CITY OF AUBURN
AUBURN, NEBRASKA

COMBINED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

CITY OF AUBURN, NEBRASKA
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Auburn
Auburn, Nebraska

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Auburn, Nebraska as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements 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 misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Adverse Opinion on Auburn Board of Public Works and Qualified Opinion on Business-Type Activities

Management has not included Auburn Board of Public Works in the City's financial statements. The modified cash basis of accounting requires Auburn Board of Public Works to be presented as a major enterprise fund and financial information about the Auburn Board of Public Works to be part of the business-type activities, thus increasing that activity's assets, liabilities, revenues and expenses and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the business-type activities and the omitted major fund has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Auburn Board of Public Works and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Auburn Board of Public Works, Auburn, Nebraska, as of September 30, 2019, or the respective changes in financial position thereof for the year then ended in accordance with basis of accounting described in Note 1.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on Auburn Board of Public Works and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the business-type activities of the City of Auburn, Nebraska, as of September 30, 2019 and the changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund, other than the Auburn Board of Public Works, and the aggregate remaining fund information for the primary government of the City of Auburn, Nebraska, as of September 30, 2019, and the respective changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the basic financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in a appropriated operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Auburn, Nebraska's financial statements. The other supplementary information on pages 25 through 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

City of Auburn
Auburn, Nebraska

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2019 on our consideration of the City of Auburn, Nebraska'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 of Auburn, Nebraska'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 of Auburn, Nebraska's internal control over financial reporting and compliance.

Massman Nelson Berg PC
Certified Public Accountants

Omaha, Nebraska
October 30, 2019

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF NET POSITION – MODIFIED CASH BASIS
SEPTEMBER 30, 2019

ASSETS	
Cash in bank	$ 2,185,081
Certificates of deposit	110,444
Cash in custody of County Treasurer	91,098
Special assessments receivable	17,176
Capital assets:	
Non-depreciable	407,023
Depreciable, net	6,174,525
Total assets	8,985,347
LIABILITIES	
Deferred revenue - special assessments	17,176
Other liabilities	2,447
Total liabilities	19,623
NET POSITION	
Invested in capital assets, net of related debt	6,581,548
Restricted for:	
Debt service	11,106
Community betterment	73,413
Unrestricted	2,299,657
Net position	$ 8,965,724

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position Operating Governmental Activities
Governmental activities:			
General government	$ 768,013	$ -	$ 768,013
Public health and safety	57,783	-	57,783
Public works	273,642	-	273,642
Culture – recreation	499,519	231,887	267,632
Debt service	793	-	793
Keno expenditures	17,086	-	17,086
CDBG program	702	-	702
Community Redevelopment net	470,962	-	470,962
Depreciation	349,796	-	349,796
Total governmental activities	2,438,296	231,887	2,206,409
General revenue:			
Taxes			745,227
Intergovernmental			895,320
Special assessments			11,106
Interest income			4,398
Keno proceeds			16,278
Local option sales tax			492,136
Licenses and permits			12,716
CDBG program			33,547
Miscellaneous			78,424
Total general revenue and transfers			2,289,152
Change in net position			82,743
Net position – beginning of year			8,882,981
Net position – end of year			$ 8,965,724

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY
PRIMARY GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
SEPTEMBER 30, 2019

ASSETS

	Governmental Fund Types			
	General	Debt Service	Special Revenue Keno	Total
Assets:				
Cash in bank	$ 2,100,562	$ 11,106	$ 73,413	$ 2,185,081
Certificates of deposit	110,444	-	-	110,444
Cash in custody of County Treasurer	91,098	-	-	91,098
Special assessments receivable	-	17,176	-	17,176
Total assets	$ 2,302,104	$ 28,282	$ 73,413	$ 2,403,799

LIABILITIES AND FUND EQUITY

	General	Debt Service	Special Revenue Keno	Total
Liabilities:				
Deferred revenue – special assessments	$ -	$ 17,176	$ -	$ 17,176
Other liabilities	2,447	-	-	2,447
Total liabilities	2,447	17,176	-	19,623
Fund equity:				
Restricted for:				
Debt service	-	11,106	-	11,106
Community betterment	-	-	73,413	73,413
Unassigned	2,299,657	-	-	2,299,657
Total fund equity	2,299,657	11,106	73,413	2,384,176
Total liabilities and fund equity	$ 2,302,104	$ 28,282	$ 73,413	$ 2,403,799

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
RECONCILIATION OF COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY - GOVERNMENTAL FUNDS – MODIFIED CASH BASIS – TO STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Total fund balance – all governmental funds		$ 2,384,176
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund financial statement:		
Capital assets	11,607,008	
Accumulated depreciation	(5,025,460)	6,581,548
Net position of governmental activities		$ 8,965,724

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENS AND CHANGES IN FUND BALANCES – GENERAL AND DEBT SERVICE FUNDS – PRIMARY GOVERNMENT – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Governmental Fund Types			
	General	Debt Service	Special Revenue Keno	Total
Receipts:				
Taxes – personal property	$ 695,772	$ 49,455	$ -	$ 745,227
Taxes – sales	-	492,136	-	492,136
Special assessments	-	11,106	-	11,106
Licenses and permits	12,716	-	-	12,716
Intergovernmental	895,320	-	-	895,320
Charges for services	231,887	-	-	231,887
Miscellaneous	82,822	-	-	82,822
Total receipts	1,918,517	552,697	-	2,471,214
Disbursements:				
Current:				
General government	768,013	-	-	768,013
Public works	273,642	-	-	273,642
Public health and safety	57,783	-	-	57,783
Cultural and recreational	499,519	-	-	499,519
Debt service:				
Principal retirement	-	60,000	-	60,000
Interest	-	763	-	763
Bond handling fee	-	30	-	30
Total disbursements	1,598,957	60,793	-	1,659,750
Excess of receipts over disbursements	319,560	491,904	-	811,464
Other financing sources:				
CDBG programs	33,547	-	-	33,547
Gross keno proceeds	-	-	16,278	16,278
Transfer from other fund	480,798	-	-	480,798
Total other financing sources	514,345	-	16,278	530,623
Other financing uses:				
CDBG programs	702	-	-	702
Keno expenditures	-	-	17,086	17,086
Community Redevelopment Authority – net	470,962	-	-	470,962
Capitalized outlays – net	117,941	-	-	117,941
Transfer to other fund	-	480,798	-	480,798
Total other financing uses	589,605	480,798	17,086	1,087,489
Excess (deficit) of receipts and other financing sources over (under) disbursements and other financing uses	244,300	11,106	(808)	254,598
Fund balance, beginning of year	2,055,357	-	74,221	2,129,578
Fund balance, end of year	$ 2,299,657	$ 11,106	$ 73,413	$ 2,384,176

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
RECONCILIATION OF STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Net change in fund balances – total governmental funds		$ 254,598
Amounts reported for governmental activities in the statement of net activities are different because:		
Governmental funds report capital outlays as expenditures while government activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital outlays - net	117,941	
Depreciation	(349,796)	(231,855)
Warrant and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of warrants and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment exceeded proceeds.		60,000
Change in net position of governmental activities		$ 82,743

See the accompanying notes to the financial statements.

1. Summary of Significant Accounting Policies

The City of Auburn is a political subdivision of the State of Nebraska located in Nemaha County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Nebraska. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

This summary of significant accounting policies of the City of Auburn, Nebraska is presented to assist in understanding the City's financial statements. The combined financial statements and notes are representations of the City's management, which is responsible for their integrity and objectivity.

Reporting Entity

The financial statements include all funds of the City, except for the Board of Public Works. Other than for this exception, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those agencies, offices, organizations, commissions, and public authorities over which the City's elected officials exercise oversight responsibility are included in the financial statements. Manifestations of oversight responsibility are included in the financial statements. Manifestations of oversight responsibility over an entity include: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters.

Related Organizations

The Auburn Board of Public Works is a related organization but is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. An audit of the Auburn Board of Public Works will be completed for the year ending December 31, 2019 and will be filed under separate cover.

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The general services that the City performs for its citizens are classified as governmental activities. The City's utilities including electric, water and sewer are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column. The governmental and fiduciary activities are reported on a cash basis, and the business-type activity is reported on a full accrual, economic resource basis. The City's net position is reported in three parts – invested in capital assets, net of related debt; restricted for debt services; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

1. Summary of Significant Accounting Policies - Continued

Government-Wide Financial Statements - Continued

The government-wide Statement of Activities reports both the gross and net cost of each of the City's governmental functions and business-type activities. The net costs of each governmental function are also supported by general government revenues (property taxes, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the governmental function or business-type activity. Operating grants include operation-specific and discretionary grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its asset, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by classification within the financial statements.

The following fund types are used by the City:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

In the government-wide financial statements, the activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. On an accrual basis, revenues are recognized when earned. Expenditures are recorded when liabilities are incurred, regardless of the timing of related cash flows.

1. Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting - Continued

In the fund financial statements, both funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when they become both measureable and available. Available means collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recognized in the period the liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt are reported as other financing sources in governmental funds.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is to pay the expenditure from restricted fund balances and then from less restrictive classifications – committed, assigned and then unassigned fund balances.

Property tax revenues are recognized when susceptible to accrual. Revenues on special assessments and miscellaneous revenues are recognized as the amounts are collected. Investment earnings are recorded as earned since they are measureable and available.

Financial Statement Accounts

Cash and Certificates of Deposit

The City considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments in debt securities are carried at fair value and cash deposits at financial institutions are carried at cost, which reasonably estimate fair value. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the government-wide statements. Capital assets are defined as assets that have initial lives that extend beyond a single reporting period. Capital assets are stated at cost or estimated historical cost if actual is unavailable, except for donated assets, which are recorded at their fair values when donated.

1. Summary of Significant Accounting Policies - Continued

Financial Statement Accounts - Continued

Capital Assets - Continued

The City maintains the following minimum capitalization thresholds for capital assets:

Building and improvements	$	50,000
Land improvements	$	20,000
Machinery, equipment and vehicles	$	15,000
Infrastructure	$	40,000

The City has elected to capitalize governmental fund type infrastructure, consisting primarily of street improvements, on a prospective basis. Consequently, the financial statements do not include infrastructure prior to October 1, 2003 with the exception of significant street projects.

Major expenditures for property and those which substantially increase useful lives, are capitalized. Maintenance, repairs and minor renewals, and capital assets purchased under the capitalization threshold, are expensed when incurred. When capital assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Net interest cost relating to construction is capitalized.

Depreciation has been provided using the straight-line method over estimated useful lives as follows:

Buildings	15 - 50 years
Improvements	7 - 30 years
Equipment	7 - 30 years
Vehicles	7 - 15 years
Street	30 - 40 years

In the fund financial statements, capital assets (arising from cash transactions) acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and certificates of deposit that are restricted as to their use. The primary restricted assets are related to revenue bonds payable and outstanding warrants payable.

1. Summary of Significant Accounting Policies - Continued

Financial Statement Accounts - Continued

Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Net Position/Fund Equity

The government-wide fund financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This category represents net position of the City not restricted for any project or other purpose.

Fund equity – In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantor or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.
- Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same action it employed to commit those amounts.
- Assigned – Amounts the City intends to use for specific purposes.
- Unassigned – All amounts not included in other classifications.

1. Summary of Significant Accounting Policies - Continued

Property Tax Revenues

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1, and are payable in two installments on the following May 1 and September 1. All taxes are delinquent the September 1 following the year levied. The County bills and collects property taxes and remits them to the City monthly.

Budgets

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

1. Prior to September 10, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to September 20, the budget is legally enacted through the passage of an ordinance.

Total expenditures may not legally exceed total budget appropriations. Appropriations lapse at year-end and any revisions require Board approval.

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

All taxes, which are collected through the Nemaha County Treasurer, are from property owners within the City. Consequently, the City's ability to collect the taxes may be affected by economic fluctuations near the City of Auburn, Nebraska. To date, such concentrations of credit risk have not had a material effect on the financial statements.

2. Cash and Certificates of Deposit

Deposit risks include:

- Custodial Credit Risk – for deposits, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the City will not be able to recover the value of its deposits or collateral securities in the possession of a third party.

- Credit Risk – for deposits, credit risk is the risk that a bank or other counterparty defaults on its own principal and/or interest payments owed to the City.

- Interest Rate Risk – for deposits, interest rate risk is the risk that the value of deposits will decrease as a result of a rise in interest rates.

2. Cash and Certificates of Deposit - Continued

State statutes authorize the City to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the City Council. The City currently invests in only certificates of deposit, which as defined by Governmental Accounting Standards Board Statement No. 3, the City has no equity investments as of September 30, 2019.

State law requires all funds in depositories to be fully insured or collateralized, and the City's policy is to require depositories to provide pledged securities to cover deposits in excess of FDIC limits. At September 30, 2019, the City's deposits were fully insured or collateralized.

As of September 30, 2019, the carrying amount of the City's pooled cash accounts at one bank was \$2,321,355. Of the total City deposits, \$250,000 was covered by federal depository insurance, and \$2,333,148 was covered by various County, City and school district bond certificates held in the pledging bank's trust department in the City's name in the form of joint safekeeping receipt. The pledged assets exceeded the total pooled cash accounts at the bank by \$261,793 on September 30, 2019.

3. Cash in Custody of County Treasurer

The City of Auburn, Nebraska has additional cash held for its account by the Nemaha County Treasurer. The changes in the funds held are as follows:

	Fund			
	TIF	General	Debt Service	Total
Balance, September 30, 2018	$ -	$ 33,208	$ 2,202	$ 35,410
Receipts:				
Tax collections				
(net of collection fee)	-	553,870	44,532	598,402
Interest on tax collection	-	3,261	262	3,523
Homestead exemption (net of collection fee)	-	29,646	2,384	32,030
Car line tax allocation	-	124	9	133
Motor vehicle	-	80,678	-	80,678
Pro-rate	-	1,269	103	1,372
Property tax relief	-	26,924	2,165	29,089
Total receipts	-	695,772	49,455	745,227
Disbursements Remitted to City	-	(644,242)	(45,297)	(689,539)
Balance, September 30, 2019	$ -	$ 84,738	$ 6,360	$ 91,098

4. Special Assessments Receivable

Revenue from special assessments has been deferred and is being amortized to revenue as payments are collected in the governmental activities financial statements.

Special assessments were against certain properties within the district in connection with the construction of street improvements. Special assessments bear interest at 7.00% - 8.00% per annum until delinquent and at the rate specified by law thereafter until paid. The City received $8,427 of principal and $2,848 of interest on special assessments during the year. They issued $0 in new assessments and as of September 30, 2019, the balance remaining to collect was $17,176.

5. Capital Assets

All capital assets are carried at their original cost. A summary is presented below:

	Balance September 30, 2018	Additions	Deletions	Balance September 30, 2019
Land	$ 407,023	$ -	$ -	$ 407,023
Building and improvements	4,361,663	42,509	-	4,404,172
Equipment	1,144,055	10,000	-	1,154,055
Vehicles	931,330	-	-	931,330
Street	4,644,996	65,432	-	4,710,428
	11,489,067	117,941	-	11,607,008
Less accumulated depreciation	4,675,664	349,796	-	5,025,460
Capital assets, net of accumulated depreciation	$ 6,813,403	$ (231,855)	$ -	$ 6,581,548

The City recorded depreciation expense of $349,796 for the year ended September 30, 2019.

6. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on December 31 and are payable in two installments on May 1 and September 1. The County bills and collects property taxes and remits to the City monthly. Property taxes are recognized as revenues when they are received by the County Treasurer.

The tax levy for the 2018-2019 fiscal year was $637,461 or $.4754 per $100 of assessed valuation. The total assessed valuation was $134,095,969 for the 2018-2019 fiscal year.

7. Retirement Commitments

The City provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one anniversary year of service and after reaching age 21. Enrollment in the plan is voluntary. Participation in the plan requires that the employee contribute 4% of the employee's monthly salary. The City is required to contribute 6% of participating employee salaries. The City's contributions for each employee (and interest allocated to the employee's account) are partially vested after each year of service and fully vested after 5 years of service. The City's contribution and related interest forfeited by employees is used to reduce the City's current period contribution requirement.

The total payroll and eligible payroll for the City for the year ended September 30, 2019 was $456,056 and $243,166, respectively. The City's share of the contribution was $14,590 and employees contributed $10,889 for the year ended September 30, 2019.

8. Outstanding Warrants Payable

There were no warrants issued during the fiscal year ended September 30, 2019.

9. Bonds Payable

The 2009 general obligation various purpose bonds for $875,000 were issued to refinance the warrants payable at June 1, 2009. The bonds bear interest at 3.55% - 4.10% per annum and are repayable in installments of $60,000 - $65,000 per year through June 15, 2021. During the current fiscal year the regular payment of $60,000 was paid, which paid off the 2009 general obligation various bonds.

9. Bonds Payable - Continued

The details of bonds payable are as follows:

	Balance September 30, 2018	Issue	Payments	Balance September 30, 2019
2009 G.O.V.P. Bonds	$ 60,000	$ -	$ 60,000	$ -

For the year ending September 30, 2019, the interest paid was $763, and the agent fee was $30.

10. Lease Commitments

In November 2017, the City extended its annual interlocal agreement with Nemaha County to provide complete law enforcement services and duties to the City by the Nemaha County Sheriff's Office. During the fiscal year, the City paid the County $79,750 for October through December, 2018 and $247,500 for January through September, 2019 for a total of $327,250 for the fiscal year. Under the extended interlocal agreement, the City is also required to give the county $10,000 for replacement vehicle costs.

The minimum commitment with Nehamah County is as follows:

2020	$ 82,500

On March 23, 2018, the City entered into a sixty-three month lease agreement with Capital Business Systems, Inc. for a Canon copier. Lease states payments of $215 start in July 2018 and will run through September 2023. At the end of the term of the agreement, the agreement will renew for an additional one-year period under the same terms unless the City provides a written notice at least 30 days prior to the end date. During the fiscal year, the City paid lease payments of $2,580.

The annual minimum lease commitment is as follows:

2020	$ 2,580
2021	2,580
2022	2,580
2023	2,580
	$ 10,320

11. Keno Operation

On October 9, 2017, the City contracted with CBlake, LLC to operate the keno activity for the City of Auburn, Nebraska. The operator maintains a separate self-balancing set of accounts for the keno activity in a trust-type manner. On a monthly basis, the net proceeds are transferred to the City and deposited in the City of Auburn keno account. This account has been combined with other general fund activities in the foregoing financial statements. A summary of the keno account activity for the twelve months ended September 30, 2019 is as follows.

Balance - beginning of period	$ 74,221
Receipts:	
Interest	124
Proceeds from operator	11,394
Total receipts	11,518
Disbursements:	
Community betterment -	
Public art projects	5,000
Fireworks	3,000
Music in the Park	2,296
Nebraska sales tax	2,030
Total disbursements	12,326
Balance - end of period	$ 73,413

12. Risk Management

The City is exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage or settlement amounts exceeding insurance coverage for the current year or in the past three fiscal years.

13. Contingencies:

Compensated Absences

The City allows its employees to accumulate vacation hours for future use or for payment upon termination, retirement or death. This accumulation is not recognized as an expenditure by the City until used or paid. The City's approximate liability for unrecognized employee vacation pay was $30,407 at September 30, 2019.

Sick pay can only be used if the employee is sick and is not payable upon termination, retirement or death. This accumulation is not recognized as an expenditure by the City until used or paid. The City's approximate liability for unrecognized employee sick pay was $33,855 at September 30, 2019.

13. Contingencies – Continued:

Community Development Block Grant

The City participates in a number of federally assisted programs, principal of which is the Community Development Block Grant. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for, or including the twelve months ended September 30, 2019, have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

14. Loan Agreement with Nebraska Department of Economic Development

On August 23, 1993, the City signed a contract with the Nebraska Department of Economic Development for a $400,000 Community Development Block Grant. The City then loaned these funds to a business located in Auburn. The City's liability for repayment of this contract is limited to the principal amounts the City receives as repayment from the local business, if the repayments are not reinvested in a like grant project. During the current year, $0 of principal was paid back and $83 of interest earned and $0 was reloaned out to another business and $731 was expended for fees. At September 30, 2019, the City had $41,182 in its C.D.B.G. reuse account.

15. Community Redevelopment Authority

The City has entered into several Tax Incremental Financing projects through its Community Redevelopment Authority. The City combined its redevelopment plan for a blighted area known as Auburn #1 and SE Property Area into the Bucket TIF. Within this area the City is collecting incremental taxes that can be used on façade restorations, street improvements, alley resurfacing, parking areas and other exterior infrastructure improvements. During the year, the City collected tax receipts of $284,040, interest of $1,140 and loan repayment of $0. Total expenditures were $754,993, consisting of $16,880 for legal fees, $2,033 for publishing costs, $236,080 for project costs and $500,000 for loan payments. The balance in the project is $626,171 at September 30, 2019. The City has a second redevelopment plan known as NW Sewer Area, which has been expanded to cover the same area as the Bucket TIF. Initially, the plan was to be used to acquire necessary easements and construct and install a sanitary sewer main through the development area, together with related and ancillary improvements. The City has collected no tax receipts and earned interest of $0. Total expenditures were $0. The balance in the project is $0 at September 30, 2019.

The other type is a Tax Allocation Borrower/ Lender Plan used to finance commercial ventures whereby the City borrows funds from a bank and then reloans these funds to the entity. The loan repayments are set on a 15-year term with a fixed interest rate. The County Treasurer collects the TIF taxes, remits the same to the City, and the City in turn makes the loan payment directly to the bank for the entity. The City currently has six TIF Redevelopment Projects in process with five entities. Each TIF Redevelopment Project is approved by the City Council on a separate resolution. To date the City has borrowed $1,354,706 and reloaned $1,290,816 of these funds. During the year $20,816 was collected through TIF taxes and earned $13 in interest. Total expenditures were $20,825 for TIF loan repayments. The balance in this project is $16 at September 30, 2019.

16. Subsequent Events

The City evaluated subsequent events after the balance sheet date of September 30, 2019 through October 30, 2019, which was the date the financial statements were issued. The City has concluded there are no subsequent events, which have occurred from September 30, 2019 through October 30, 2019, which require additional disclosure.

17. Loan Agreement with Nebraska Department of Environmental Quality

On April 13, 2009, the City adopted a loan resolution authorizing and providing for the incurrence of indebtedness for the purpose of providing portions of the cost of repairing and improving the Board of Public Works' Water Supply System. A loan, dated July 13, 2009, between the City and the Nebraska Department of Environmental Quality (NDEQ) was designated as Project No. D311499. The City further resolved that the Board of Public Works be authorized and directed to sign all necessary documents to furnish such assurances to the State of Nebraska as may be required by law or regulations and to receive all payments. As the asset is shown as being part of the Board of Public Works, all debt activity is also shown as being part of the Board of Public Works. The outstanding NDEQ loan was $3,638,839 at December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENTS OF RECEIPTS AND DISBURSEMENTS
- BUDGET AND ACTUAL -
GENERAL, DEBT SERVICE AND SPECIAL REVENUE FUNDS – PRIMARY GOVERNMENT
BUDGETARY BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original Final Budget	Actual	Variance with Budget Favorable/ (Unfavorable)
Receipts:			
Taxes – personal property	$ 703,810	$ 745,227	$ 41,417
Taxes – sales	400,000	492,136	92,136
Special assessments levied	-	11,106	11,106
Licenses and permits	13,000	12,716	(284)
Intergovernmental	1,126,194	874,362	(251,832)
Charges for services	123,200	231,887	108,687
Miscellaneous	42,640	103,780	61,140
Total receipts	2,408,844	2,471,214	62,370
Disbursements:			
Current:			
General government	936,942	768,014	168,928
Public works	486,200	273,642	212,558
Public health and safety	117,120	57,783	59,337
Cultural and recreational	410,745	499,518	(88,773)
Debt service:			
Principal retirement	60,000	60,000	-
Interest	2,250	763	1,487
Bond handling fee	45	30	15
Total disbursements	2,013,302	1,659,750	353,552
Excess of receipts over disbursements	395,542	811,464	415,922
Other financing sources:			
CDBG programs	566,900	33,547	(533,353)
Gross keno proceeds	8,100	16,278	8,178
Total other financing sources	575,000	49,825	(525,175)
Other financing uses:			
CDBG programs	979,400	702	978,698
Keno expenditures	90,000	17,086	72,914
Community Redevelopment Authority – net	-	470,962	(470,962)
Capitalized outlays	174,500	117,941	56,559
Total other financing uses	1,243,900	606,691	637,209
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	$ (273,358)	$ 254,598	$ 527,956

CITY OF AUBURN, NEBRASKA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMER 30, 2019

1. Budgets and Budgetary Accounting

The City prepares its budgets on the cash basis of accounting. Accordingly, revenues are recognized when cash is received by the City and expenditures are recognized when cash is disbursed. The basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this method of accounting, all unexpended appropriations lapse at the end of the budget year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF AUBURN, NEBRASKA
SUMMARY OF REVENUES RECEIVED – MODIFIED CASH BASIS
GENERAL AND DEBT SERVICE FUNDS
SEPTEMBER 30, 2019
(SUPPLEMENTARY DATA)

	Governmental Fund Types		
	General	Debt Service	Totals
Taxes:			
General property and other taxes	$ 661,472	$ 46,697	$ 708,169
Interest on tax collections	3,261	262	3,523
Sales tax	-	492,136	492,136
Homestead exemption allocation	29,646	2,384	32,030
Car line tax	124	9	133
Motor vehicle pro-rate tax allocation	1,269	103	1,372
Total taxes	695,772	541,591	1,237,363
Special assessments collected	-	11,106	11,106
Licenses and permits	12,716	-	12,716
Intergovernmental:			
Auburn Board of Public Works	112,684	-	112,684
Highway incentive payments	4,000	-	4,000
State revenue sharing:			
Highway allocation	413,088	-	413,088
Motor vehicle fee	31,428	-	31,428
Equalization	294,057	-	294,057
State aid	963	-	963
Nemaha Cty MFO	12,833	-	12,833
Grant income	22,527	-	22,527
State license and fines	3,740	-	3,740
Total intergovernmental	895,320	-	895,320
Charges for services:			
Recreation Committee	106,379	-	106,379
Pool receipts	52,725	-	52,725
Lessons	10,160	-	10,160
Franchise fees	62,623	-	62,623
Total charges for services	231,887	-	231,887
Miscellaneous:			
Investment income	4,398	-	4,398
Other	78,424	-	78,424
Total miscellaneous	82,822	-	82,822
Total	$ 1,918,517	$ 552,697	$ 2,471,214

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID – MODIFIED CASH BASIS
GENERAL FUND
SEPTEMBER 30, 2019
(SUPPLEMENTARY DATA)

	General Government	Cultural and Recreational	Public Health and Safety	Public Works	Total
Salaries/Personal services	$ 146,243	$ 170,740	$ 6,000	$ 133,072	$ 456,055
Employee benefits	56,263	35,372	3,587	45,641	140.863
Utilities	10,778	61,983	7,278	8,757	88,796
Repairs and maintenance	23,982	41,125	13,388	29,179	107,674
Meeting expense	999	-	1,376	-	2,375
Insurance	10,907	10,811	6,350	5,967	34,035
Recreation expenses	-	95,952	-	-	95,952
Audit and consultation	67,918	-	-	-	67,918
Memberships and schools	8,826	2,424	1,820	-	13,070
Office supplies and services	7,320	-	-		7,320
Licenses and taxes	3,806	-	-	-	3,806
Custodial services	-	13,607	600	5,052	19,259
Miscellaneous	430	3,914	-	-	4,344
Gas, oil and tires	-	-	-	18,998	18,998
Supplies	-	34,486	754	17,612	52,852
Books	-	21,370	-	-	21,370
Interlocal costs of law enforcement	327,250	-	-	-	327,250
Grant expenditures	10,896	-	-	-	10,896
Special projects	11,061	-	-	-	11,061
Economic development	7,000	-	-	-	7,000
Trees and care	3,105	-	-	-	3,105
Land rent	-	-	-	6,000	6,000
Sales tax remitted	-	3,031	-	-	3,031
Fire chief expenses	-	-	1,050	-	1,050
Capital outlay – non-capitalized	71,229	4,704	15,580	3,364	94,877
Totals	$ 768,013	$ 499,519	$ 57,783	$ 273,642	$ 1,598,957

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID – MODIFIED CASH BASIS
GENERAL GOVERNMENT FUND
SEPTEMBER 30, 2019
(SUPPLEMENTARY DATA)

	General Fund	Police	Total
Salaries/Personal services	$ 146,243	$ -	$ 146,243
Employee benefits	56,263	-	56,263
Utilities	10,778	-	10,778
Repairs and maintenance	13,982	10,000	23,982
Meeting expense	999	-	999
Insurance	10,907	-	10,907
Audit and consultation	67,918	-	67,918
Memberships and schools	8,826	-	8,826
Office supplies and services	7,320	-	7,320
Licenses and taxes	3,806	-	3,806
Miscellaneous	428	-	428
Tree program expense	3,105	-	3,105
Interlocal costs of law enforcement	-	327,250	327,250
Grant expenditures	10,896	-	10,896
Special projects	11,061	-	11,061
Economic development	7,000	-	7,000
Capital outlay – non-capitalized	71,229	-	71,229
Totals	$ 430,761	$ 337,250	$ 768,011

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID – MODIFIED CASH BASIS
CULTURAL AND RECREATIONAL – PART OF GENERAL FUND
SEPTEMBER 30, 2019
(SUPPLEMENTARY DATA)

	Parks	Recreation Committee	Swimming Pool	Library	Senior Citizen	Total
Salaries/Personal services	$ 22,592	$ -	$ 67,014	$ 81,134	$ -	$ 170,740
Employee benefits	5,105	-	9,572	20,695	-	35,372
Utilities	25,137	-	18,472	10,985	7,389	61,983
Repairs and maintenance	13,049	-	5,462	3,820	18,794	41,125
Meeting expenses	-	-	-	-	-	-
Insurance	4,254	-	1,968	4,119	470	10,811
Recreation expenses	-	95,952	-	-	-	95,952
Custodial services	-	-	478	11,039	2,090	13,607
Membership and schools	-	-	-	2,424	-	2,424
Miscellaneous	2,877	-	360	677	-	3,914
Supplies	15,266	-	14,577	4,618	25	34,486
Books	-	-	-	21,370	-	21,370
Sales tax remitted	-	-	3,031	-	-	3,031
Capital outlay – noncapitalized	4,704	-	-	-	-	4,704
Totals	$ 92,984	$ 95,952	$ 120,934	$ 160,881	$ 28,768	$ 499,519

CITY OF AUBURN, NEBRASKA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(SUPPLEMENTARY DATA)

Program	Federal CFDA #	Program Receipts	Program Expenditures
Department of Housing and Economic Development:			
Community Development Block Grants:			
	#91-ED-006: Reuse	$ -	$ 702
	#10-DTR-007		-
	#09-HO-6044	33,547	-
		33,547	702
Administration		-	-
Project expenses		-	-
		$ 33,547	$ 702

CITY OF AUBURN, NEBRASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(SUPPLEMENTARY DATA)

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these Schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Reporting Entity

The City of Auburn, for purposes of the Schedule of Expenditures of Federal Awards, includes all funds for which the City is financially accountable.

3. Pass Through Awards

The City receives certain federal awards in the form of pass-through awards from the State of Nebraska and other various agencies. Such amounts received as pass-through awards are specifically identified on the Schedule of Expenditures of Federal Awards.

4. Contingencies

The City receives funds under various federal grant programs, and such assistance is to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies, which may impose sanctions in the event of noncompliance. Management believes that they have complied with all material aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impacts.

Massman Nelson Reinig PC
Certified Public Accountants
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Michael L Massman CPA
George E Nelson CPA

James A Reinig CPA
Keli D Palfini CPA

INDEPENDENT AUDITORS' 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

Honorable Mayor and City Council
City of Auburn
Auburn, 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, each major fund, and the aggregate remaining fund information of the City of Auburn, Nebraska as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Auburn, Nebraska's basic financial statements and have issued our report thereon dated October 30, 2019. Our report contains an adverse and qualified opinion because of the omission of an enterprise fund and an explanatory paragraph regarding use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

Honorable Mayor and City Council
City of Auburn
Auburn, Nebraska

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. Finding 2019-1.

Compliance and Other Matters

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

City of Auburn's Response to Findings

The City of Auburn, Nebraska's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Auburn, Nebraska's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Massman Nelson Perry PC

Certified Public Accountants

Omaha, Nebraska
October 30, 2019

Finding 2019-1 Significant Deficiencies

Financial Statement Preparation

Comment: Many small organizations rely on their auditor to generate the annual financial statements including footnotes. Auditing standards emphasize that the auditor cannot be part of the system of internal control over financial reporting. In our judgment, the Board's trustee charged with governance, in the course of his assigned duties, lacks the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles (GAAP) and to correct any misstatements if present. As a result, intentional or unintentional errors could be made and not detected within a timely period by the City's management in the normal course of performing their assigned functions.

Recommendation: A remedy for this situation would be for the City to engage a person with enough accounting experience to prepare the financial statements or assist the Board with review of such statements.

Board response: At this time, the Board of Trustees of the City believes that the benefit of eliminating this significant deficiency does not outweigh the cost of engaging a duly-qualify person to perform this service.

Segregation of Duties

Comment: The City Clerk has access to or responsibility for certain duties that compromise the segregation of duties. The City Clerk has access to cash, prepares bank deposits, reconciles bank accounts and can prepare and post journal entries.

Recommendation: We recommend that the City continue to monitor and evaluate its internal controls with the use of limited personnel and to provide as much segregation of duties as determined to be feasible within its operations.

Board Response: The City acknowledges the compromises to its segregation of duties based on current staffing levels. The City has assigned the City Treasurer and a finance committee to oversee the City Clerk. They review and approve all payment vouchers prior to each City Council meeting and reviews all journal entries. Other than the latter, the City does not believe the benefits of eliminating this significant deficiency outweigh the cost of adding more accounting personnel to the City's current staff.

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Keli D Palfini CPA
Jason T McGill CPA

December 10, 2019

Auditor of Public Accounts
State of Nebraska
State Capitol Building
Lincoln, NE 68509

Dear Mr. Foley,

Enclosed is a copy of the audit of the City of Auburn for the year ended September 30, 2019.

If you have any questions concerning this report, please get in touch with our office.

Sincerely,

MASSMAN NELSON REINIG PC

George E Nelson

George E. Nelson

GEN/tf

Enclosure