

City of Auburn, Nebraska

Independent Auditor's Reports and Financial Statements

September 30, 2020

City of Auburn, Nebraska
September 30, 2020

Contents

Independent Auditor’s Report.....	1
Basic Financial Statements	
<i>Government-Wide Financial Statements – Cash Basis</i>	
Statement of Net Position.....	4
Statement of Activities	5
<i>Fund Financial Statements – Cash Basis</i>	
Balance Sheet - Governmental Funds	6
Statement of Receipts, Disbursements and Changes in Fund Balances - Governmental Funds ...	7
<i>Notes to Financial Statements</i>	8
<i>Supplementary Information</i>	
Budgetary Comparison Schedule - Cash Basis - General Fund	15
Note to Supplementary Information.....	16
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> - Independent Auditor’s Report	17
Schedule of Findings and Responses	19

Independent Auditor's Report

Honorable Mayor and City Council
City of Auburn
Auburn, Nebraska

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities and each major fund of the City of Auburn, Nebraska (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 adverse opinion on the Auburn Board of Public Works and on business-type activities, and our unmodified opinions on the governmental activities and each major fund.

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

Management has not included the Auburn Board of Public Works in the City's financial statements. The basis of accounting described in Note 1 requires the 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 including that activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 discussed in the "Basis for Adverse Opinion on the Auburn Board of Public Works and 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 of the City of Auburn, Nebraska, as of September 30, 2020, or the changes in financial position or cash flows 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 of the governmental activities and each major fund of the City of Auburn, Nebraska, as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with the basis of accounting 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 City prepares the financial statements for its governmental activities and each major fund 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 opinions are not modified with respect to this matter.

Emphasis of Matter

The 2019 financial statements, before they were restated as a result of the City's decision to change its reporting for its governmental activities and governmental funds to the cash basis of accounting as described in Note 1, were audited by other auditors, and their report thereon, dated October 30, 2019, expressed an adverse opinion on the Auburn Board of Public Works, a qualified opinion on business-type activities, and unmodified opinions on the governmental activities and each major fund. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn, Nebraska's basic financial statements. The budgetary comparison schedule as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule 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 budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 8, 2021, 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.

BKD, LLP

Lincoln, Nebraska
January 8, 2021

City of Auburn, Nebraska
Statement of Net Position – Cash Basis
Governmental Activities
September 30, 2020

Assets

Cash	\$ 2,879,175
Certificates of deposit	100,400
Cash in custody of County Treasurer	<u>52,888</u>
Total assets	<u>3,032,463</u>

Liabilities

-

Net Position

Restricted for	
Economic development	163,038
Community redevelopment	687,393
Street improvements	378,776
Public safety	75,178
City recreation programs	44,976
Community betterment - Keno	69,818
Unrestricted	<u>1,613,284</u>
Net position	<u>\$ 3,032,463</u>

City of Auburn, Nebraska
Statement of Activities – Cash Basis
Governmental Activities
Year Ended September 30, 2020

Functions / Programs	Disbursements	Program Receipts		Net Receipts (Disbursements) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Primary Government				
Governmental activities				
General government	\$ 468,809	\$ 20,964	\$ -	\$ (447,845)
Public works	436,581	-	-	(436,581)
Public health and safety	397,891	-	-	(397,891)
Cultural and recreational	435,272	119,596	-	(315,676)
Community betterment	13,915	10,236	-	(3,679)
Economic development	393,133	39,485	195,037	(158,611)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	\$ 2,145,601	\$ 190,281	\$ 195,037	(1,760,283)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
General Receipts				
Taxes				
				674,743
				592,886
				1,107,987
				3,762
				26,754
				<u> </u>
				2,406,132
				<u> </u>
				645,849
				<u> </u>
				8,965,724
				<u> </u>
				(6,579,110)
				<u> </u>
				2,386,614
				<u> </u>
				\$ 3,032,463
				<u> </u>

City of Auburn, Nebraska
Balance Sheet – Cash Basis
Governmental Funds
September 30, 2020

	General Fund	Debt Service Fund	Nonmajor Special Revenue Keno Fund	Total
Assets				
Cash	\$ 2,809,357	\$ -	\$ 69,818	\$ 2,879,175
Certificates of deposit	100,400	-	-	100,400
Cash in custody of County Treasurer	52,888	-	-	52,888
	<u>2,962,645</u>	<u>-</u>	<u>69,818</u>	<u>3,032,463</u>
Total assets	<u>\$ 2,962,645</u>	<u>\$ -</u>	<u>\$ 69,818</u>	<u>\$ 3,032,463</u>
Liabilities and Fund Balances				
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances				
Restricted for				
Economic development	163,038	-	-	163,038
Community redevelopment	687,393	-	-	687,393
Street improvements	378,776	-	-	378,776
Public safety	75,178	-	-	75,178
City recreation programs	44,976	-	-	44,976
Community betterment - Keno	-	-	69,818	69,818
Unassigned	1,613,284	-	-	1,613,284
	<u>2,962,645</u>	<u>-</u>	<u>69,818</u>	<u>3,032,463</u>
Total fund balances	<u>2,962,645</u>	<u>-</u>	<u>69,818</u>	<u>3,032,463</u>
Total liabilities and fund balances	<u>\$ 2,962,645</u>	<u>\$ -</u>	<u>\$ 69,818</u>	<u>\$ 3,032,463</u>

City of Auburn, Nebraska
Statement of Receipts, Disbursements and
Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended September 30, 2020

	General Fund	Debt Service Fund	Nonmajor Special Revenue Keno Fund	Total
Receipts				
Property taxes	\$ 674,743	\$ -	\$ -	\$ 674,743
Sales taxes	592,886	-	-	592,886
Special assessments	5,704	-	-	5,704
Licenses and permits	15,260	-	-	15,260
Intergovernmental	1,107,987	-	-	1,107,987
Grant income	195,037	-	-	195,037
Charges for services	119,596	-	-	119,596
Program income	39,485	-	10,236	49,721
Interest income	3,678	-	84	3,762
Miscellaneous	26,754	-	-	26,754
Total receipts	<u>2,781,130</u>	<u>-</u>	<u>10,320</u>	<u>2,791,450</u>
Disbursements				
General government	468,809	-	-	468,809
Public works	436,581	-	-	436,581
Public health and safety	397,891	-	-	397,891
General cultural and recreational	377,303	-	-	377,303
City recreation programs	57,969	-	-	57,969
Community betterment - Keno	-	-	13,915	13,915
Community redevelopment	69,802	-	-	69,802
Economic development	323,331	-	-	323,331
Total disbursements	<u>2,131,686</u>	<u>-</u>	<u>13,915</u>	<u>2,145,601</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>649,444</u>	<u>-</u>	<u>(3,595)</u>	<u>645,849</u>
Other Financing Sources and Uses				
Transfer to other City fund	(25,000)	(11,106)	-	(36,106)
Transfer from other City fund	36,106	-	-	36,106
Total other financing sources and uses	<u>11,106</u>	<u>(11,106)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>660,550</u>	<u>(11,106)</u>	<u>(3,595)</u>	<u>645,849</u>
Fund Balance, Beginning of Year - as previously reported	2,299,657	11,106	73,413	2,384,176
Restatement of Beginning Balances - See Note 1	<u>2,438</u>	<u>-</u>	<u>-</u>	<u>2,438</u>
Fund Balance, Beginning of Year - as restated	<u>2,302,095</u>	<u>11,106</u>	<u>73,413</u>	<u>2,386,614</u>
Fund Balance, End of Year	<u>\$ 2,962,645</u>	<u>\$ -</u>	<u>\$ 69,818</u>	<u>\$ 3,032,463</u>

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The City of Auburn, Nebraska (the City) is a political subdivision of the State of Nebraska located in Nemaha County (the County). It was first incorporated in 1872 and operates under the Home Rule provision 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.

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

The financial statements include all funds of the City, except for the Board of Public Works. The accompanying financial statements present the financial statements of the City as the primary government. In determining the financial reporting entity, the City has considered all potential component units for which it is financially accountable, including other organizations which are fiscally dependent on the City, or the significance of their relationship with the City are such that exclusion would make the financial statements misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability, which was used in making this evaluation.

The Community Redevelopment Authority of the City of Auburn (the Authority) is included as a blended component unit of the City of Auburn, Nebraska, as the Mayor of the City has the responsibility for appointing members of the governing board of the Authority.

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. The Auburn Board of Public Works is responsible for the operation and administration of the City's utilities, including electric, water and sewer. The Auburn Board of Public Works has a December 31st fiscal year-end, and an audit of the Auburn Board of Public Works will be completed for the year ending December 31, 2020 and will be filed under separate cover.

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Government-Wide Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, 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 revenues are reported instead as *general revenues*.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, 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. The debt service fund was closed during 2020 as no long-term debt remained outstanding.

Keno Special Revenue Fund is used to account for the keno activity for the City. Any receipts from the keno activity are restricted for use through state statute.

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

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 and governmental fund financial statements, the activities are accounted for using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Budget and Budgetary Accounting

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

1. The City's department and division heads prepare and submit budget requests for the following fiscal year to the City Clerk who then reviews the requests with the department heads.
2. After this review process has been completed, the City Clerk presents these budget requests to the Mayor and City Council along with recommendations as to what changes, if any, should be made. These budget requests and recommendations are reviewed by the City Council at meetings open to the public.
3. A public hearing on the budget is then conducted at a City Council meeting to obtain comments from citizens.
4. Prior to September 20, the City Council legally enacts the ensuing fiscal year's budget through the passage of a resolution adopting the budget.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. The budgets adopted are stated on a cash basis. Budgetary comparisons are presented in the financial statements for all funds which adopt a budget and are on the budgetary basis which is not in accordance with accounting principles generally accepted in the United States of America.
7. Total expenditures may not legally exceed total budget appropriations. Appropriations lapse at year-end and any revisions require City Council approval.

Cash and Investments

The City maintains a cash deposit pool that is available for use by all funds. The City also maintains various individual deposit accounts for certain activities. State statutes authorize the City to invest in collateralized bank certificates of deposit, time deposits, obligations of the United States government and select Federal agency securities. Certificates of deposit are carried at amortized cost.

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Fund Balance – Government Funds

The fund balances for the City’s governmental funds are displayed in five components, if applicable:

Nonspendable – Nonspendable fund balances are not in a spendable form or are required to be maintained intact.

Restricted – Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Committed fund balances may be used only for the specific purposes determined by resolution of the City Council. Commitments may be changed or lifted only by issuance of a resolution by the City Council.

Assigned – Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Fund balances are classified as restricted, committed, assigned or unassigned. When expenditures are incurred that use funds from more than one classification, the City will generally determine the order in which the funds are used on a case-by-case basis, taking into account any application requirements of grant agreements, contracts, business circumstances, or other constraints. If no other constraints exist, the order of spending of resources will be restricted, committed, assigned and, lastly, unassigned.

Net Position Classification

Net position is required to be classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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 improvements of those assets. As the City reports on a cash basis, capital assets are not recorded in the financial statements, thus the City has no items within this component of net position.

Restricted – Consists of net position with constraints placed on net position use through external constraints imposed by creditors (such as debt covenants), contributors, or laws or regulations of other governments; or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – Consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied by the County, and payable in two installments on May 1 and September 1. The County bills and collects property taxes and remits to the City monthly. Revenue for property taxes is recognized in the year collected.

The tax levy for the 2019-2020 fiscal year was \$706,584 or \$.4754 per \$100 of assessed valuation. The total assessed valuation was \$148,636,653 for the 2019-2020 fiscal year.

Restatement of Prior Year Balances – Change in Reporting Basis

During 2020, the City made the decision to report its governmental activities and governmental funds on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The City previously reported its governmental activities and governmental funds on the modified cash basis of accounting, which is also a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are generally recorded as cash is received, expenditures/expenses are generally recorded as disbursements are made, and certain other assets and liabilities are recorded in the government-wide and governmental fund financial statements. The change in reporting basis to the cash basis of accounting required the City to reduce beginning net position for governmental activities by \$6,579,110 primarily as a result of removing certain longer-term assets, and increase beginning fund balance for the general fund by \$2,438 as a result of removing liabilities, both being previously recorded by the City under the modified cash basis of accounting.

Note 2: Deposits

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; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Nebraska; bonds of any city, county, school district or special road district of the state of Nebraska; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC). The City's deposits, including certificates of deposits, are insured up to \$250,000 by the FDIC at each participating financial institution. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held by an agent for the City.

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 3: 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, 2020 was \$452,711 and \$250,634, respectively. The City contributed \$15,038 and employees contributed \$10,025 for the year ended September 30, 2020.

Note 4: Lease Commitments

On March 23, 2018, the City entered into a sixty-three month lease agreement with Capital Business Systems, Inc. for a Canon copier. Lease payments of \$215 started in July 2018 and will continue 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:

2021	\$ 2,580
2022	2,580
2023	<u>2,580</u>
	<u>\$ 7,740</u>

Note 5: Other Commitments

In November 2020, 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 \$343,500 for these law enforcement services. Under the extended interlocal agreement, the City is also required to pay the County \$10,000 annually for replacement vehicle costs. The remaining commitment under the interlocal agreement extends through December 2021 and requires total payments by the City in the amount of \$465,000.

City of Auburn, Nebraska
Notes to Financial Statements
September 30, 2020

Note 6: 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.

Note 7: Tax Abatements

The City provides tax abatements under the Tax Increment Financing Program (TIF). TIF provides property tax abatements to encourage improvements to blighted property. The program is established under the auspices of a state statute (Article 21, Section 18-2101 – 2144) empowering cities and counties to establish such programs. The abatements equal up to 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements, are administered as a rebate of the incremental taxes generated from the improvements to property, and last for 15 years (or fewer, if the associated loan is paid off). Eligibility for approval requires the property to have no loss of pre-existing tax revenues, a blight and substandard study being performed, qualifying project TIF expenditures, a cost-benefit analysis showing the project's use of TIF is appropriate, and the developer demonstrates the project is not feasible without TIF. Abatements are obtained through application by the property owner and are reviewed and approved by TIF legal counsel and the City prior to commencing the improvements. Per state statute, the City's potential net annual property tax collected for the property once the project is complete is reduced by the refund to an amount equal that of the amount prior to the improvements. Taxes abated under this program for the fiscal year ended September 30, 2020 were approximately \$29,000.

Note 8: Contingencies

The City is a defendant in various lawsuits and claims in its normal course of operations. Management is currently of the opinion that the ultimate settlement of such lawsuits and claims will not have a materially adverse effect on the financial statements.

The City participates in a number of federal and state assisted grant programs. Federal and state financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

Required Supplementary Information

City of Auburn, Nebraska
Budgetary Comparison Schedule – Cash Basis
General Fund
Year Ended September 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property taxes	\$ 672,538	\$ 672,538	\$ 674,743	\$ 2,205
Sales taxes	475,000	475,000	592,886	117,886
Special assessments	8,427	8,427	5,704	(2,723)
Licenses and permits	17,000	17,000	15,260	(1,740)
Intergovernmental	1,396,076	1,396,076	1,107,987	(288,089)
Grant income	547,000	547,000	195,037	(351,963)
Charges for services	142,300	142,300	119,596	(22,704)
Program income	30,000	30,000	39,485	9,485
Interest income	2,800	2,800	3,678	878
Miscellaneous	59,484	59,484	26,754	(32,730)
Total receipts	<u>3,350,625</u>	<u>3,350,625</u>	<u>2,781,130</u>	<u>(569,495)</u>
Disbursements				
General government	881,934	881,934	468,809	413,125
Public works	710,246	710,246	436,581	273,665
Public health and safety	506,740	506,740	397,891	108,849
General cultural and recreational	583,179	583,179	377,303	205,876
City recreation programs	-	-	57,969	(57,969)
Community redevelopment	-	-	69,802	(69,802)
Economic development	1,047,679	1,047,679	323,331	724,348
Total disbursements	<u>3,729,778</u>	<u>3,729,778</u>	<u>2,131,686</u>	<u>1,598,092</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(379,153)</u>	<u>(379,153)</u>	<u>649,444</u>	<u>1,028,597</u>
Other Financing Sources and Uses				
Transfer to other City fund	(25,000)	(25,000)	(25,000)	-
Transfer from other City fund	25,000	25,000	36,106	11,106
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>11,106</u>	<u>11,106</u>
Net Change in Fund Balances	<u>\$ (379,153)</u>	<u>\$ (379,153)</u>	<u>\$ 660,550</u>	<u>\$ 1,039,703</u>

City of Auburn, Nebraska
Note to Supplementary Information
For the Year Ended September 30, 2020

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 unexpected appropriations lapse at the end of the budget year.

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

Independent Auditor's Report

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 and each major fund of the City of Auburn, Nebraska (the City) as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2021, which expressed an "Adverse Opinion" on a major enterprise fund and business-type activities and contained a "Basis of Accounting" paragraph regarding the use of a basis of accounting other than accounting principles generally accepted in the United States of America, and an "Emphasis of Matter" paragraph regarding a change in the City's basis of accounting.

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 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.

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 have not been 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 as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

The City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

BKD, LLP

Lincoln, Nebraska
January 8, 2021

City of Auburn, Nebraska
Schedule of Findings and Responses
Year Ended September 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	Significant Deficiencies
2020-001	<p><i>Criteria or Specific Requirement</i> – Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p><i>Condition</i> – The preparation of the City’s financial statements required assistance from the auditor.</p> <p><i>Effect</i> – Intentional or unintentional errors could be made and not detected within a timely manner by the City’s management in the normal course of performing their assigned functions.</p> <p><i>Cause</i> – Management does not possess the experience or training necessary to prepare the financial statements in accordance with the City’s other comprehensive basis of accounting and governmental accounting standards.</p> <p><i>Recommendation</i> – Management should consider training for its personnel that will allow for the preparation of the financial statements in accordance with its comprehensive basis of accounting and governmental accounting standards.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions (Management’s Response)</i> – Management concurs with the finding and recommendation. Management will evaluate the costs and benefits of engaging a qualified individual to assist with the drafting of the financial statements and seek out applicable training opportunities.</p>

City of Auburn, Nebraska
Schedule of Findings and Responses - Continued
Year Ended September 30, 2020

Findings Required to be Reported by Government Auditing Standards - Continued

Reference Number	Finding
2020-002	<p>Criteria or Specific Requirement – The objectives of internal control are to provide reasonable rather than absolute assurance that assets are safeguarded and financial statements are reliable. Segregation of incompatible duties is often an effective way of strengthening internal control.</p> <p>Condition – The City Clerk has the ability to perform duties in the cash disbursements and cash receipts transaction cycles that are incompatible from a control perspective. Also, the Deputy City Clerk also has the ability perform duties in the cash receipts transaction cycle that are incompatible from a control perspective.</p> <p>Effect – Reasonably possible misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties are not adequately segregated and monitoring and compensating controls are insufficient in the cash disbursements and cash receipts transaction cycles.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions (Management’s Response) – Management concurs with the finding and recommendation; however, they also believe all practical compensating controls have been implemented. Management does not believe other cost effective solutions are presently available, but will periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring controls.</p>