,264	2,348	8,621
Net Cash Provided by (Used in) Operating Activities	<u>\$ 13,136</u>	<u>\$ 37,719</u>	<u>\$ 401</u>	<u>\$ 51,256</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, 2022

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, 2022, the City held funds for the following purposes: Federal Relief; 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 for governmental funds were not recorded as those funds were reported on 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. 2022).

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 20. 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 30, 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 20. 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 \$1,368,459, including County Treasurer balances. The bank balance for all funds was \$1,366,433. For purposes of classifying categories of custodial risk, the bank balances of the City's deposits, as of September 30, 2022, 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, 2022, the City did not have any negative bank balances at year end.

B. Restricted Assets

The restricted assets as of September 30, 2022, are as follows:

Fund	Purpose	Governmental Activities	Business-Type Activities	Total
Street	Street Maintenance and Projects	\$ 123,277		\$ 123,277
Special Revenue	Federal Relief	117,343		117,343
Special Revenue	Recycling Grants	3,263		3,263
Special Revenue	Park and Pool Projects	61,672		61,672
Special Revenue	Community Development	44,252		44,252
Special Revenue	Economic Development	57,230		57,230
Special Revenue	Infrastructure	142,295		142,295
Debt Retirement	Debt Service	168,903		168,903
Water	Water Deposits		6,865	6,865
Total Restricted Assets		\$ 718,235	\$ 6,865	\$ 725,100

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, 2022, the City had the following receivables:

Fund	Amount
Sewer Fund	\$ 20,387
Water Fund	42,454
Sanitation Fund	9,294
Total	\$ 72,135

D. Capital Assets

Capital asset activity for the year ended September 30, 2022, was as follows:

	Balance at October 1, 2021	Additions	Disposals	Balance at September 30, 2022
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	 -	 123,070	 85,360
Depreciable Capital Assets:				
Infrastructure	1,128,550	-	-	1,128,550
Total Depreciable Capital Assets, at Historical Cost	1,128,550	-	-	1,128,550
Less Accumulated Depreciation for:				
Infrastructure	(948,276)	(19,508)	-	(967,784)
Total Accumulated Depreciation	(948,276)	(19,508)*	-	(967,784)
Depreciable Capital Assets, Net	180,274	(19,508)	-	160,766
Business-Type Capital Assets, Net	\$ 388,704	\$ (19,508)	\$ 123,070	\$ 246,126

*Depreciation expense was charged to the functions as follows:

Sewer	\$ 1,356
Water	<u>\$18,152</u>
Total Depreciation Expense, for Business-type Activities	\$19,508

CITY OF CROFTON

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

D. **Capital Assets** (Concluded)

Construction in Progress: During fiscal year 2020, the City began work on a wastewater collection and treatment system project. Starting in November 2019, the City paid for professional engineering services for this project, totaling \$123,070. During fiscal year 2022, 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 February 2023, the City has contracted with a new engineering firm; however, work has not begun on the new sewer lagoon project. The City no longer recognized Construction in Progress as an asset as of September 30, 2022.

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, 2022:

Business-Type Activities:	Balance at October 1, 2021	Additions	Deductions	Balance at September 30, 2022
Liabilities:				
Accounts Payable	\$ 125	\$ -	\$ 125	\$ -
Payroll Liabilities	-	9,974	-	9,974
Sales Tax Payable	2,332	1,211	2,332	1,211
Customer Deposits	5,115	2,700	950	6,865
Total Liabilities	<u>\$ 7,572</u>	<u>\$ 13,885</u>	<u>\$ 3,407</u>	<u>\$ 18,050</u>

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 \$7,978.

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 or 2022.

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 a prior fiscal year, and multiple assessments on that project are still outstanding as of September 30, 2022.

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 2021, November 22, 2021, for \$940,000 was issued to refinance the prior Series 2017 Street, Sewer, and Storm Water Sewer Improvement Bond. The bond payable balance as of September 30, 2022, was \$940,000. 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
2023	\$ 70,000.00	\$ 10,902.50	\$ 80,902.50
2024	70,000.00	10,552.50	80,552.50
2025	70,000.00	10,202.50	80,202.50
2026	70,000.00	9,765.00	79,765.00
2027	70,000.00	9,240.00	79,240.00
2028-2032	360,000.00	33,542.50	393,542.50
2033-2035	230,000.00	6,381.25	236,381.25
Total Payments	\$ 940,000.00	\$ 90,586.25	\$ 1,030,586.25

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.

Deficit Fund Balance

The Sanitation Fund had a deficit fund balance of \$8,148 as of September 30, 2022. The City plans to either transfer General Fund monies or review the need to increase the sanitation utility charge.

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, 2022:

<u>Parties to Agreement</u>	<u>Description</u>
Knox County	Assistance for oil road repairs along City roads and joint use of City property for a cold-mix preparation and storage site.
Knox County Development Agency	Coordination, education, and service to increase the knowledge of economic development and help preserve Knox County community's economic growth.
Knox County Emergency 911 Service	Emergency communications system
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 28, 2023, 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 - TOTAL OF ALL FUNDS
For the Year Ended September 30, 2022

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
RECEIPTS			
Property Taxes	\$ 186,419	\$ 238,210	\$ 51,791
Federal Receipts	-	58,671	58,671
State Highway Allocation	109,262	105,928	(3,334)
State Municipal Equalization	16,494	21,478	4,984
State Motor Vehicle	7,737	8,168	431
Other State Receipts	-	2,383	2,383
Local Motor Vehicle	18,345	17,704	(641)
City Sales Tax	86,381	93,129	6,748
Other Local Receipts	711,782	813,117	101,335
TOTAL RECEIPTS	\$ 1,136,420	\$ 1,358,788	\$ 222,368
DISBURSEMENTS			
General Government	\$ 807,696	\$ 118,209	\$ 689,487
Public Health and Safety	87,000	38,041	48,959
Public Works - Streets & Other	150,000	101,267	48,733
Culture and Recreation	9,100	132,575	(123,475)
Economic Development	-	3,213	(3,213)
Community Development	-	4,442	(4,442)
Capital Projects	-	10,000	(10,000)
Debt Service	-	68,922	(68,922)
Sanitation	67,983	66,606	1,377
Sewer	92,395	137,496	(45,101)
Water	278,756	281,338	(2,582)
TOTAL DISBURSEMENTS	\$ 1,492,930	\$ 962,109	\$ 530,821
Net Change in Cash Basis Fund Balance		396,679	
ACCRUAL/CASH BASIS FUND BALANCE - BEGINNING		1,271,991	
ACCRUAL/CASH BASIS FUND BALANCE - ENDING		<u><u>\$ 1,668,670</u></u>	

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

Mike Foley
State Auditor

Mike.Foley@nebraska.gov

PO Box 98917

State Capitol, Suite 2303

Lincoln, Nebraska 68509

402-471-2111, FAX 402-471-3301

auditors.nebraska.gov

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, 2022, 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 28, 2023. 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.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the following deficiency in the City's internal control 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 a limited number of personnel, an adequate segregation of duties may not be possible without additional cost.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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 28, 2023.

City's Response to Findings

The City declined to respond to the finding described above.

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 results 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.

A handwritten signature in black ink that reads "Dakota Christensen". The signature is fluid and cursive, with the first name "Dakota" and last name "Christensen" clearly distinguishable.

Dakota Christensen, CPA, CISA, CFE
Audit Manager
Lincoln, Nebraska

March 28, 2023



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov

PO Box 98917

State Capitol, Suite 2303

Lincoln, Nebraska 68509

402-471-2111, FAX 402-471-3301

auditors.nebraska.gov

March 28, 2023

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, 2022, and have issued our report thereon dated March 28, 2023. 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. Lack of Segregation of Duties

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 multiple control issues, as identified in the following Comments and Recommendations.

Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include a proper segregation of duties, so no one individual is capable of handling all phases of a transaction from beginning to end. 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 review this situation. As always, the City must weigh the cost of hiring additional personnel versus the benefit of a proper segregation of duties.

2. Credit Card Issues

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

Questionable Credit Card Charges

On February 22, 2023, the APA received concerns regarding potentially fraudulent or questionable charges on the City's credit card ending in 9609. In response to this concern, we obtained from the City copies of the credit card statements from July 2022 through January 2023. Based on our analysis of these statements, we requested that the City provide documentation to support the following charges:

Transaction Date	Post Date	Transaction Description	Amount	APA Notes
08/28/22	08/29/22	LEWIS AND CLARK MINI MAR CROFTON NE	\$ 28.40	Note 1
09/06/22	09/07/22	LEWIS AND CLARK MINI MAR CROFTON NE	16.52	Note 1
09/13/22	09/14/22	AMZN Mkt US*1F2RL7U90 Amzn.com/bill WA	51.10	Note 2
09/25/22	09/26/22	LEWIS AND CLARK MINI MAR CROFTON NE	12.79	Note 1
11/22/22	11/25/22	WWW.RESERVATIONS.COM 855-9562201 FL	47.38	Note 3
11/27/22	11/28/22	CCI*RESERVATIONS.COM 855-956-2201	816.18	Note 3
12/06/22	12/07/22	AMAZON.COM*0U5XI4S93 AMZN AMZN.COM/BILL WA	303.14	Note 2
12/12/22	12/13/22	AMZN Mkt US*CE58D4ZP3 Amzn.com/bill WA	78.56	Note 2
12/13/22	12/14/22	AMZN Mkt US*RH0AT6ZK3 Amzn.com/bill WA	129.90	Note 2
12/17/22	12/19/22	59 EXPRESS CREIGHTON NE	45.87	Note 2
12/27/22	12/28/22	HY-VEE YANKTON 1899 YANKTON SD	17.85	Note 2
12/27/22	12/28/22	WAL-MART #1483 YANKTON SD	125.67	Note 2
01/13/23	01/17/23	SQ *NEBRASKA ASSOCIATION 877-417-4551 NE	60.00	Note 3
01/23/23	01/24/23	WAL-MART #1483 YANKTON SD	251.34	Note 2
Total			\$ 1,984.70	

Note 1: No support on file at time of request; printout from vendor shows fuel purchases.

Note 2: Adequate support on file.

Note 3: No support on file.

The City was unable to provide adequate documentation to support the two Reservations.com charges, totaling \$863.56, and the Nebraska Association charge of \$60. Further details regarding these charges are provided below.

Reservation.com Charges

For the Reservations.com charges, the City's Police Chief informed us on February 28, 2023, that he had "confirmed the one(s) from the Reservation company are suspicious and not authorized by anyone from the City of Crofton," and he had advised the City Clerk of that fact. The Police Chief explained further on March 1, 2023, that these charges are "unknown," and his investigation determined the charges to be for "a fraudulent company that does not actually exist." He stated also that many consumer complaints against the supposedly nonexistent company could be found online. The City was unable to provide any additional information or documentation related to these charges.

The APA was able to obtain from Reservations.com the hotel confirmation emails showing that the charges denied by the Police Chief were, in fact, for a five-night stay from Sunday, November 27, 2022, through Friday, December 2, 2022, at the Holiday Inn Express & Suites in Yankton, South Dakota, for a Senior Staff Accountant (Accountant) of Hayes & Associates, LLC (Hayes & Associates). The total charges included a room cost of \$631.75 (\$126.35 per night), along with taxes and fees of \$184.43, for a total of \$816.18, and a service fee of \$47.38. Hayes & Associates is an accounting firm based in Omaha, NE, that performed an agreed-upon procedures engagement for the City during November and December of 2022, with an on-site visit the week of November 28, 2022, through December 2, 2022, which corresponds with the dates of the hotel reservation.

On March 1, 2023, we inquired with the Director of Audit and Attestation Services (Director) for Hayes & Associates as to whether it is the standard practice of that accounting firm to charge hotel costs to client credit cards. The Director responded that a City representative said that he preferred to pay for the lodging directly with the City credit card, so the accounting firm included only the mileage and per diem costs as its direct charges to the City when billing for the agreed-upon procedures engagement. The Director stated further that, according to the Accountant for Hayes & Associates who performed the on-site work, the City's Police Chief met him at the hotel

on Sunday, November 27, 2022, because hotel management needed the credit card used for the Reservation.com charge to be presented at the time of check-in.

Therefore, despite the Police Chief's claims to the contrary, the charges at issue do not appear to be fraudulent. Notwithstanding the results of his investigation into the matter, moreover, Reservations.com, a well-known online travel booking agency that was founded in 2014, does not appear to be "a fraudulent company that does not actually exist." More intriguing yet is that fact that the Hayes & Associates accountant for whom the room payment was made identified the Police Chief as the individual personally responsible for the credit card charge.

The information provided by the Hayes & Associates staff has given rise to several other issues, as described below:

- *Excessive hotel charges and unnecessary taxes incurred* – The hotel used is located in Yankton, South Dakota. The room rate for the stay was \$126.35 per night and included taxes in the total costs because the hotel is outside of Nebraska. The City could have avoided incurring out-of-state taxes by using a Nebraska hotel and requesting a discounted governmental room rate. Multiple hotels are situated within 30 miles of Crofton, including a motel located in the City itself. For example, the APA used the motel in the City during audit fieldwork in February 2023, for the fiscal year 2022 audit, and paid a room rate of only \$74 and no taxes. Therefore, it is likely the City could have paid a similar rate, which would have resulted in costs savings of about \$52 per night.
- *Excessive mileage paid* – The mileage costs charged to the City could have been lessened had Hayes & Associates used the motel in Crofton. Per Google Maps, round-trip travel from the Hayes & Associates office in Omaha, Nebraska, to Crofton and back is about 327 miles. Round-trip travel from the Hayes & Associates office in Omaha to Yankton and back is about 332 miles. Round-trip travel from Yankton to Crofton and back is about 33 miles. Hayes & Associates charged the City actual mileage of 512 miles at \$0.625 per mile, for a total of \$320. Had the motel in Crofton been used, the mileage charged to the City would have likely been closer to 327 miles at \$0.625 per mile, for a total of \$204, a savings of about \$116.
- *Conflicting Information Provided* – The City's Police Chief initially told the APA that the questioned Reservations.com charges were "suspicious and not authorized by anyone from the City of Crofton." However, as pointed out already, the Accountant for Hayes & Associates claims to have met the Police Chief at the hotel in Yankton, South Dakota, on the November 27, 2022, check-in date and witnessed him present, presumably, the municipal card at issue to complete the hotel check-in. If true, this means that the Police Chief must have been well aware of the actual nature of the charges. Additionally, on the morning of March 9, 2023, the APA sent an email message to both the City and the Police Chief, explaining our findings in even greater detail. That message began by saying, "If there is any additional information that addresses the concerns or contradicts the information below, please provide that information." Similarly, the message concluded by reiterating the opening appeal, "As stated above, if there is any additional information that addresses the concerns or contradicts the information above, please provide that information." Nevertheless, as of the conclusion of audit fieldwork almost a week later, on March 15, 2023, the APA had received no response from either the City or the Police Chief.

Nebraska Association Charge

For the Nebraska Association charge, the City explained that this transaction was for a "Police Chief Subscription." However, no other supporting documentation was provided.

Neb. Rev. Stat. § 13-610(4) (Reissue 2022) 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.

Additionally, per Neb. Rev. Stat. § 77-2704.15(1)(a) (Cum. Supp. 2022), purchases made by the State or its political subdivisions are exempt from sales tax, as follows:

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

Furthermore, Title 316 NAC 68-004.01 of the Nebraska Department of Revenue's formal rules and regulations states the following, in relevant part:

Occupants granted an exemption from the lodging tax are the same entities which are exempt from the sales and use tax under the Nebraska Revenue Act of 1967, as amended. . . .

In addition, good internal controls require procedures to ensure: (1) proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the City's purchasing cards; (2) the City requests the government rate for all lodging expenses; (3) Nebraska sales or lodging taxes are avoided; and (4) the City arranges for lodging outside the State only when necessary.

Lack of Formal Credit Card Policies

During fiscal year 2022, municipal purchasing cards were used for a total of \$19,200 in expenditures. During the audit, it was noted that the City lacked a written purchasing card policy that not only specified allowable purchases and authorized users but also outlined procedures for safeguarding City assets when using a municipal credit card.

Neb. Rev. Stat. § 13-610 (Reissue 2022) 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.

Additionally, good internal control requires written guidelines for the proper use of the City's purchasing cards, including formal designation of both the authorized users and the allowable uses thereof.

Lack of Adequate Documentation

During our testing of municipal credit card charges, we noted that the City lacked sufficient documentation for one credit card purchase, totaling \$390. This charge was in addition to the other unsupported credit card expenditures noted in the "Questionable Credit Card Charges" section above. The City recorded this \$390 charge to the Capital Improvements account in the General Fund. However, the APA was unable to tie the expenditure to any specific purchase listed on the municipal credit card statements, and the City could not provide an explanation of – much less any documentation for – the purchase responsible for the charged amount.

As noted above, § 13-610(4) requires all expenditures with a political subdivision's purchasing card to be supported by an itemized receipt. Furthermore, good internal control requires procedures to ensure that proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the City's purchasing cards.

Payment of Late Fees, Interest, and Sales Tax

During our review of the City's credit card statements and subsequent activity for the fiscal year, the APA noted that the City paid a total of \$297.70 in various costs, including late fees, a finance charge, and interest penalties, to the credit card company. Included also in that amount was \$158.93 in Nebraska sales taxes.

The following table details these charges:

Date	Vendor	Charge	Amount
04/26/2022	First National Bank of Omaha	Interest	\$ 4.96
04/26/2022	First National Bank of Omaha	Late Fee	39.00
05/25/2022	First National Bank of Omaha	Interest	5.30
06/23/2022	First National Bank of Omaha	Interest	10.43
06/24/2022	First National Bank of Omaha	Sales Tax	124.59
07/26/2022	First National Bank of Omaha	Interest	38.78
09/13/2022	First National Bank of Omaha	Sales Tax	3.12
09/22/2022	First National Bank of Omaha	Late Fee	35.00
09/23/2022	First National Bank of Omaha	Finance Charge	1.75
10/26/2022	First National Bank of Omaha	Interest	3.55
12/06/2022	First National Bank of Omaha	Sales Tax	18.50
12/12/2022	First National Bank of Omaha	Sales Tax	4.80
12/13/2022	First National Bank of Omaha	Sales Tax	7.92
Total			\$ 297.70

As noted above, § 77-2704.15(1)(a) exempts from sales taxes any purchases made by the State or its political subdivisions.

Further, good internal controls require procedures to ensure that credit card billings are paid timely to avoid unnecessary late fees and interest penalties, and sales taxes are not paid on municipal purchases.

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

Similar issues were noted in the prior year's report.

We recommend the City implement procedures to ensure the following:

- Proper documentation is maintained for all disbursement transactions, including itemized receipts for purchases made with the City's purchasing cards;
- The City requests the government rate for all lodging expenses;
- Nebraska sales or lodging taxes are avoided;
- The City arranges for lodging outside the State only when necessary;
- 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; and
- Credit card billings are paid timely to avoid unnecessary late fees and interest penalties.

3. "Shop With A Cop" Account

On July 11, 2022, the City Council approved Resolution No. 7-11-22(3) ("Resolution"), which says that the Crofton Police Department, an agency of the City, "wishes to provide a special fund for 'SHOP WITH A COP' program" Copied below is an image of the resolution providing for the City's own "Shop With a Cop" program:

WHEREAS, the Crofton Police Department wishes to provide a special fund for “SHOP WITH A COP” program and,

WHEREAS, the Mayor and Council have determined that it would be a beneficial program for Crofton families and,

WHEREAS, Police Chief Carter is qualified to administer the program.

BE IT THEREFORE RESOLVED by the Mayor and Council that the Clerk/Treasurer of the City of Crofton, Nebraska be and hereby is directed to establish an interest bearing special “SHOP WITH A COP” checking account with Farmers & Merchants State Bank and that such special account shall be restricted for the use of the program as administered by Chief Carter and for no other purpose.

BE IT FURTHER RESOLVED that such account will be in the name of the City of Crofton, Nebraska and that all contributions to such account will be deemed a charitable contribution and that the person or legal entity contributing to such fund will be entitled to income tax exemptions pursuant to the current rules and regulations of the Internal Revenue Service.

Dated this 11th day of July, 2022.

According to the explicit language of the Resolution, only the Clerk/Treasurer of the City is authorized to establish a special “Shop With a Cop” account at Farmers & Merchants State Bank to receive the funds for the municipal program. In fulfilling that mandate, the Clerk/Treasurer opened the account on August 2, 2022, at the local bank branch.

Despite the fact that, more than a month previously, the Clerk/Treasurer had complied already with the Resolution’s very specific and unequivocal directive, an officer with the City’s Police Department opened a second, separate, “Shop With A Cop” account at a Cedar Security Bank branch located in neighboring Fordyce, Nebraska. That unauthorized account was established, without the City’s knowledge or approval, on September 14, 2022, with a \$100 deposit, under a Federal tax identification number (FTIN) different than that required to be used for bank accounts utilized for municipal purposes. The reason for opening the second account – in a bank located almost nine miles outside of the City and without any authority whatsoever either to take such action or to deposit therein any funds collected for the municipal program – remains unclear.

It is important to note that any money collected through the “Shop With A Cop” program would constitute municipal funds – money received by a City employee, as directed by the City Council, pursuant to a City program – which should be handled accordingly.

Through the Resolution, the Mayor and City Council authorized not only the Farmers & Merchant State Bank account, opened under the City’s FTIN, as the exclusive repository for the Program funds, but also the Program itself as a municipal project. According to the Resolution, the City Police Chief “is qualified to administer the program.” As indicated by the Program’s very name, “Shop With a Cop,” such qualification rests primarily upon his status as a law enforcement officer employed by the City; except for such employment status, the Police Chief would lack the requisite qualification to administer the Program and would not have been appointed to do so. By administering the Program in his capacity as a municipal employee, therefore, the Police Chief is carrying out a duty authorized by the Mayor and the City Council, and any money collected pursuant thereto must be handled as directed by the governing Resolution.

Despite the clear directives of the Resolution regarding the handling of the program funds, none of the donations received appear to have been deposited into the authorized “Shop With a Cop” account at the Farmers & Merchants State Bank or included in the City’s accounting system. Instead, the APA observed a transaction history report for the unauthorized “Shop With a Cop” account at the Cedar Security Bank for the period January 1, 2020, through February 2, 2023, that shows the following activity:

Per Transaction History Report				
Date	Description	Deposits/Other Credits	Checks/Other Debits	Balance
Beginning Balance				\$ -
09/14/22	Regular Deposit	\$ 100.00	\$ -	100.00
09/14/22	Regular Deposit	550.00	-	650.00
09/22/22	Regular Deposit	750.00	-	1,400.00
10/05/22	Regular Deposit	168.00	-	1,568.00
10/17/22	Regular Deposit	75.00	-	1,643.00
10/25/22	Service Charge	-	1.00	1,642.00
10/27/22	Regular Deposit	217.00	-	1,859.00
11/22/22	Service Charge	-	1.00	1,858.00
12/05/22	Check #1000	-	1,361.13	496.87
12/19/22	Check #1001	-	203.40	293.47
12/27/22	Service Charge	-	1.12	292.35
01/24/23	Service Charge	-	1.00	291.35
02/02/23	Closing of Account	-	291.35	-
Total Bank Activity		\$ 1,860.00	\$ 1,860.00	

The two checks (#1000 and #1001) shown above were payments to Wal-Mart for a total of \$1,564.53. Neither of those disbursements of municipal funds was approved by the City Council, and the City could not provide any documentation to support what the specific purposes of the payments. However, the APA was able to obtain itemized receipts for the purchases directly from Wal-Mart. The items purchased appear reasonable for the program.

After the City became aware of the unauthorized Cedar Security Bank account, the \$291.35 closing withdrawal therein was transferred to the approved City’s Farmers & Merchants State Bank account on February 3, 2023.

Per Neb. Rev. Stat. § 13-503(7) (Reissue 2022) of the Nebraska Budget Act (Act), the term “public funds” means “all money, including nontax money, used in the operation and functions of governing bodies.” Any funds received by a City employee, in his or her official capacity – including “custodial” or “special purpose” funds that are segregated for a particular purpose, such as donations to the municipal “Shop With a Cop” program – constitute municipal monies subject to the exclusive custody, control, and oversight of the City.

Neb. Rev. Stat. § 17-606(1) (Reissue 2022) requires all City monies to be maintained, overseen, and accounted for by the City Treasurer, as follows:

The treasurer of each city of the second class or village shall be the custodian of all money belonging to the city or village. He or she shall keep a separate account of each fund or appropriation and the debts and credits belonging thereto. He or she shall give every person paying money into the treasury a receipt for such money, specifying the date of payment and on what account paid. He or she shall also file copies of such receipts with his or her monthly reports, and he or she shall, at the end of every month, and as often as may be required, render an account to the city council or village board of trustees, under oath, showing the state of the treasury at the date of such account and the balance of money in the treasury. He or she shall also accompany such accounts with a statement of all receipts and disbursements, together with all warrants redeemed and paid by him or her, which warrants, with any and all vouchers held by him or her, shall be filed with his or her account in the clerk's office. If the city treasurer or village treasurer fails to render his or her account within twenty days after the end of the month, or by a later date established by the city council or village board of trustees, the mayor of a city of the second class or the chairperson of the village board of trustees with the advice and consent of the trustees may use this failure as cause to remove the city treasurer or village treasurer from office.

(Emphasis added.) Furthermore, Neb. Rev. Stat. § 17-607(1) (Reissue 2022) requires all municipal funds to be handled and deposited as directed by the City Council:

The treasurer of a city of the second class or village shall deposit, and at all times keep on deposit, for safekeeping, in banks, capital stock financial institutions, or qualifying mutual financial institutions of approved and responsible standing, all money collected, received, or held by him or her as city treasurer or village treasurer. Such deposits shall be subject to all regulations imposed by law or adopted by the city council or village board of trustees for the receiving and holding thereof. . . .

(Emphasis added.) As made clear by the above statutory language, no one but the City Treasurer – not even another City employee – is authorized to serve as the custodian of municipal funds.

Furthermore, any disbursement of such monies should be approved by the City Council, as set out in Neb. Rev. Stat. § 17-614(1)(a) (Reissue 2022). The publication of the official proceedings should document the City Council’s approval of these disbursements, as required by Neb. Rev. Stat. § 19-1102 (Reissue 2022).

It is important to note that depositing into an unauthorized account – e.g., one neither approved by the City nor opened under the City’s FTIN – any funds subject to the City’s custody and control, per the statutes cited above, does **not** divest those monies of their municipal character. Such funds must be remitted forthwith to the City Treasurer, thereby allowing them to be deposited into a City account and all receipts and disbursements thereof to be authorized by the proper authorities and documented in the appropriate municipal records. Additionally, any documents – such as bank statements, etc. – or other information pertaining to the deposit and handling of those monies outside of the City Treasurer’s direct purview should be made available to City officials for immediate inspection.

Finally, the proper administration of municipal funds, pursuant to both statutory requirements and any directives issued by the City Council, is always important. In this particular situation, however, such adherence is especially crucial because the “Shop With a Cop Program” receives donations, which are not subject to the same controls – e.g., formal receipting procedures and proper segregation of duties, etc. – that govern other municipal receipts. Consequently, the implementation of procedures to ensure such adherence is required.

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

We recommend the implementation of procedures to ensure that any funds subject to municipal custody and control are deposited into a bank account approved by the City, and all receipts and disbursements thereof are authorized by the proper authorities and documented in the appropriate municipal records.

4. Accounting Procedures

The APA was not provided with complete and accurate financial records of the City in a timely manner. A timeline of the APA’s communications with the City is provided below:

- On October 26, 2022, the APA emailed the Mayor at that time regarding issues with the City’s annual budget filing. In that email, the APA made specific inquiries about the status of the City’s financial records; however, the City failed to reply to this email.
- The APA sent follow-up emails on November 8, 2022, and November 16, 2022, with no replies from the City.
- On November 30, 2022, the APA called and spoke with the Mayor at that time, and she replied that she would have the requested budget information by December 5, 2022. The APA reminded the Mayor that the City should be working on finalizing the financials for the annual audit as well.

- On December 13, 2022, the APA called and spoke with the City Clerk. The Clerk was unaware that there were issues with the City's annual budget filing. The Mayor at that time called the APA back later that evening and left a voicemail. In that voicemail, the Mayor stated that it was her last day in office and would have the budget information resolved that night. No update on the financials was provided.
- On December 20, 2022, the City provided some of the requested budget information. After receiving this information, the APA sent the City a request for documentation regarding the fiscal year 2022 audit in addition to the already requested financial statements.
- On January 17, 2023, the APA emailed the City a list of financial reports needed from the City's accounting system.
- On January 18, 2023, the City provided the financial reports that were requested; however, these reports were mostly unusable due to the financials not being finalized or closed out. First, the balance sheet provided by the City did not balance by fund. Second, the following errors were noted:

Issue Noted	Error Amount
The "Unclassified" column/fund had a negative amount in accounts receivable.	\$ 508,811
A bank transfer was not recorded in accounting system.	150,000
An Accounts Payable Overstatement was noted for September 30, 2022.	73,804
State Payments were not recorded in accounting system.	30,124
County Payments were not recorded in accounting system.	17,609
One highway allocation payment from the State was entered twice.	9,294
Bank accounts were not entered into system.	1,500
Bank interest was not recorded in accounting system.	986
Total Absolute Error Amount	\$ 792,128

- After receiving these financial reports, the APA made several phone calls with the City and the vendor of the City's accounting system. During these phone calls, the APA discussed what needed to be corrected in order to make the financial reports usable for the audit.
- On February 6, 2023, the APA traveled to Crofton to collect other documentation needed for the fiscal year 2022 audit. During conversation with City officials, the APA was informed that the financial records were still not completed.
- On February 13, 2023, the APA received the completed and usable financial reports from the City.

Additionally, the APA learned that a bank reconciliation for the City's main checking account had not been completed since January 2022. That checking account was eventually reconciled as part of the APA's follow-up of the financial statements, as described above.

Neb. Rev. Stat. § 19-2903 (Reissue 2022) provides, in relevant part, the following:

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

(Emphasis added.) Neb. Rev. Stat. § 17-606(1) (Reissue 2022) states the following, in relevant part:

The treasurer of each city of the second class or village shall be the custodian of all money belonging to the city or village. He or she shall keep a separate account of each fund or appropriation and the debts and credits belonging thereto. He or she shall give every person paying money into the treasury a receipt for such money, specifying the date of payment and on what account paid. He or she shall also file copies of such receipts with his or her monthly reports, and he or she shall, at the end of every month, and as often as may be required, render an account to the city council or village board of trustees, under oath, showing the state of the treasury at the date of such account and the balance of money in the treasury. He or she shall also accompany such accounts with a statement of all receipts and disbursements, together with all warrants redeemed and paid by him or her, which warrants, with any and all vouchers held by him or her, shall be filed with his or her account in the clerk's office.

Finally, Neb. Rev. Stat. § 84-305 (Cum. Supp 2022) not only grants the APA “access to any and all information and records, confidential or otherwise, of any public entity, in whatever form or mode the records may be” but also requires expeditious compliance with a request for any such information. Subsection (2) of that statute says the following:

Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. No delay due to the significant difficulty or the extensiveness of any request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity. . . .

Good internal controls require procedures to ensure that the City maintains complete and accurate financial records. Those same procedures should ensure also that such materials, as well as any other information requested by the APA, is made available in a timely manner.

Without such procedures, there is an increased risk of failure not only to present the City’s financial statements accurately but also to comply with State law.

We recommend the implementation of procedures to ensure that the City maintains complete and accurate financial records. These same procedures should ensure also that any information requested by the APA is made available in a timely manner.

5. Payroll Procedure Issues

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

Retirement Contributions

For one employee tested, retirement contributions were not correctly deducted from payroll. This employee elected to contribute three percent of gross pay to retirement. Section 4-401 of the City’s “Employee Handbook” (adopted November 4, 2019) states the following regarding retirement benefits:

The employer will pay 3% of gross wage for an IRA account for each employee when that employee has met the requirements of the plan agreement. Currently that is earning \$5000 in a 6-month period.

This employee exceeded \$5,000 of gross wages on the June 8, 2022, paycheck; however, retirement contributions appear not to have been made until the October 25, 2022, paycheck. Therefore, retirement contributions were not withheld for eight pay periods. The employee’s gross pay during these eight pay periods totaled \$19,624, which should have resulted in \$589 being withheld for retirement and an additional \$589 contribution by the City. No make-up contributions appear to have been made at the time of audit fieldwork in early March 2023.

Good internal controls require procedures to ensure that retirement contributions are withheld as soon as the employee becomes eligible for such benefits.

Incorrect Tax Withholdings

For three employees tested, the amounts withheld for taxes were calculated incorrectly. All of these employees elected to receive a “cash-in-lieu” payment of \$500 per month rather than to elect medical coverage under the City’s Cafeteria 125 plan. However, taxes were not withheld from this additional “cash-in-lieu” payment. Additionally, for two of these three employees, neither Federal nor State income taxes were withheld from any of their municipal earnings.

The following table summarizes the incorrect withholding amounts:

Description/Tax	Employee 1 – April 13, 2022			Employee 2 – August 10, 2022		
	APA Calculation	Actual Withholding	Variance	APA Calculation	Actual Withholding	Variance
Federal Income Tax	\$ 1,280.13	\$ 1,235.00	\$ (45.13)	\$ 366.19	\$ 0.00	\$ (366.19)
State Income Tax	\$ 483.10	\$ 469.22	\$ (13.88)	\$ 107.37	\$ 0.00	\$ (107.37)
Social Security	\$ 522.50	\$ 510.12	\$ (12.38)	\$ 176.47	\$ 151.16	\$ (25.31)
Medicare	\$ 122.20	\$ 119.30	\$ (2.90)	\$ 41.27	\$ 35.35	\$ (5.92)
Net Pay	\$ 5,608.06	\$ 5,682.35	\$ 74.29	\$ 1,984.28	\$ 2,489.07	\$ 504.79

Description/Tax	Employee 3 – August 10, 2022		
	APA Calculation	Actual Withholding	Variance
Federal Income Tax	\$ 383.26	\$ 0.00	\$ (383.26)
State Income Tax	\$ 142.25	\$ 0.00	\$ (142.25)
Social Security	\$ 196.98	\$ 134.98	\$ (62.00)
Medicare	\$ 46.07	\$ 31.56	\$ (14.51)
Retirement (Note)	\$ 65.31	\$ 0.00	\$ (65.31)
Net Pay	\$ 2,343.23	\$ 3,010.56	\$ 667.33

Note: As noted above, retirement for this employee was not correctly withheld. This also affected the taxes that were withheld.

The APA reviewed the City’s payroll records, and it appears that, in addition to the two maintenance employees noted above, the Chief of Police, the Clerk, the Treasurer, the Assistant Clerk, and the Pool Manager did not have Federal and State income taxes withheld on their first bi-monthly paycheck in August 2022. The APA reviewed the fiscal year 2022 general ledger and noted that both Federal and State income taxes appear not to have been withheld for these individuals on their April, May, June, July, and September 2022 paychecks as well.

The “FAQs for government entities regarding Cafeteria Plans” page (last updated January 3, 2023) on the Internal Revenue Service (IRS) website states the following, as is relevant:

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.

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 regulations. Further, good internal controls require procedures to ensure that all employment taxes, including Federal and State income taxes, are withheld properly each pay period.

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

Lack of Proper Payroll Approval

Two of the payroll checks tested, totaling \$6,615.39, 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 – April 13, 2022	\$ 5,682.35	05/02/22	04/13/22	19
Employee 4 – June 22, 2022	933.04	07/11/22	06/22/22	19
Total	\$ 6,615.39			

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) (Reissue 2022) 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.

A similar finding was included in the prior year's report.

Lack of Timesheets

Per discussion with the City Clerk, the employees of the City Police Department, including the Police Chief, do not maintain or submit timesheets to document the hours worked for each pay period.

The employees of the City Police Department, including the Police Chief, are considered "Regular Full-Time Employee[s]" and are required to maintain a timecard or timesheet documenting the hours worked each pay period per the City's Employee Handbook (Handbook). Specifically, the Handbook states, in relevant part, the following under Chapter 3 – Compensation and Hours of Work, Article 3-1: Classification of Employees, Section 3-101 (adopted November 4, 2019):

2. Regular Full-time Employee. An employee who has completed the introductory period and is regularly scheduled to work 36 or more hours per week.

Furthermore, Section 3-102 of Chapter 3 – Compensation and Hours of Work, Article 3-1: Classification of Employees, of the Handbook states the following:

In addition to the above classes, employees shall be further classified as follows:

1. Exempt. Exempt employees are those employees not covered by the U. S. Fair Labor Standards Act. An employee is considered exempt if at least 80% of his or her work is administrative, executive or professional and requires regular exercise of discretion and judgment. Exempt employees do not receive overtime pay. Positions defined as exempt are: police chief and administrator/clerk/treasurer.

2. Nonexempt. Nonexempt employees are those employees whose work is of a nature other than administrative, executive or professional and who are covered by the provisions of the Fair Labor Standards Act. Nonexempt employees must receive extra pay for overtime work. Nonexempt employees would include all positions not listed under subsection (1) above.

Furthermore, Section 3-302 of Chapter 3 – Compensation and Hours of Work, Article 3-3: Attendance, of the Handbook states the following, in relevant part:

Each employee is responsible for maintaining and submitting a pay period time sheet/card. All time sheet/cards will be signed by the employee indicating that the hours that were turned in are correct. . . .

Good internal controls require procedures to ensure that employees are submitting timesheets or timecards documenting their hours worked for each pay period.

Federal Tax Return Filing

The APA tested the City’s Form 941, “Employer’s Quarterly Federal Tax Return,” for the period of January through March 2022. During testing, the APA noted the following:

- The amount of wages listed on the Form 941 totaled \$40,584; however, the payroll records of the City show that the total wages actually paid during this period was \$41,556, a variance of \$972.
- The City owed \$9,671 in employment taxes; however, the City paid \$11,261, resulting in an overpayment of \$1,590.

Good internal controls require procedures to ensure that the amounts shown on Form 941 are correct, and only the amount of taxes withheld is paid to the Federal government.

Payroll Allocation

During the APA's review of journal entries made in the City’s accounting system during fiscal year 2022, we noted a journal entry to allocate payroll from the General Fund to other funds. This journal entry did not follow the City's approved payroll allocation method when hours worked cannot be easily traced to individual funds.

The following fund balances were misstated:

Fund	Amount Over/(Under) Stated
General Fund	\$ 49,769
Street Fund	(7,036)
Sewer Fund	(43,690)
Water Fund	(28,834)
Sanitation Fund	29,791
Total	\$ -

The City’s financial statements were adjusted for the above misstatements.

When hours worked cannot be traced easily to individual funds, Resolution 17-15 of the City sets out the method for allocating payroll costs between the appropriate municipal funds as follows:

The City adopts the following allocations until such a time as a review determines that the allocations should be changed.

1. Full time City Maintenance workers.
 - a. Parks and Recreation/Cultural Development-10%
 - b. Water-10%
 - c. Streets-30%
 - d. Sewer-50%
2. City Clerk and assistants.
 - a. General-30%
 - b. Sewer-25%
 - c. Water-35%
 - d. Sanitation-10%

Good internal controls require procedures to ensure that payroll costs are allocated correctly between City funds.

Without such procedures, there is an increased risk of not only noncompliance with State statute and Federal regulations but also misuse of public funds.

We recommend the City implement procedures to ensure the following: 1) retirement contributions are correctly withheld as soon as the employee becomes eligible for such benefits; 2) 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; 3) all employment taxes, including Federal and State income taxes, are withheld properly for each pay period; 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; 5) all employees submit timesheets or timecards, per the municipal Handbook; 6) the amounts shown on Form 941 are correct, and only the amount of taxes withheld is paid to the Federal government; and 7) payroll costs are allocated correctly between City funds.

6. Receipt Procedures

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

Utility Accounts Receivable

During fiscal year 2022, 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, 2022, the City's accounting records showed an accounts receivable balance of \$72,135; however, during testing of that balance, the following issues were noted:

- The accounts receivable aging schedule had 35 customer accounts with negative balances, totaling \$3,059. Of these 35 customer accounts, 23 accounts had negative balances with no current billing activity or payments, totaling \$1,246.
- The accounts receivable aging schedule had 255 customer accounts with positive balances, totaling \$67,402. Of these 255 customer accounts, 28 accounts had significant positive balances, totaling \$8,004, 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 of \$7,712, which was designated the "zzz State Auditor Adjustment." 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 it.
- The accounts receivable aging schedule had an unknown variance of \$79 when compared to the reported accounts receivable balance in the City's accounting system as of September 30, 2022.

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.

A similar issue was noted in the prior year's report, and the unsupported balance continues to increase each year.

Pool Receipts

The City did not maintain adequate records detailing all amounts collected at the municipal 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 2022 totaled \$11,439.

The following issues were identified during our testing of pool receipts:

- For the July 21, 2022, Daily Deposit Form tested, the APA was unable recalculate the total amount deposited. The City deposited \$194; however, the Daily Deposit Form used by the pool shows only \$174. The form does not note where the additional \$20 came from. The memo in the City's accounting system states "unidentified \$20."
- For the June 17, 2022, Daily Deposit Form tested, the Form used by the pool noted that \$30 was received for swimming lessons. Per the City's approved fee schedule, swimming lessons are \$20 for members and \$25 for non-members. The amount received for swimming lessons does not agree to the fee schedule.
- 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.

A similar finding was included in the prior year's report.

Utility Receipts

During the audit, the APA noted the following issues with the City's utility receipt procedures:

- For the utility billing for Crofton Community Schools in August 2022, the football field was not being billed each month for its water and sewer usage. Per the City Clerk, the meter was read only twice a year, when it was turned on and off.
- One customer tested was billed \$77.75 for utility usage in December 2021; however, the meter reading sheet used by the City showed that the water meter for this customer was turned off, and the customer should not have been billed anything for that month.

Good internal control requires procedures to ensure that all municipal utility customers pay the proper fee each month, including the correct amount for all water usage shown on the City's meter readings.

A similar finding was included in the prior year's report.

Water Deposits

According to the City's accounting system, the City held \$6,865 in water deposits as of September 30, 2022. During testing, the APA noted the following regarding the water deposits held by the City:

- For \$180, the City was unable to provide the names of the customers to whom these deposits belong. Of this amount, \$50 was received prior to August 2019 and should be remitted to the Nebraska State Treasurer as abandoned property.
- The remaining water deposits held belong to 77 customers. Fifty of these deposits, totaling \$3,935, have been held for over one year. The oldest deposit has been held by the City since 1997.

Neb. Rev. Stat. § 69-1307.01 (Reissue 2018) states the following:

Except as otherwise provided by law, all intangible personal property held for the owner by any court, public corporation, public authority, or public officer of this state, or a political subdivision thereof, that has remained unclaimed by the owner for more than three years is presumed abandoned.

Neb. Rev. Stat. § 69-1310(a) (Cum. Supp. 2022) states the following:

Every person holding funds or other property, tangible or intangible, presumed abandoned under the Uniform Disposition of Unclaimed Property Act shall report to the State Treasurer with respect to the property as hereinafter provided.

The City's policy is to hold water deposits for one year. If a customer has no delinquent payments during that year, the deposit is returned to the customer. If a customer has an overdue utility balance, the deposit is used towards the overdue balance.

Good internal controls require procedures to ensure that water deposits are maintained in accordance with City policies. Further, such procedures should ensure that water deposits presumed abandoned are remitted properly to the Nebraska State Treasurer.

Fees Not Properly Approved

In May 2022, the City received \$882 for the sale of scrap iron. Due to the lack of documentation, including relevant meeting minutes, the APA was unable to determine if this sale or the amount received was approved by the City Council.

Good internal controls require procedures to ensure that the City Council approves all municipal fees or rates charged by the City.

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

We recommend the City implement procedures to ensure the following: 1) municipal utility customer accounts receivable are tracked to ensure their proper financial presentation; 2) a periodic review of the accounts receivable listing is performed to ensure its accuracy, and any discrepancies noted are resolved in a timely manner; 3) adequate records are maintained detailing all amounts collected at the City's swimming pool; 4) all pool ticket sales are accounted for, deposited at the bank, and properly recorded in the municipal accounting system; 5) the City bills all of its utility customers properly each month; 6) water deposits are maintained in accordance with City policies; 7) water deposits presumed abandoned are remitted properly to the Nebraska State Treasurer; and 8) the City Council approves all municipal fees received by the City.

7. Disbursement Issues

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

Duplicate Payments

The City paid one company twice, resulting in the duplicate payment shown in the table below:

Vendor	Payable Date	Paid Date	Amount
Black Hills Energy	03/08/2022	03/22/2022	\$ 981.01
Black Hills Energy	03/08/2022	04/21/2022	\$ 981.01

The City received a credit on the next month's billing; however, the City was unable to support that the duplicate payment was discovered prior to the credit being applied.

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.

A similar finding was included in the prior year's report.

Claims Not Properly Approved

During testing of the City's claims, the APA identified the following checks, totaling \$83,870, which were issued for more than the claim amounts approved by the City Council.

Details of these excessive payments are included in the table below:

Name/Vendor	Approval Date	Approved Amount	Check Amount	Variance
BOK Financial	12/06/2021	\$ 50,725	\$ 50,945	\$ 220
Cedar Knox Rural Water District	08/01/2022	20,000	32,925	12,925
Totals		\$ 70,725	\$ 83,870	\$ 13,145

Additionally, the APA noted that two City checks, totaling \$14,663, were paid but not included on the claims listing to be approved by the City Council, as shown in the following table:

Name/Vendor	Check Date	Amount
Farmer's & Merchants State Bank	11/18/2021	\$ 11,731
Kayton International	10/05/2021	2,932
Total		\$ 14,663

Further, the APA noted that one City check for \$1,584 was issued before the City Council approved the underlying claim. Details of that premature payment are provided in the table below:

Name/Vendor	Amount	Approval Date	Check Date	Days Paid Before Approval
Equature/DSS Corporation	\$ 1,584	08/01/2022	07/27/2022	5

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 two claims approved for less than the payment amount, the meeting minutes prior to the check date documented a preapproval. However, the meeting minutes after the check date did not approve the actual amount paid.

Neb. Rev. Stat. § 17-614(1)(a) (Reissue 2022) sets out the proper method for the appropriation or payment of money by the City, as follows, in relevant part:

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 for the correct amount 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 not only loss or misuse of public funds but also noncompliance with State statute.

A similar finding was included in the prior year's report.

We recommend the City implement procedures to ensure the following: 1) duplicate payments are prevented but also recouped promptly when they occur; and 2) all claims are approved for the correct amount by the Council prior to payment, and such approval is adequately documented in the minutes of the meeting during which it occurred.

8. Incorrect Coding

During the audit, the APA noted the following issues regarding coding of receipts and disbursements:

- In August 2022, the City spent \$9,000 for a trailer that is used primarily to move lawn mowers to the different municipal parks. This disbursement was coded to the Sewer Fund; however, it should have been coded to the General Fund because the trailer is used primarily for park maintenance.
- In July 2022, the City received a Municipal Equalization payment, totaling \$10,091, from the State of Nebraska. This should have been coded to the Municipal Equalization Aid account in the General Fund; however, the City coded this receipt instead to the Highway Allocation account in the Street Fund.
- The City received the second half of the American Rescue Plan Act (ARPA) grant, totaling \$58,671, during fiscal year 2022. This was coded incorrectly to the Sewer Fund instead of to the ARPA Fund.
- For the payment received from the Knox County Treasurer in August 2022, the City incorrectly coded \$2 of Interest Tax and \$11 of Property Tax Commission to the Street Fund. These should have been coded to the General Fund.

Good internal controls and sound accounting practices require procedures to ensure that all disbursements and receipts are coded correctly into the City's accounting system.

Without such procedures, there is an increased risk of misstated financial statements and misuse, loss, or theft of public funds.

We recommend the City implement procedures to ensure that all disbursements and receipts are coded correctly into the City's accounting system.

9. Sales Tax Remittance

During testing and review of subsequent filings, the APA noted the following issues with the City's monthly filings of the Nebraska and Local Sales and Use Tax Return Form 10:

- The Nebraska and Local Sales and Use Tax Return Form 10s for March through July 2022 were not filed until August 2022. Due to this late payment, the City was charged interest of \$92. The City paid this interest five times, resulting in an overpayment of \$368. Additionally, the Nebraska and Local Sales and Use Tax Return Form 10s for August through December 2022 were not filed until January 2023. Due to this late payment, the City was charged interest of \$325. The City paid this interest five times, resulting in an overpayment of \$1,300.
- The Nebraska and Local Sales and Use Tax Return Form 10 was filled out incorrectly for five months during fiscal year 2022. This resulted in the City over-remitting \$1,381 to the Nebraska Department of Revenue. This amount was all for local sales tax and was returned to the City each month, less a 3% administrative fee totaling \$41.

Good internal controls require procedures to ensure that Form 10 is filled out correctly, and the proper amount of sales tax is remitted to the Nebraska Department of Revenue in a timely manner to avoid interest charges.

Without such procedures, there is an increased risk for the loss of public funds due to over-remittances, fines, and interest charges.

A similar finding was included in prior year's report.

We recommend the City implement procedures to ensure that Form 10 is filled out correctly, and the correct amount of sales tax is remitted to the Nebraska Department of Revenue in a timely manner to avoid interest charges.

10. Special Assessment Balances

In May 2015, the City Council created three improvement districts for street, storm water sewer, and sanitary sewer extension improvements. The City contracted to have street, sanitary sewer, and storm water sewer improvements completed in the districts, and a municipal bond was issued in 2015 to provide funding for the improvements. In 2018, the City Council approved a special assessment to help alleviate the costs associated with this project.

During testing of special assessment payments received in fiscal year ending 2022, the APA noted that, for one lot, the total assessment per the City's payment schedule did not agree to the total assessment per the official Notice of Assessment, as shown in the table below:

Property Description	Total Assessment Per Notice of Assessment	Total Assessment Per Payment Schedule	Variance
Lot 36 West's Addition to the City of Crofton	\$ 10,449.82	\$ 12,496.68	\$ 2,046.86

Good internal controls require procedures to ensure that funds collected from special assessments agree to the amount originally approved by the City Council.

Without such procedures, there is an increased risk for the loss or misuse of public funds and incorrect payment by the resident.

We recommend the City implement procedures to ensure that funds collected from special assessments agree to the amount originally approved by the City Council.

11. Negative Fund Balance

The Sanitation Fund had a deficit fund balance of \$8,148 as of September 30, 2022. The City plans either to transfer General Fund monies or review the need to increase the sanitation utility charge to cover this deficit.

Good internal control and sound accounting practices require procedures to ensure that City fund balances are sufficient to cover fully all disbursements and transfers approved by the Board. Those same procedures should ensure also that the Board is apprised regularly of each City fund balance and, therefore, placed in a position to take any action needed to resolve deficits therein.

Without such procedures, there is an increased risk of not only insufficient City fund balances, but also the resultant inability to cover fully all disbursements and transfers approved by the Board.

We recommend the City board implement procedures to ensure: 1) City fund balances are sufficient to cover fully all disbursements and transfers approved by the Board; and 2) the Board is apprised regularly of each City fund balance and, therefore, placed in a position to take any action needed to resolve the deficits therein.

12. 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 lacked 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 2022). However, the City was unable to obtain all of the required items, and it appears unlikely that such documentation will become available. Nevertheless, 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 tracking and 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 included in the prior year's report.

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 tracking and distribution of ad valorem tax amounts.

13. Other Control Environment Issues

During our audit, we noted the following other control environment issues, as described below:

- 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 5** ("Payroll Procedure Issues") herein.
- The City did not have a capitalization policy that provided a threshold for when items should be added to the municipal 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. During testing, the APA noted one purchase that was not added to the inventory list.
- One of the City's checking accounts and one of the City's certificates of deposit listed authorized signers who were no longer employees of the City as of February 8, 2023.
- During our inquiry about internal control procedures, we were informed that the City does not utilize prenumbered permit forms.

Good internal controls require procedures to ensure: 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) procedures to ensure that the signature cards for all City bank accounts and investments are kept current; and 4) the utilization of prenumbered permit forms.

The lack of such procedures increases the risk of loss or misuse of public funds.

A similar finding was included in the prior year's report.

We 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 their proper addition or removal;
- Periodic reviews are performed to ensure that signature cards for all City bank accounts and investments are current; and
- Prenumbered permit forms are utilized.

* * * * *

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. Where no response has been included, the City declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

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,

A handwritten signature in black ink that reads "Dakota Christensen". The signature is written in a cursive, flowing style.

Dakota Christensen, CPA, CISA, CFE
Audit Manager