

**AUDIT REPORT  
OF THE  
VILLAGE OF MCCOOL JUNCTION  
OCTOBER 1, 2014 THROUGH SEPTEMBER 30, 2015**

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**Issued on June 10, 2016**

# VILLAGE OF MCCOOL JUNCTION

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## VILLAGE OF MCCOOL JUNCTION

### BACKGROUND

The Village of McCool Junction (Village) is located in York County, Nebraska. The Village Board (Board) is the governmental body that exercises financial accountability and control over activities relevant to the operations of the Village. The Board receives funding from State and local government sources and must comply with the requirements of these funding sources. Board members are elected by the public and have broad decision-making authority, including the power to levy taxes and to designate management, the ability to exert significant influence over all Village operations, and primary responsibility for related fiscal matters.

In October 2015, the Auditor of Public Accounts (APA) learned that the Village Board terminated the former Village Clerk (Clerk). At that time, the APA contacted the Village and was informed there were questions regarding unbilled utility accounts. The APA then requested specific information regarding this issue. Among the information sought was information about the utilities, including beginning balances, usage, charges, amounts paid, and ending balances.

The APA began receiving information from the Village in early November 2015. By mid-December 2015, the APA had received the final outstanding items from the initial information request. Based upon the items received, the APA informed the Village that the APA would be conducting the fiscal year 2015 audit and requested copies of the accounting records, Board meeting minutes, and all Village bank account statements directly from the bank. In early April 2016, the APA received the bank statements from the bank.

The APA visited the Village on April 27 and 28, 2016, and again on May 9, 2016, to obtain other relevant information, interview staff, and begin the audit process.

During the audit period, the Board was comprised of the following members:

- Steve Green, Chairperson
- Kathy Matzner, Chairperson pro-tem
- Brian White, Trustee
- Thomas Hoarty, Trustee
- Scott Norquest, Trustee (until May 2015)
- Dustin Arduser, Trustee (beginning June 2015)

The following individuals held the position of Village Clerk (Clerk) during and subsequent to the audit period:

- Vanee Holtmeier (former Clerk) – Termination was approved by the Board on September 29, 2015.
- Kathy Matzner – Performed the duties of the Clerk until the new Clerk was hired and trained.
- Twila Fuller – Started working on November 12, 2015.

## VILLAGE OF MCCOOL JUNCTION

### EXIT CONFERENCE

An exit conference was held June 1, 2016, via conference call, with the Village of McCool Junction to discuss the results of our examination. The following individuals were in attendance for the Village:

NAME	TITLE
Steve Green	Village Board Chair
Kathy Matzner	Village Board Chair Pro-Tem
Twila Fuller	Village Clerk
Jim Green	Village Maintenance Supervisor



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Charlie Janssen  
State Auditor

Charlie.Janssen@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.nebraska.gov](http://www.auditors.nebraska.gov)

### VILLAGE OF MCCOOL JUNCTION

### INDEPENDENT AUDITOR'S REPORT

Village Board  
Village of McCool Junction, Nebraska

#### **Report on the Financial Statements**

We have audited the accompanying cash-basis financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the component unit of the Village of McCool Junction, Nebraska, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Village'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 Village's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities, business-type activities, each major fund, the aggregate remaining fund information, and the component unit of the Village of McCool Junction, as of September 30, 2015, and the respective changes in cash-basis financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

### **Basis of Accounting**

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

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements, which collectively comprise the Village of McCool Junction's basic financial statements. Other information on pages 25-26 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other information on pages 25-26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016, on our consideration of the Village of McCool Junction's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of McCool Junction's internal control over financial reporting and compliance.



Craig Kubicek, CPA, CFE  
Assistant Deputy Auditor

June 9, 2016

**VILLAGE OF MCCOOL JUNCTION**  
**STATEMENT OF NET POSITION - CASH BASIS**  
September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 167,861	\$ 102,804	\$ 270,665	\$ 18,718
Cash on Hand with County Treasurer	5,696	3,310	9,006	-
<b>TOTAL ASSETS</b>	<u>\$ 173,557</u>	<u>\$ 106,114</u>	<u>\$ 279,671</u>	<u>\$ 18,718</u>
<b>NET POSITION</b>				
Restricted for:				
Streets	22,976	-	22,976	-
TIF Projects	64,967	-	64,967	-
Committed to:				
Culture and Recreation	3,238	-	3,238	-
Water Projects	-	44,495	44,495	-
Sewer Projects	-	61,619	61,619	-
Unassigned	82,376	-	82,376	18,718
<b>TOTAL NET POSITION</b>	<u>\$ 173,557</u>	<u>\$ 106,114</u>	<u>\$ 279,671</u>	<u>\$ 18,718</u>

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

**VILLAGE OF MCCOOL JUNCTION**  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
For the Year Ended September 30, 2015

Functions/Programs:	Cash Disbursements	Program Cash	Net (Disbursements) Receipts and			Component Unit
		Receipts	Changes in Net Position			
		Fees, Fines, and Charges for Services	Governmental Activities	Business-Type Activities	Total	
Governmental Activities:						
General Government	\$ 101,108	\$ 9,129	\$ (91,979)	\$ -	\$ (91,979)	\$ -
Public Works - Street	160,140	-	(160,140)	-	(160,140)	-
Culture and Recreation	17,350	1,320	(16,030)	-	(16,030)	-
Community Development	64,993	-	(64,993)	-	(64,993)	-
Debt Service:						
Principal Payments	50,000	-	(50,000)	-	(50,000)	-
Interest and Fiscal Charges	9,175	-	(9,175)	-	(9,175)	-
Total Governmental Activities	402,766	10,449	(392,317)	-	(392,317)	-
Business-Type Activities:						
Public Works - Water	53,596	62,468	-	8,872	8,872	-
Public Works - Sewer	91,271	-	-	(91,271)	(91,271)	-
Debt Service:						
Principal Payments	710,518	-	-	(710,518)	(710,518)	-
Interest and Fiscal Charges	6,186	63,993	-	57,807	57,807	-
Total Business-Type Activities	861,571	126,461	-	(735,110)	(735,110)	-
Total Primary Government	<u>\$ 1,264,337</u>	<u>\$ 136,910</u>	<u>(392,317)</u>	<u>(735,110)</u>	<u>(1,127,427)</u>	<u>-</u>
Component Unit:						
McCool Junction Development Corp	32,035	49,404	-	-	-	17,369
Total Component Unit	<u>\$ 32,035</u>	<u>\$ 49,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,369</u>
General Receipts:						
Property Taxes			148,830	6,973	155,803	-
Intergovernmental			151,645	-	151,645	-
Licenses and Permits			2,220	-	2,220	-
Miscellaneous:						
Electric System Lease			49,150	-	49,150	-
Bond Proceeds			-	615,000	615,000	-
Other			18,975	1,056	20,031	-
Total General Receipts			<u>370,820</u>	<u>623,029</u>	<u>993,849</u>	<u>-</u>
Increase in Net Position			(21,497)	(112,081)	(133,578)	17,369
Net Position - Beginning of year			195,054	218,195	413,249	1,349
Net Position - End of year			<u>\$ 173,557</u>	<u>\$ 106,114</u>	<u>\$ 279,671</u>	<u>\$ 18,718</u>

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



VILLAGE OF MCCOOL JUNCTION  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
September 30, 2015

	General Fund	Street Fund	TIF Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 77,667	\$ 21,989	\$ 64,967	\$ 3,238	\$ 167,861
Cash on Hand with County Treasurer	4,709	987	-	-	5,696
<b>TOTAL ASSETS</b>	<u><u>\$ 82,376</u></u>	<u><u>\$ 22,976</u></u>	<u><u>\$ 64,967</u></u>	<u><u>\$ 3,238</u></u>	<u><u>\$ 173,557</u></u>
<b>FUND BALANCES</b>					
Restricted for:					
Streets	-	22,976	-	-	22,976
TIF Projects	-	-	64,967	-	64,967
Committed to:					
Culture and Recreation	-	-	-	3,238	3,238
Unassigned	82,376	-	-	-	82,376
<b>TOTAL CASH BASIS FUND BALANCES</b>	<u><u>\$ 82,376</u></u>	<u><u>\$ 22,976</u></u>	<u><u>\$ 64,967</u></u>	<u><u>\$ 3,238</u></u>	<u><u>\$ 173,557</u></u>

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

**VILLAGE OF MCCOOL JUNCTION**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN CASH BASIS FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2015

	General Fund	Street Fund	TIF Fund	Other Governmental Funds	Total Governmental Funds
<b>RECEIPTS</b>					
Taxes	\$ 77,608	\$ 33,367	\$ 37,855	\$ -	\$ 148,830
Licenses and Permits	1,912	-	-	308	2,220
Intergovernmental	76,998	74,647	-	-	151,645
Charges for Services	9,129	-	-	1,320	10,449
Miscellaneous	57,737	6,425	-	3,963	68,125
<b>TOTAL RECEIPTS</b>	<b>223,384</b>	<b>114,439</b>	<b>37,855</b>	<b>5,591</b>	<b>381,269</b>
<b>DISBURSEMENTS</b>					
General Government	101,108	-	-	-	101,108
Public Works - Street	-	160,140	-	-	160,140
Culture and Recreation	-	-	-	17,350	17,350
Community Development	-	-	64,993	-	64,993
Debt Service:					
Principal Payments	-	50,000	-	-	50,000
Interest and Fiscal Charges	-	9,175	-	-	9,175
<b>TOTAL DISBURSEMENTS</b>	<b>101,108</b>	<b>219,315</b>	<b>64,993</b>	<b>17,350</b>	<b>402,766</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<b>122,276</b>	<b>(104,876)</b>	<b>(27,138)</b>	<b>(11,759)</b>	<b>(21,497)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	112,000	-	5,000	117,000
Transfers out	(117,000)	-	-	-	(117,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(117,000)</b>	<b>112,000</b>	<b>-</b>	<b>5,000</b>	<b>-</b>
Net Change in Fund Balances	5,276	7,124	(27,138)	(6,759)	(21,497)
<b>CASH BASIS FUND BALANCES - BEGINNING</b>	<b>77,100</b>	<b>15,852</b>	<b>92,105</b>	<b>9,997</b>	<b>195,054</b>
<b>CASH BASIS FUND BALANCES - ENDING</b>	<b>\$ 82,376</b>	<b>\$ 22,976</b>	<b>\$ 64,967</b>	<b>\$ 3,238</b>	<b>\$ 173,557</b>

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

VILLAGE OF MCCOOL JUNCTION  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES**  
**PROPRIETARY FUNDS**  
September 30, 2015

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 42,840	\$ 59,964	\$ 102,804
Cash on Hand with County Treasurer	1,655	1,655	3,310
<b>TOTAL ASSETS</b>	<u><u>\$ 44,495</u></u>	<u><u>\$ 61,619</u></u>	<u><u>\$ 106,114</u></u>
<b>FUND BALANCES</b>			
Committed to:			
Water Projects	44,495	-	44,495
Sewer Projects	-	61,619	61,619
<b>TOTAL CASH BASIS FUND BALANCES</b>	<u><u>\$ 44,495</u></u>	<u><u>\$ 61,619</u></u>	<u><u>\$ 106,114</u></u>

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

**VILLAGE OF MCCOOL JUNCTION**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,**  
**AND CHANGES IN CASH BASIS FUND BALANCES**  
**PROPRIETARY FUNDS**

For the Year Ended September 30, 2015

	Water Fund	Sewer Fund	Total Proprietary Funds
<b>RECEIPTS</b>			
Taxes	\$ 3,486	\$ 3,487	\$ 6,973
Charges for Services	62,468	63,993	126,461
Miscellaneous	339	615,717	616,056
<b>TOTAL RECEIPTS</b>	<u>66,293</u>	<u>683,197</u>	<u>749,490</u>
<b>DISBURSEMENTS</b>			
Public Works - Other	53,596	91,271	144,867
Debt Service:			
Principal Payments	5,259	705,259	710,518
Interest and Fiscal Charges	468	5,718	6,186
<b>TOTAL DISBURSEMENTS</b>	<u>59,323</u>	<u>802,248</u>	<u>861,571</u>
Net Change in Fund Balances	6,970	(119,051)	(112,081)
<b>CASH BASIS FUND BALANCES - BEGINNING</b>	<u>37,525</u>	<u>180,670</u>	<u>218,195</u>
<b>CASH BASIS FUND BALANCES - ENDING</b>	<u><u>\$ 44,495</u></u>	<u><u>\$ 61,619</u></u>	<u><u>\$ 106,114</u></u>

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

## VILLAGE OF MCCOOL JUNCTION

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of McCool Junction, Nebraska (Village) are prepared in accordance with the cash basis of accounting. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note.

##### **A. Reporting Entity**

The Village is a political subdivision of the State of Nebraska. The Village is incorporated as a Village. The Village operates under a Mayor and Village Board form of government. The Village Board members are elected officials. The administration of the Village government is performed under the direction of the Board. Services provided to residents include maintenance of highways and streets, parks, recreation, water and sanitary sewer systems, and general administrative services.

The financial reporting entity consists of the Village, which is the primary government.

In determining the financial reporting entity, the Village complies with the provisions of GASB Statement No. 61 and has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on these criteria, the Village has the following component unit.

***McCool Junction Development Corporation (Corporation):*** The Corporation is a legally separate entity; however, the governing body of the Corporation is appointed by the Village Board and, during the fiscal year, the members of both governing bodies were composed of the same individuals. The Corporation was created as part of a development plan for the Village. The general purpose of the Corporation is to oversee community development projects by maintaining required records, accounting for funds, and managing all aspects of the projects. These activities include, but are not limited to, applying and accounting for grants, overseeing any construction projects, and receiving Tax Increment Financing.

## VILLAGE OF MCCOOL JUNCTION

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### **B. Basis of Presentation**

##### **Government-Wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the Village. The statements distinguish between governmental and business-type activities. The effects of interfund activity have been removed from these statements.

Governmental activities generally are financed through taxes, intergovernmental receipts, and other nonexchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct disbursements/expenses of a given function or segment is offset by program receipts/revenues. Direct disbursements/expenses are those that are clearly identifiable with a specific function or segment. Program receipts/revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods or services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts/revenues are reported instead as general receipts/revenues.

The Village does not allocate indirect costs.

##### **Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, fund equity, receipts, and disbursements. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. Major funds are funds whose receipts, disbursements, or assets are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds. Any other fund may be reported as a major fund if the Village's officials believe that fund is particularly important to financial statement users.

The Village reports the following types of governmental funds:

**General Fund:** The General Fund is the primary operating fund of the Village and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

VILLAGE OF MCCOOL JUNCTION

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**B. Basis of Presentation** (Concluded)

***Special Revenue Funds:*** Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The Village includes the following Special Revenue Funds as major funds:

*Street Fund:* This fund accounts for the construction and maintenance of Village roads and is primarily financed by State aid.

*TIF Fund:* This fund accounts for Tax Increment Financing (TIF) monies received, which are restricted for accomplishing the objectives of the approved TIF project.

The Village reports the following additional non-major Special Revenue Funds:

*Park Fund:* This fund accounts for the maintenance of Village-owned public recreation property.

*Hall Fund:* This fund accounts for maintenance and rental fees related to the Village-owned hall.

The Village reports the following types of proprietary funds:

***Enterprise Funds:*** Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The Village has the following major enterprise funds:

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

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

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

VILLAGE OF MCCOOL JUNCTION

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

C. **Measurement Focus and Basis of Accounting** (Concluded)

**Measurement Focus**

The financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and net position/fund balances arising from cash transactions. This differs from governmental GAAP, which requires the government-wide financial statements to be reported using the “economic resources” measurement focus and the governmental fund financial statements to be reported using the “current financial resources” measurement focus.

**Basis of Accounting**

The financial statements are presented using the cash basis of accounting. Under this basis, receipts are recognized when received, and disbursements are recognized when paid. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

D. **Assets, Liabilities, and Equity**

**Cash and Cash Equivalents**

The Village’s “cash and cash equivalents” include all demand accounts and savings accounts, including certificates of deposit. The County Treasurer’s cash represents revenues collected but not yet remitted to the Village.

**Capital Assets**

Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements. This differs from GAAP, which requires capital assets, including property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets were not recorded in accordance with the cash basis of accounting. Under GAAP, depreciation expenses would be recorded, and only the cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.



VILLAGE OF MCCOOL JUNCTION

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

D. **Assets, Liabilities, and Equity** (Continued)

**Compensated Absences**

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as a disbursement of the Village funds as paid. Upon termination, employees are paid for any unused vacation. Under the cash basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements.

**Long-term Debt**

Under the cash basis of accounting, proceeds from the issuance of long-term debt increase receipts, and payment of long-term debt increases disbursements.

**Equity Classifications**

*Government-Wide Statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on their use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the Village’s policy to use restricted resources first, then unrestricted resources as they are needed.

*Fund Financial Statements*

Governmental and proprietary fund equity is classified as fund balance.

Effective October 1, 2010, the Village adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

**Nonspendable** – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

## VILLAGE OF MCCOOL JUNCTION

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### D. **Assets, Liabilities, and Equity** (Concluded)

**Restricted** – Amounts that can be spent only for specific purposes because of the Village Charter, Village Code, State or Federal laws, or externally imposed conditions by grantors or creditors.

**Committed** – Amounts that can be used only for specific purposes determined by a formal action by Village Board ordinance or resolution.

**Assigned** – Amounts that are designated by the Village for a specific purpose but are not spendable until a budget ordinance is passed by the Village Board.

**Unassigned** – All amounts not included in other spendable classifications.

Restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Village Board. Decreases to fund balance first reduce Unassigned fund balance; in the event that Unassigned fund balance becomes zero, then Assigned and Committed funds are used, in that order.

#### E. **Receipts and Disbursements**

##### **Sales and Use Tax**

The Village presently levies a 1.5% sales tax on taxable sales within the Village. The sales tax is collected by the Nebraska Department of Revenue and remitted to the Village in the month following receipt. The Nebraska Department of Revenue receives the sales tax approximately one month after collection by vendors. The sales tax is allocated according to the original ballot language that approved the tax: 50% to reduce real estate taxes; and 50% to for general operations. As of October 1, 2006, sales tax collected on the sale of motor vehicles is recorded in the Street Fund, as required by Neb. Rev. Stat. § 39-2510 (Reissue 2008).

##### **Property Taxes**

The Village has the power to levy taxes each year sufficient to pay any judgment existing against the Village, the interest and principal on bonded debt, and taxes authorized by State law.

The tax levies for all political subdivisions in York County are certified by the County Board on or before October 15. Real estate taxes are due on December 31 and attach as an enforceable lien and become delinquent in two equal installments on May 1 and September 1. Personal property taxes are due in the same manner as real estate taxes. Delinquent taxes bear 14 percent interest.

Property taxes levied for 2014-2015 are recorded as receipts when received by the County.

## VILLAGE OF MCCOOL JUNCTION

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### **E. Receipts and Disbursements** (Concluded)

##### **Electrical Distribution System Lease**

The Village recognizes receipts under a net lease of the electric distribution system. Rental payments are equal to 12 percent of the adjusted gross revenues received during the preceding three months from sales to customers purchasing electricity from the distribution system. The lease, entered into on January 1, 2004, continues until January 1, 2024. The agreement can be terminated by either party with five-year prior written notice at any time on or after January 1, 2019.

##### **Interfund Transfers**

Permanent reallocation of resources between funds of the reporting entity is classified as transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

#### **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the Village is subject to various Federal, State, and local laws and contractual regulations. An analysis of the Village's compliance with significant laws and regulations and demonstration of its stewardship over Village resources follows:

##### **A. Fund Accounting Requirements**

The Village complies with all State and local laws and regulations requiring the use of separate funds. The legally required funds used by the Village include Special Revenue Funds.

##### **B. Deposit Laws and Regulations**

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Village's deposit policy for custodial credit risk requires compliance with the provisions of State law.

State law requires collateralization of all deposits with Federal depository insurance or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The Village's demand deposits and certificates of deposit/savings accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the FDIC limits are to be insured by collateral held by the pledging institution in the Village's name.

See Comment and Recommendation Number 7 of the accompanying management letter.

VILLAGE OF MCCOOL JUNCTION

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

**C. Revenue Restrictions**

The Village has various restrictions placed over certain revenue sources from State or local requirements. The primary restricted revenue sources are described in Note 1B for the various funds.

**D. Related Party Transactions**

The Village employed the former Clerk's daughter without adequate disclosures made on the record. See Comment and Recommendation Number 8 of the accompanying management letter. These payments were made in the ordinary course of business and were not material for the year ended September 30, 2015.

**E. Budgetary Data**

The Village is required by State laws to adopt annual budgets for all fund types. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the Nebraska Budget Act.

The Nebraska Budget Act provides the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various expenditure and/or tax levy limitations.

The Village follows these procedures in establishing the budgetary data reflected in the accompanying financial statements.

- a. On or before August 1, the Village prepares a budget for the fiscal year commencing October 1. The budget includes proposed expenditures and resources available.
- b. The budget is published with subsequent public hearings to obtain taxpayer comments.
- c. Prior to September 20, the Village Board adopts the budget, which is then filed with the appropriate state and county officials.
- d. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end, and any revisions require board approval.
- e. Appropriations lapse at the end of the fiscal year, except for capital improvement appropriations and certain encumbrances against operating budgets.
- f. The County Clerk certifies a preliminary property tax levy for each fund of the Village, which levied property taxes in the county the previous year based on the combined valuation and amount required for the Village the prior year. The preliminary levy becomes the final levy unless the governing board passes, by a majority vote, a resolution setting the levy at a different amount.

## VILLAGE OF MCCOOL JUNCTION

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### **E. Budgetary Data** (Concluded)

- g. The property tax requirements resulting from the budget process are utilized by the County Assessor to establish the tax levy. Taxes are levied annually on or before October 15. Real property taxes and personal property taxes are due December 31 with the first half delinquent May 1 and the second half delinquent September 1.
- h. The Village adopts a budget by ordinance for all funds.

### **3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the financial statements for the Village's various assets, equity, receipts, and disbursements.

#### **A. Cash and Deposits**

The Village's policies regarding deposits of cash are discussed in Note 1D. The categories of collateral are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Village (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Village's name.

Category 3 – Uninsured and uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Village's name, or collateralized with no written or approved collateral agreement.

At year end, the Village's carrying amount of deposits was \$270,665. The bank balance for all funds was \$272,528. For purposes of classifying categories of custodial risk, the bank balances of the Village's deposits, as of September 30, 2015, were either entirely insured or collateralized with securities held by the Village's agent in the Village's name. However, as noted in Comment and Recommendation Number 7 of the accompanying management letter, there were times during the fiscal year when the Village's deposits were not entirely secured.

#### **B. Prior Period Adjustments**

Beginning fund balance adjustments were made for the General, Sewer, and Water Funds, as illustrated below. The adjustments to the Sewer and Water Funds were needed due to a change in the basis of accounting used. The prior year audited financial statements were on the accrual basis of accounting for proprietary funds; however, all funds were reported on the cash basis of accounting for the year ended September 30, 2015. The adjustment is, therefore, removing liability and capital asset amounts that had been

# VILLAGE OF MCCOOL JUNCTION

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### B. Prior Period Adjustments (Concluded)

previously included. Additionally, the General Fund was adjusted, as the prior balance appeared to include some liabilities. The September 30, 2014, balances for these funds are shown below.

<b>Fund</b>	<b>Per Audit Report</b>	<b>APA Adjustment</b>	<b>Adjusted Balance</b>
General Fund	\$78,223	(\$1,169)	\$77,054*
Sewer Fund	\$26,635	\$154,035	\$180,670
Water Fund	\$107,495	(\$69,970)	\$37,525

\* The General Fund balance also includes \$46, which was previously reported as a separate Housing Projects Fund; however, as the amount in that fund is insignificant and had no activity for at least the past two years, it was included in the General Fund, rather than as a separate fund.

### C. Interfund Transactions

Interfund transfers for the year ended September 30, 2015, consisted of \$117,000 transferred out of the General Fund and into the following:

<b>Fund</b>	<b>Amount</b>
Street Fund	\$112,000
Hall Fund	\$3,000
Park Fund	\$2,000
<b>Total</b>	<b>\$117,000</b>

Transfers are used to move unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## 4. OTHER NOTES

### A. Employee Retirement Plan

The Village has established a Simple IRA Plan for its employees. The employee must have worked for a minimum of one year and be 21 years of age or older. The Village contributes a matching amount equal to the employee's contribution, up to a maximum of 3% of the salary. During the year ended September 30, 2015, the Village contributed \$2,489, and the employees contributed \$3,064.

### B. Risk Management

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

VILLAGE OF MCCOOL JUNCTION

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**C. Commitments and Contingencies**

**Short-Term Debt**

The Village had the following short-term obligation during the year ended September 30, 2015:

Description	Beginning Balance	Prior Year Repayments	FY 2015 Repayment	9/30/2015 Ending Balance	FY 2015 Interest Paid
Sewer Anticipation Notes	\$700,000	\$0	\$700,000	\$0	\$5,250

***Sewer Anticipation Notes:*** During the year ended September 30, 2013, the Village obtained Sewer Bond Anticipation Notes in the amount of \$700,000 to purchase farm ground, construct a third sewer cell, and install a pivot. The principal became due on September 15, 2015, with semi-annual interest payments made in March and September at 0.750%.

The component unit, the McCool Junction Development Corporation, had the following short-term obligation during the year ended September 30, 2015:

Description	Beginning Balance	Prior Year Repayments	FY 2015 Repayment	9/30/2015 Ending Balance	FY 2015 Interest Paid
Land Note	\$58,067	\$34,500	\$23,567	\$0	\$578

***Land Note:*** On November 4, 2013, the component unit obtained a land note in the amount of \$58,067 to purchase land for development and resale. The principal was originally due November 4, 2014; however, the component unit obtained a one-year extension allowing the note to mature November 4, 2015. It was paid off on May 7, 2015. The interest rate on the note was 5.50%.

**Long-Term Debt**

The Village had the following long-term obligations during the year ended September 30, 2015:

Description	Original Principal Amount	Prior Year Repayments	FY 2015 Repayment	9/30/2015 Ending Balance	FY 2015 Interest Paid
Highway Allocation Bond	\$290,000	\$100,000	\$30,000	\$160,000	\$5,145
Storm Sewer Bond	\$195,000	\$65,000	\$20,000	\$110,000	\$3,985
General Obligation Sewer Bond	\$615,000	\$0	\$0	\$615,000	\$0
USDA Loan	\$52,000	\$31,769	\$10,518	\$9,713	\$937
Dump Truck Loan	\$19,000	\$9,867	\$3,899	\$5,234	\$357
Tractor Lease	\$23,000	\$0	\$0	\$23,000	\$0
	\$1,194,000	\$206,636	\$64,417	\$922,947	\$10,424

VILLAGE OF MCCOOL JUNCTION

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

C. **Commitments and Contingencies** (Continued)

**Highway Allocation Bonds:** The Village issued Highway Allocation Bonds, Series 2010, dated September 8, 2010, for \$290,000 to fund street projects. The bonds are due September 1, 2020, with interest rates ranging from 0.80% to 3.25%. The following schedule illustrates the future debt obligations related to these bonds:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$30,000	\$4,560	\$34,560
2017	\$30,000	\$3,855	\$33,855
2018	\$30,000	\$3,060	\$33,060
2019	\$35,000	\$2,205	\$37,205
2020	\$35,000	\$1,138	\$36,138
	<u>\$160,000</u>	<u>\$14,818</u>	<u>\$174,818</u>

**Storm Sewer Refunding Bonds:** The Village issued Refunding Sewer Bonds, dated March 10, 2011, for \$195,000 to fund sewer projects. The bonds are due September 1, 2020, with interest rates ranging from 0.60% to 3.80%. The following schedule illustrates the future debt obligations related to these bonds:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$20,000	\$3,545	\$23,545
2017	\$20,000	\$3,035	\$23,035
2018	\$20,000	\$2,465	\$22,465
2019	\$25,000	\$1,825	\$26,825
2020	\$25,000	\$950	\$25,950
	<u>\$110,000</u>	<u>\$11,820</u>	<u>\$121,820</u>

**General Obligation Sewer Bonds:** The Village issued General Obligation Sewer Bonds, dated September 15, 2015, for \$615,000 to fund sewer projects. The bonds are due July 15, 2030, with interest rates ranging from 0.65% to 3.40%. The following schedule illustrates the future debt obligations related to these bonds:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$40,000	\$12,280	\$52,280
2017	\$35,000	\$14,140	\$49,140
2018	\$35,000	\$13,808	\$48,808
2019	\$35,000	\$13,370	\$48,370
2020	\$35,000	\$12,880	\$47,880
2021-2030	\$435,000	\$75,897	\$510,897
	<u>\$615,000</u>	<u>\$142,375</u>	<u>\$757,375</u>



# VILLAGE OF MCCOOL JUNCTION

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### C. Commitments and Contingencies (Continued)

**United States Department of Agriculture (USDA) Loan:** The Village received a \$52,000 loan on May 8, 2006, from the USDA, for the cost of constructing additions and improvements to existing water and sewer systems related to the Stonecreek Project. The loan bears an interest rate of 4.375%. Tax Increment Financing (TIF) is the primary source of funding for repayment of the loan. The loan requires annual payments of \$3,955 on October 1<sup>st</sup> of each year, with final payment being due in 2026. However, the Village received more TIF funding that originally expected and has been making additional principal payments in past years. Therefore, the Village expects to have the loan paid off in 2016, and an accurate amortization schedule of future payments is not available.

**Dump Truck Loan:** The Village received a \$19,000 loan on February 6, 2013, from Midwest Bank, for the purchase of a dump truck to be used primarily for snow removal. The loan bears an interest rate of 3.85%. The loan requires annual payments of \$4,257 on February 6<sup>th</sup> of each year, beginning in 2014, with final payment being due in 2018. The Village made an additional principal-only payment of \$6,152 on March 26, 2013; therefore, it expects to have the loan paid off before 2018. The following schedule illustrates the future debt obligations related to this loan:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$4,043	\$213	\$4,256
2017	\$1,191	n/a	n/a
	\$5,234	n/a	n/a

**Tractor Lease:** The Village entered into a lease-purchase agreement for the purchase of a 2013 John Deere tractor and loader for a total cost of \$32,900, less a trade-in allowance of \$9,900, for a 1993 John Deere tractor. The \$23,000 loan bears an interest rate of 2.90%. The loan requires annual payments of \$8,124 on December 1<sup>st</sup> of each year, beginning in 2015, with final payment being due in 2017. The following schedule illustrates the future debt obligations related to this lease:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$7,448	\$676	\$8,124
2017	\$7,667	\$457	\$8,124
2018	\$7,892	\$232	\$8,124
	\$23,007	\$1,365	\$24,372

VILLAGE OF MCCOOL JUNCTION

NOTES TO THE FINANCIAL STATEMENTS  
(Concluded)

C. **Commitments and Contingencies** (Concluded)

**Contingent Liability**

The Village obtained TIF funding for a project at Kerry's Bar & Grill (Kerry's). Kerry's obtained a loan from York State Bank in the amount of \$48,638, bearing an interest rate of 6.0%, which was contingent upon a pledge of the collateral from the Village's TIF project funding in that same amount. As such, the Village is responsible for remitting the TIF funding received to York State Bank in accordance with the loan payment schedule. At times, the TIF receipts are not sufficient to cover the semi-annual loan payment amount of \$2,825. In those instances, Kerry's is responsible for covering the difference in the amount owed. During the fiscal year ended September 30, 2015, the Village received TIF funds related to this project in the amount of \$2,011, which was remitted to the bank. The following loan payment schedule is subject to the availability of TIF funding for the Village.

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$4,395	\$1,255	\$5,650
2017	\$4,663	\$987	\$5,650
2018	\$4,947	\$703	\$5,650
2019	\$5,248	\$402	\$5,650
2020	\$2,743	\$82	\$2,825
	\$21,996	\$3,429	\$25,425

D. **Subsequent Events**

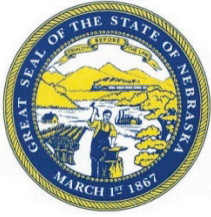
Management has evaluated subsequent events through June 9, 2016, the date on which the financial statements were available for issue.

VILLAGE OF MCCOOL JUNCTION  
**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL**  
**GENERAL ALL PURPOSE FUND**  
For the Year Ended September 30, 2015

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>RECEIPTS</b>			
Taxes	\$ 104,653	\$ 155,803	\$ 51,150
Intergovernmental	132,439	151,645	19,206
Other Local Sources	1,756,700	823,311	(933,389)
<b>TOTAL RECEIPTS</b>	<b>1,993,792</b>	<b>1,130,759</b>	<b>(863,033)</b>
<b>DISBURSEMENTS</b>			
General Government	263,500	101,108	162,392
Public Works - Street	134,000	160,140	(26,140)
Public Works - Other	835,600	144,867	690,733
Culture and Recreation	13,000	17,350	(4,350)
Community Development	365,000	64,993	300,007
Debt Service	842,192	775,879	66,313
<b>TOTAL DISBURSEMENTS</b>	<b>2,453,292</b>	<b>1,264,337</b>	<b>1,188,955</b>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<b>(459,500)</b>	<b>(133,578)</b>	<b>325,922</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	141,750	117,000	(24,750)
Transfers out	(141,750)	(117,000)	24,750
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(459,500)</b>	<b>(133,578)</b>	<b>325,922</b>
<b>FUND BALANCE - BEGINNING</b>	<b>469,353</b>	<b>413,249</b>	<b>(56,104)</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 9,853</b>	<b>\$ 279,671</b>	<b>\$ 269,818</b>

VILLAGE OF MCCOOL JUNCTION  
**COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BASIS FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2015

	Hall Fund	Park Fund	Total Nonmajor Governmental Funds
<b>RECEIPTS</b>			
Licenses and Permits	\$ -	\$ 308	\$ 308
Charges for Services	1,320	-	1,320
Miscellaneous	555	3,408	3,963
<b>TOTAL RECEIPTS</b>	<u>1,875</u>	<u>3,716</u>	<u>5,591</u>
<b>DISBURSEMENTS</b>			
Culture and Recreation	8,360	8,990	17,350
<b>TOTAL DISBURSEMENTS</b>	<u>8,360</u>	<u>8,990</u>	<u>17,350</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<u>(6,485)</u>	<u>(5,274)</u>	<u>(11,759)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	3,000	2,000	5,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>3,000</u>	<u>2,000</u>	<u>5,000</u>
<b>Net Change in Fund Balances</b>	(3,485)	(3,274)	(6,759)
<b>FUND BALANCES - BEGINNING</b>	<u>4,934</u>	<u>5,063</u>	<u>9,997</u>
<b>FUND BALANCES - ENDING</b>	<u><u>\$ 1,449</u></u>	<u><u>\$ 1,789</u></u>	<u><u>\$ 3,238</u></u>
<b>FUND BALANCES:</b>			
Assigned to:			
Culture and Recreation	1,449	1,789	3,238
<b>TOTAL FUND BALANCES</b>	<u><u>\$ 1,449</u></u>	<u><u>\$ 1,789</u></u>	<u><u>\$ 3,238</u></u>



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen  
State Auditor

Charlie.Janssen@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.nebraska.gov](http://www.auditors.nebraska.gov)

VILLAGE OF MCCOOL JUNCTION  
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Village Board  
Village of McCool Junction, 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, the business type activities, each major fund, the aggregate remaining fund information, and the aggregate discretely presented component unit of the Village of McCool Junction, Nebraska (Village) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise Village's basic financial statements, and have issued our report thereon dated June 9, 2016. Our report on the basic financial statements disclosed that, as described in Note 1, the Village prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Village'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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies to be material weaknesses:

- The Village lacked management personnel with the required expertise to prepare financial reports of a governmental entity. Additionally, due to the limited size of the Village staff, an adequate segregation of duties was not possible, as the Clerk was able to process all financial transactions from beginning to end.
- More than \$748,000 in accounting errors was noted, requiring several financial statement adjustments to be made.

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. We consider the following deficiencies to be significant deficiencies:

- The former Clerk failed to remit payment to the Village for her water and sewer services over several years, resulting in an outstanding balance of \$1,800 as of September 30, 2015. Additionally, the former Clerk failed to bill her church, First Lutheran Church, for its water and sewer services, resulting in an outstanding balance of \$1,077 as of September 30, 2015.
- The Village lacked appropriate procedures regarding its utility billing and collection process, which account for nearly \$130,000 in annual receipts. Specific concerns were noted related to incorrect commercial sewer rates, inconsistent application of late fees, and the ability to make manual changes to the system with no review by Board members.
- A number of issues pertaining to the Village's procedures for the payment of claims were identified. The issues included a lack of proper Board approval, a lack of documentation on file, untimely payments, and inappropriate payments for donations, flowers, and sales tax.
- Multiple deficiencies related to payroll processing were noted, including an overpayment made to the former Clerk upon termination, potential statute violations regarding Christmas bonuses and payments made to a Board member working temporarily as a Clerk, miscalculated and miscoded paychecks, a lack of adequate records, incorrect withholdings, and a failure to remit State income taxes in a timely manner.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village'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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

- The former Clerk failed to remit payment to the Village for her water and sewer services over several years, resulting in an outstanding balance of \$1,800 as of September 30, 2015. Additionally, the former Clerk failed to bill her church, First Lutheran Church, for its water and sewer services, resulting in an outstanding balance of \$1,077 as of September 30, 2015.
- Multiple deficiencies related to payroll processing were noted, including an overpayment made to the former Clerk upon termination and potential statute violations regarding Christmas bonuses and payments made to a Board member working temporarily as a Clerk.
- The Village's deposits exceeded FDIC coverage and, therefore, were not adequately secured throughout the fiscal year, including times when nearly \$175,000 was unsecured by additional pledged collateral.

#### **Additional Item**

We also noted certain matters that we reported to management of the Village of McCool Junction in a separate letter dated June 9, 2016.

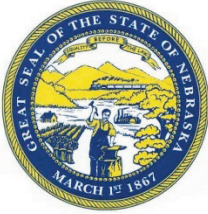
#### **Purpose of this Report**

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

June 9, 2016



Craig Kubicek, CPA, CFE  
Assistant Deputy Auditor



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen  
State Auditor

Charlie.Janssen@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
www.auditors.nebraska.gov

June 9, 2016

Board of Trustees  
Village of McCool Junction, Nebraska

Dear Trustees:

We have audited the basic financial statements of the Village of McCool Junction (Village) for the fiscal year ended September 30, 2015, and have issued our report thereon dated June 9, 2016. In planning and performing our audit of the basic financial statements of the Village, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We also performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants.

During our audit, we noted certain matters involving internal control over financial reporting and other operational matters that are presented here. These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

### **1. Unpaid and Unbilled Utility Accounts**

The former Clerk failed to remit payment properly to the Village for her water and sewer services. A five-year summary of her utility account activity is provided below:

Utility Account for Former Clerk					
Fiscal Year	Beginning Balance	Amount Billed	Late Fee	Amount Paid	Ending Balance
2011	\$934.04	\$591.08	\$55.00	(\$426.26)	\$1,153.86
2012	\$1,153.86	\$637.44	\$30.00	(\$599.89)	\$1,221.41
2013	\$1,221.41	\$626.26	\$35.00	(\$640.07)	\$1,242.60
2014	\$1,242.60	\$665.90	\$35.00	(\$625.00)	\$1,318.50
2015	\$1,318.50	\$731.34	\$50.00	(\$300.00)	\$1,799.84

Additionally, the former Clerk failed to bill her church, First Lutheran Church, for its water and sewer services. A bill was prepared but does not appear to have been mailed to the church. Therefore, the church also had a significant utility balance. A five-year summary of the church's utility account is provided below:



Utility Account for First Lutheran Church					
Fiscal Year	Beginning Balance	Amount Billed	Late Fee	Amount Paid	Ending Balance
2011	\$660.50	\$482.00	\$10.00	(\$382.50)	\$770.00
2012	\$770.00	\$472.00	\$5.00	(\$452.50)	\$794.50
2013	\$794.50	\$456.75	\$15.00	(\$597.00)	\$669.25
2014	\$669.25	\$559.25	\$10.00	(\$625.00)	\$613.50
2015	\$613.50	\$648.50	\$15.00	(\$200.00)	\$1,077.00

The former Clerk appears to have provided book keeping services to the church. See **Exhibit A** for a detailed listing of these two accounts.

These situations were allowed to occur because the Board lacked adequate procedures to ensure that all customers received and paid their monthly utility billings. The Village uses a utility software program to record and process all of its utility activities, including gallons used, amounts billed, late fees incurred, amounts paid, and outstanding balances. This software program has the ability to run an Accounts Receivable Aging Report showing all accounts with amounts owed. The report dated September 30, 2015, included both the former Clerk and the church. However, according to the current Village staff, the former Clerk failed to make this report available to the Board; instead, she provided an incomplete listing of outstanding accounts that included neither her nor the church.

The failure of the former Clerk to bill herself and her church for utilities give rise to potential concerns regarding certain State statutes. To start, Neb. Rev. Stat. § 49-14,101.01 (Reissue 2010) states, in part, the following:

*(1) A public official or public employee shall not use or authorize the use of his or her public office or any confidential information received through the holding of a public office to obtain financial gain, other than compensation provided by law, for himself or herself, a member of his or her immediate family, or a business with which the individual is associated.*

*(2) A public official or public employee shall not use or authorize the use of personnel, resources, property, or funds under his or her official care and control other than in accordance with prescribed constitutional, statutory, and regulatory procedures or use such items, other than compensation provided by law, for personal financial gain. . . .*

*(7) Except as provided in section 23-3113, any person violating this section shall be guilty of a Class III misdemeanor, except that no vote by any member of the Legislature shall subject such member to any criminal sanction under this section.*

Additionally, Neb. Rev. Stat. § 28-512 (Reissue 2008) states the following, in relevant part:

*A person commits theft if he obtains property of another by deception. A person deceives if he intentionally:*

*(1) Creates or reinforces a false impression, including false impressions as to law, value, intention, or other state of mind; but deception as to a person's intention to perform a promise shall not be inferred from the fact alone that he did not subsequently perform the promise; or*

*(2) Prevents another from acquiring information which would affect his judgment of a transaction; or*

*(3) Fails to correct a false impression which the deceiver previously created or reinforced, or which the deceiver knows to be influencing another to whom he stands in a fiduciary or confidential relationship; or*

*(4) Uses a credit card, charge plate, or any other instrument which purports to evidence an undertaking to pay for property or services delivered or rendered to or upon the order of a designated person or bearer (a) where such instrument has been stolen, forged, revoked, or canceled, or where for any other reason its use by the actor is unauthorized, or (b) where the actor does not have the intention and ability to meet all obligations to the issuer arising out of his use of the instrument.*

Lastly, Neb. Rev. Stat. § 28-924 (Reissue 2008), provides the following:

*(1) A public servant commits official misconduct if he knowingly violates any statute or lawfully adopted rule or regulation relating to his official duties.*

*(2) Official misconduct is a Class II misdemeanor.*

In addition to these potential statutory concerns, good internal control requires procedures to ensure utilities are properly billed and paid each month and an appropriate follow-up is completed for unpaid balances. Good internal control also requires the Board to monitor carefully all employee activity relating to Village finances.

Without adequate procedures to ensure all customers receive and pay their monthly utility bills, there is an increased risk for loss of Village funds. There is also an increased risk for fraud or abuse of public funds when the Board fails to monitor carefully the Village's finances and any employee activity relating thereto.

We recommend the Board implement procedures to ensure a proper monitoring of utility accounts. The Board should periodically review the Accounts Receivable Aging Report to ensure all utility accounts are current. The Board should also calculate late fees owed on the accounts and immediately collect any outstanding amounts due. Given the nature of the potential statutory concerns noted herein, the APA will forward this report to both the York County Attorney and the Nebraska Accountability and Disclosure Commission.

## **2. Utility Billing and Collection Procedures**

The Village lacked appropriate procedures for its utility billing and collection process. During the fiscal year, the Village collected the following amounts for its water and sewer operations:

Water	Sewer	Total
\$62,468.02	\$63,992.94	\$126,460.96

### ***Incorrect Sewer Rates – Commercial Customers***

The Village did not properly bill McCool Junction Public Schools (School) and the Stonecreek Event Center (Center) in accordance with its Village Ordinance 2014-379, effective March 3, 2014, which is summarized as follows:

Type of Service	Sewer
Residential	\$26/month
Junction Motor Speedway	\$31/month
Commercial	Flat monthly rate of \$26 for basic service, up to 4,000 gallons per month, plus \$1.45 for every 1,000 gallons used over and above 4,000 gallons every month based on winter water usage during the months of December, January, and February.

According to the Village Maintenance Supervisor, the sewer rate is assessed and changed each June 1<sup>st</sup> for all commercial customers. The additional rate of \$1.45 per 1,000 gallons over 4,000 gallons is based on the total average gallons used during the previous December, January, and February. Thus, a new sewer rate on June 1, 2015, is to be based on water usage during December 2014, January 2015, and February 2015.

The table below shows the amount charged by the Village and the amount that should have been charged in accordance with the ordinance:

	Monthly Charge to School	FY 2015 Total School	Monthly Charge to Center	FY 2015 Total Center
<b>Sewer Rate Charged by Village</b>				
Sewer Charge Fiscal Year 2015	\$137.65	\$1,651.80	\$28.43	\$341.16
<b>Sewer Rate Calculated by APA (1)</b>				
Sewer Charge - 10/2014 to 05/2015 (2)	\$413.71	\$3,309.68	\$30.35	\$242.80
Sewer Charge - 06/2015 to 09/2015 (3)	\$214.10	\$856.40	\$28.42	\$113.68
<b>Total Sewer Charges for FY2015</b>		<b>\$4,166.08</b>		<b>\$356.48</b>
<b>Amount Under-Charged</b>		<b>(\$2,514.28)</b>		<b>(\$15.32)</b>

(1): The APA calculated the sewer rates in accordance with Ordinance 2014-379 and based on discussions with the Village Maintenance Supervisor.

(2): The APA used the total average gallons for December 2013, January 2014, and February 2014 over 4,000 gallons as the basis for the additional rate.

(3): The APA used the total average gallons for December 2014, January 2015, and February 2015 over 4,000 gallons as the basis for the additional rate.

As reflected by the above table, both the School and the Center were undercharged for sewer services during the fiscal year. The Maintenance Supervisor was unsure why neither of these two customers was charged the sewer rate set by ordinance.

Good internal controls require procedures to ensure that sewer rates approved by the Board and implemented by ordinance are properly calculated, applied, and charged to customers. There is an increased risk for improper utility billings and collections when the Board and its employees lack a sufficient understanding of the prescribed method of calculating utility billings. Inadequate utility billings could lead to financial problems for the Village.

#### **Other Utility Account Issues**

In addition to the concerns noted above, the APA found the following issues:

- Eight of 10 utility accounts tested, covering a range of months, were not charged the required late fee. The remaining two accounts were charged an incorrect late fee because the Clerk added \$2.50 each for sewer and water services instead of the 1.5% penalty specified in the Village's Municipal Code (Code). Chapter 7, Section 7-102, Paragraph C, of the Code provides the following:

*All bills for water service shall be due quarterly on the 10<sup>th</sup> day of each billing month and shall be payable at the office of the village clerk. Bills shall be delinquent on the 20<sup>th</sup> day of each of said billing months. If said bills are not paid when due, a 1.5% penalty shall be added to the consumer's bill for delinquency.*

The following table offers a comparison between the late fees calculated by the APA and those collected by the Village for all 10 customer accounts tested:

<b>Customer Number</b>	<b>Late Fee - APA</b>	<b>Late Fee - Village</b>	<b>Over (Under)</b>
109	\$5.35	\$0.00	(\$5.35)
143	\$1.44	\$0.00	(\$1.44)
78	\$2.17	\$0.00	(\$2.17)
134	\$0.68	\$0.00	(\$0.68)
71	\$1.77	\$5.00	\$3.23
213	\$0.82	\$0.00	(\$0.82)
119	\$1.58	\$0.00	(\$1.58)
144	\$5.02	\$5.00	(\$0.02)
1	\$0.74	\$0.00	(\$0.74)
132	\$4.09	\$0.00	(\$4.09)
<b>Totals</b>	<b>\$23.66</b>	<b>\$10.00</b>	<b>(\$13.66)</b>

- The APA determined also that changes to the meter readings, utility rates, and other information could be made manually in the utility software program. The program tracked each change in a specific report; however, that report was not provided to the Board to review for appropriateness during the fiscal year.

Without adequate procedures to ensure that all unpaid utility balances are assessed the correct late fee, and manual changes to the utility software program are appropriate and reasonable, there is an increased risk for loss or misuse of Village funds.

We recommend the Board implement procedures to ensure the following:

- All customer utility rates are correctly billed in accordance with Village Ordinance 2014-379.
- Late fees are assessed in accordance with the applicable Code policy.
- The Board reviews periodically manual changes in the utility software program to ensure that they are both reasonable and appropriate.

### **3. Village Control Environment**

A control environment conducive to fair and complete financial reporting requires an adequate segregation of duties so that no one individual can process an accounting transaction from beginning to end. When an adequate segregation of duties is not possible due to the relatively small number of municipal staff, it is imperative that the entity's governing body provide effective monitoring of its policies, procedures, and accounting functions.

The Village lacked management personnel with the required expertise to prepare financial reports of a governmental entity. Due to the limited number of the Village's staff, moreover, an adequate segregation of duties was not possible. Consequently, the former Clerk was able to process all accounting transactions from beginning to end, such as receiving money owed to the

Village, making bank deposits, writing checks, reviewing and approving invoices, transferring money between funds, receiving bank statements, preparing the claims listing for Board approval, and providing financial information to the Village's certified public accountant (CPA).

Despite the Clerk's many duties, the Board retains overall responsibility for the operations of the Village. Furthermore, the absence of an adequate segregation of duties makes it all the more imperative for the Board to perform adequate monitoring and review of the Village's financial transactions. Unfortunately, the Board failed to oversee sufficiently the financial activity of the Village to ensure the accuracy and completeness of its financial records.

The Clerk provided the Board members with a financial status report, current invoices, and claims to be discussed at the next meeting. During the audit period, however, the Board members did not receive for review a copy of the bank statements to ensure that all payments processed by the Village were properly authorized.

Additionally, the APA found the following control issues:

- The Village did not accurately record its financial transactions after the termination of the former Clerk. See Comment and Recommendation Number 4 for additional details.
- The Village failed to ensure that the amounts remitted by the Perennial Public Power District (PPPD) were complete and accurate. For use of its electrical system, including wires, poles, transformers, etc., the PPPD provides a lease payment to the Village equal to 12% of the gross electric revenues received by the PPPD, which are remitted to the Village quarterly. However, no documentation is provided to the Village to verify the quarterly lease payments received are complete, accurate, and comply with the terms of the agreement. In fiscal year 2015, the Village received \$49,149.56 in PPPD lease payments.
- The Village did not prohibit the cashing of customer or employee checks from cash on hand during the audit period. Although, the APA did not identify any such cash payments, this practice should not be allowed.
- During the audit period, written receipts were not provided to Village customers.
- The Village was unable to provide a copy of its formal inventory policies to the APA.

Good internal control requires a control environment that is conducive to fair and complete financial reporting and includes adequate reviews and monitoring of the Village's financial activity by the Board. Without such oversight, there is a significant risk for loss or misuse of public funds.

We recommend the Board implement procedures to ensure the following:

- The Village's financial transactions are adequately documented, reviewed, and monitored.
- The bank statements are provided to the Board for review with the other financial reports.

- PPPD lease payments received by the Village are reviewed and verified as being complete, accurate, and in compliance with the terms of the agreement.
- Village employee and customer checks are never cashed from cash on hand.
- Written receipts are provided to all Village customers.
- The Village's formal inventory policies are maintained for review upon request.

#### 4. Accounting Errors

The APA identified a number of significant recording errors that necessitated considerable adjustments to the Village's financial statements. Most of these adjustments were required because the underlying transactions were never recorded in the accounting system – an omission that resulted from the termination of the former Clerk in late September 2015. The following table summarizes more than \$748,000 in errors found in the Village's recording of receipts or disbursements:

Description	Fund	F/S Classification	Amount	APA Notes
Bond Receipts	Sewer	Bond Proceeds	\$603,622.50	The \$615,000 in bond proceeds (less the \$11,377.50 underwriter's fee) received in September 2015 was not recorded in the Village's accounting records.
Salaries	General	General Government	\$2,357.16	The \$8,472.77 in salaries paid in September 2015 was not recorded in the Village's accounting records.
	Street	Public Works - Street	\$3,342.55	
	Sewer	Public Works - Other	\$1,346.53	
	Water	Public Works - Other	\$1,346.53	
	Hall	Culture and Recreation	\$80.00	
Sales Tax Remitted	General	General Government	\$772.91	Sales tax remitted to the NE Department of Revenue in September 2015 was not recorded in the Village's accounting records.
Bond Payment	Street	Debt Service	\$54,595.00	Payment for bond principal and interest made during August 2015 was not recorded in the Village's accounting records.
Health Insurance Payment	Street	Public Works - Street	\$167.00	The payment for the Village Maintenance Supervisor's health insurance for September 2015 was not recorded in the Village's accounting records.
County Tax Receipts	General	Intergovernmental and Taxes	\$23,986.22	The \$52,565.85 in receipts from the County Treasurer (less the county commission of \$516.80) received in September 2015 was not recorded in the Village's accounting records.
	Street	Intergovernmental and Taxes	\$10,094.22	
	TIF	Intergovernmental and Taxes	\$17,968.61	
Utility Revenue	Sewer	Charges for Services	\$4,535.19	The \$10,483.45 in utility receipts collected in September 2015 was not recorded in the Village's accounting records.
	Water	Charges for Services	\$5,265.31	
	General	Charges for Services	\$682.95	
Fund Transfer	Street	Transfer In	\$8,000.00	A transfer of \$8,000 from the Sales Tax Fund to the Street Fund was miscoded as Motor Vehicle Sales Tax instead of Transfer In.

Description	Fund	F/S Classification	Amount	APA Notes
State Sales Tax Receipts	General	Intergovernmental	\$4,760.00	The \$6,264.49 receipt from the State in September 2015, which consisted of City Sales Tax of \$4,760.00 and Motor Vehicle Sales Tax of \$1,504.49, was not recorded in the Village's accounting records.
	Street	Intergovernmental	\$1,504.49	
Bond Interest Refund	Sewer	Public Works - Other	\$2,625.00	Due to an overpayment of bond interest, the Village received a refund in September 2015, but this amount was not recorded in the Village's accounting records.
Voided Health Insurance Check	General	General Government	\$750.13	The Village failed to void a payment in the accounting system in September 2015 after the actual check was voided.
	Street	Public Works - Street	\$574.67	
Bank Account and CD Interest	General	Miscellaneous	\$27.60	Interest income received in September 2015 in the general checking account and the water CD was not recorded in the Village's accounting records.
	Water	Miscellaneous	\$13.87	
<b>Total</b>			<b>\$748,418.44</b>	

Adjustments were made to the Village's financial statements for the errors identified above.

These numerous adjustments also affected the Village's balances for the subsequent fiscal year, beginning on October 1, 2015. The Village implemented a new software system and, due to the number of adjustments needed during the audit period, the beginning balances entered into that new accounting system were inaccurate, as illustrated in the table below:

Fund	Village 10/01/15 Balance	APA 10/01/15 Balance	Difference
General	\$29,015	\$59,765	(\$30,750)
Sinking	\$22,565	\$22,565	\$0
CDBG	\$46	\$46	\$0
<b>Subtotal General</b>	<b>\$51,626</b>	<b>\$82,376</b>	<b>(\$30,750)</b>
Street	\$67,920	\$22,976	\$44,944
TIF	\$46,998	\$64,967	(\$17,969)
Hall	\$1,528	\$1,449	\$79
Park	\$1,790	\$1,789	\$1
Sewer	\$56,253	\$44,495	\$11,758
Water	\$38,797	\$61,619	(\$22,822)
<b>Total</b>	<b>\$264,912*</b>	<b>\$279,671</b>	<b>(\$14,759)</b>

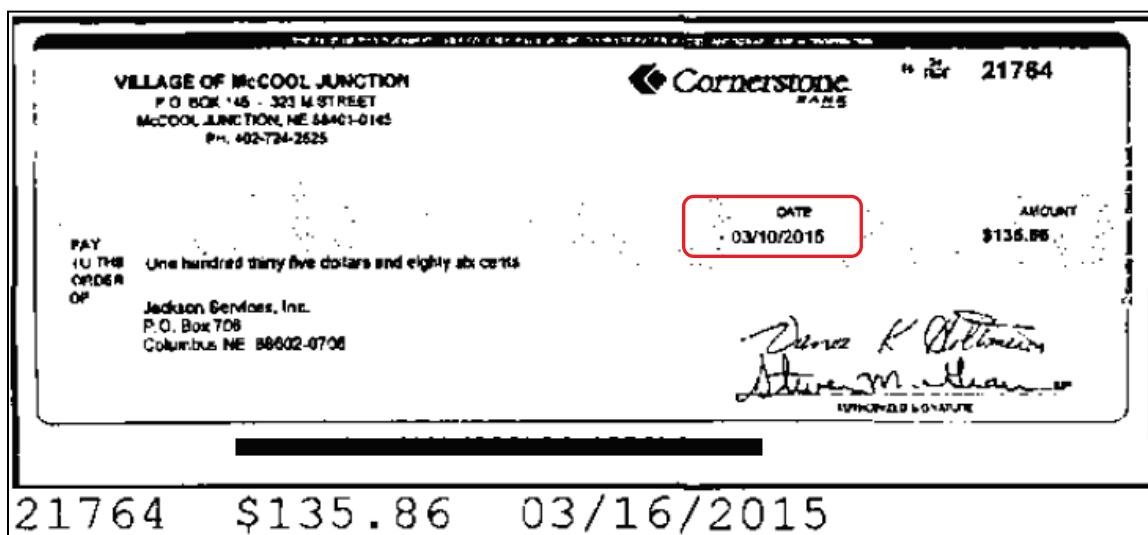
\* The Village's accounting system also included an entry for \$2,025.18, which was described as a "trial balance difference" error. This entry appears to have been used to balance the accounting records to the bank records.

Good internal control requires procedures to ensure Village receipts and disbursements are properly recorded in the accounting system. Good internal control also requires procedures to ensure transactions are recorded in the accounting system as they occur. When transactions are not properly recorded, there is an increased risk of material misstatement of the financial statements and misuse of Village funds.





The check for that claim, number 21764, was written on March 10, 2015, as follows:



However, the specific claim was not included in the meeting minutes until the April Board meeting.

VILLAGE OF MCCOOL JUNCTION  
BOARD OF TRUSTEES  
REGULAR MEETING MINUTES  
APRIL 6, 2015

Claims: Motion to pay the April 2015 claims was made by White and seconded by Matzner. Roll call vote. Aye: White, Matzner, Hoarty, S. Green. Absent: Norquest. Motion carried.

Adjournment: Motion to adjourn the meeting was made by Hoarty and seconded by White. Roll call vote. Aye: Hoarty, White, Matzner, S. Green. Absent: Norquest. Motion carried. Meeting adjourned at 9:50 p.m.

Approved claims for March 2015: Employee Wages \$5259.48; Trustee 1<sup>st</sup> qtr. 2015 wages \$415.55; The Depository Trust \$4565.00, storm sewer bond interest/highway allocation bond interest; Cornerstone Bank \$15.00, wire fee; Cornerstone Bank \$2625.00, sewer bond anticipation interest; Delta Dental \$47.78, dental insurance; Eakes Office Plus \$36.82, copies/supplies; Farmer's Coop \$1801.14, fuel/propane; Fastenal \$11.13, Quonset project; Friesen Chevrolet, \$107.02; repairs; Home Care Plus \$15.00, flu shots; Jackson Services \$135.86, supplies/uniforms; James Green \$58.90, dental insurance; Johnson Sand & Gravel \$433.96, mudrock; Kopchos Sanitation \$72.00, garbage services; League of NE Municipalities, Utilities Section, \$75.00, registration; McCool Jct. Post Office \$366.00, postage; Mead Lumber \$781.56, repairs/Quonset project; Menards \$1442.06, hall floor repairs; Mid America Risk Managers \$92.00, sewer lagoon insurance; NE Department of Revenue \$709.63, Feb. 2015 sales tax; NMPP \$179.00, billing postcards; NPZA \$35.00, 2015 membership dues; Overland Ready Mix \$1046.42, white rock; Paul Underwood, \$2000.00, backhoe final payment; PPPD \$2575.03, electric services; Petty Cashier \$10.57, postage; Sapp Bros. Petroleum \$196.26, propane; Skip's Radiators \$200.81, repairs; Southern Seven Clerk's Assn. \$100.00, IIMC donation; Windstream \$164.13, phone services; York Ace Hardware \$49.98, supplies; York County Aging Services \$511.25 Feb. 2015 senior meal donations; York News-Times \$241.61, publications; First Concord Benefits Group \$196.92, March 2015 FSA; General Fire & Safety Equipment \$75.65, fire extinguisher inspections; McCool Jct. Post Office \$220.00, 2015 bulk postage permit fee; NE Public Health Environmental Lab \$15.00, test fees; Oppenheimer Funds Services \$229.24, March 2015 IRA; Svehla Law Office \$660.00, legal services; Thrivent Financial \$204.42, March 2015 IRA; United Healthcare \$1324.80, health insurance; Vanee Holtmeier \$123.75 mileage/meals; Verizon \$53.17, cell phone services; Walmart \$19.16, supplies; EFPTS \$2268.52, March 2015 payroll taxes; Family Heritage \$63.00, Jim's accident insurance; Family Heritage \$92.00 Jim's cancer insurance.

Additionally, the APA performed three different tests of claims. In all, a total of 32 claims paid were tested. For the Board approval process, however, the APA tested only 30 claims. Among those 30, the APA found three that were either paid prior to Board approval or were not approved by the Board at all, as follows:

Payee	Check Date	Date Form Signed by Board Members	Meeting Claim Approved	Amount
Roger Lea	7/20/2015	8/3/2015	8/3/2015	\$6,346.00
Mike Vorderstrasse	8/17/2015	No Date Provided	Not Approved	\$150.95
Svehla Law Offices	8/17/2015	9/14/2015	Not Approved	\$1,819.00
<b>Total</b>				<b>\$8,315.95</b>

The APA also tested three McCool Junction Development Corporation (Corporation) claim payments and noted that two of those tested were not approved by the Board, as shown below.

Description	Date	Amount
Transfer to Land Note	4/7/2015	\$18,500.00
Transfer to Land Note	5/7/2015	\$5,644.59
<b>Total</b>		<b>\$24,144.59</b>

Good internal control requires procedures to ensure that all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved. Without such procedures, there is an increased risk for loss or misuse of Village funds.

We recommend the Board implement procedures to ensure all claims are approved by the Board prior to payment and are adequately documented in the meeting minutes of the month in which they are approved.

### ***Lack of Supporting Documentation***

The Village failed to provide adequate documentation to support 2 of 32 expenditures tested, as detailed below:

Vendor	Description	Amount	
Van Kirk Bros. Contracting	Third and final drawdown-sewer project	\$20,899.43	Only the first of the two page invoice was provided.
Kopchos Sanitation, Inc.	Solid waste services	\$418.00	The Village lacks a written contract or agreement with the company that provides solid waste removal services, as required by statute.
<b>Total</b>		<b>\$21,317.43</b>	

Neb. Rev. Stat. § 13-2020(1) (Reissue 2012) provides the following:

*Effective October 1, 1993, each county and municipality shall provide or contract for facilities and systems as necessary for the safe and sanitary disposal of solid waste generated within its solid waste jurisdiction area. Such disposal shall comply with rules and regulations adopted and promulgated by the council for integrated solid waste management programs.*

(Emphasis added.) For purposes of the Integrated Solid Waste Management Act (Act), which is set out at Neb. Rev. Stat. §§ 13-2001 to 13-2043 (Reissue 2012) a “municipality” is defined at § 13-2013 as “any city or village incorporated under the laws of this state.”

Neb. Rev. Stat. § 13-2026 (Reissue 2012) states the following:

*In furtherance of the policy of the state as set forth in the Integrated Solid Waste Management Act, municipalities, counties, and agencies may by ordinance or resolution adopt rules and regulations or may adopt bylaws or enter into written agreements between and among themselves or other persons which regulate and govern solid waste management within their solid waste jurisdiction areas, including the establishment of conditions to assure that a specified amount and type of solid waste will be delivered to a specific facility.*

(Emphasis added.) The Village’s lack of a written contract or agreement for the removal of solid waste appears to violate the “written agreements” requirements of the Act.

State law and good internal controls alike require adequate documentation to support Village expenditures, including detailed invoices or written contracts entered into prior to the approval of any payments. Without such documentation, there is an increased risk for loss or misuse of Village funds.

We recommend the Village implement procedures to ensure adequate documentation is on file to support all expenditures. We also recommend the Village take appropriate action to ensure written agreements are obtained for solid waste removal service, as required by law.

### ***Village Loan to Corporation***

As outlined in the notes to the financial statements in the accompanying audit report, the Corporation is a component unit of the Village. The Corporation is a legally separate non-profit entity; however, the governing body of the Corporation is appointed by the Village Board, and during the fiscal year, the members of both governing bodies were comprised of the same individuals. The Corporation was created as part of a development plan for the Village. The general purpose of the Corporation is to oversee community development projects by maintaining required records, accounting for funds, and managing all aspects of the projects. These activities include, but are not limited to, applying and accounting for grants, overseeing any construction projects, as well as receiving tax increment financing.

In April 2015, the Village received a \$4,995.69 payment from its Corporation. Upon further review, the APA learned that, in 2014, the Village had paid for two bills, totaling \$2,388.56, on behalf of the Corporation. The remainder of the April payment, \$2,607.13 was for the proceeds related to a land sale in 2012.

Village staff indicated that a landowner donated land to the Village under the agreement that the land would be developed into a public park – Westside Park. However, a later agreement allowed the Village to sell a small piece of the land to fund the park’s construction. The Village was unable to sell the land in its condition at the time, so it was sold to the Corporation, who would prepare the land for sale. The land was sold in 2012, but the Corporation did not immediately remit the proceeds from the sale to the Village because the Village had not begun construction on the park. The proceeds were remitted to the Village in 2015.

Regarding the reimbursement of expenses that had been paid by the Village, the April 6, 2015, Corporation Board meeting minutes stated the following:

*The Development Corporation will reimburse the Village of McCool Junction \$4995.69, \$2607.13 for concrete in Westside Park and \$2388.56 for crushed concrete placed on 5th Ave. north of M St., for the bills that the Village of McCool Junction paid for until the Development Corporation had enough money.*

Article XIII § 3, of the Nebraska Constitution provides the following:

*The credit of the state shall never be given or loaned in aid of any individual, association, or corporation, except that the state may guarantee or make long-term, low-interest loans to Nebraska residents seeking adult or post high school education at any public or private institution in this state. Qualifications for and the repayment of such loans shall be as prescribed by the Legislature.*

According to the Nebraska Supreme Court, this constitutional prohibition serves “to prevent the State or any of its governmental subdivisions from extending the state’s credit to private enterprise,” thereby “acting as a surety or guarantor of the debt of another.” *Haman v. Marsh*, 237 Neb. 699, 718, 467 N.W.2d 836, 850 (1991). Emanating from that prohibition, as explained by the Nebraska Attorney General is “a longstanding principle of constitutional law in Nebraska that public funds cannot be expended for private purposes.” Op. Att’y Gen. No. 97048 (Sept. 16, 1997).

By paying for the expenses that the Corporation, which is a legally separate, non-profit corporation, the Village is essentially providing an interest-free loan of public funds to a private enterprise. Without proper procedures to ensure public funds are not expended for private purposes, there is a risk not only of noncompliance with the law but also loss or misuse of Village funds.

We recommend the Board implement procedures to ensure public funds are not expended for private purposes, regardless of whether such expenditures are subsequently reimbursed.

#### ***Authorized Signers on Checks***

The APA discovered that Village checks were signed by two Board members after our audit period and were not signed by the new Clerk once she was hired in November 2015. This appears to be a violation of Neb. Rev. Stat. § 17-711 (Reissue 2012), which states the following:

*All warrants drawn upon the treasurer must be signed by the mayor or chairman and countersigned by the clerk, stating the particular fund to which the same is chargeable, the person to whom payable, and for what particular object. No money shall be otherwise paid than upon such warrants so drawn. Each warrant shall specify the amount included in the adopted budget statement for such fund upon which it is drawn, and the amount already expended of such fund.*

(Emphasis added.) Without adequate procedures to ensure Village checks are properly signed by those individuals authorized by statute, there is a risk not only of noncompliance with statute but also loss or misuse of Village funds.

We recommend the Board ensure checks are being signed by the appropriate parties in accordance with State statute.

### ***Other Disbursement Issues***

- The Village failed to make timely payment for one of eight claims tested. The \$20,899.43 payment to Van Kirk Brothers Contracting was included on an invoice dated September 2014 but was not paid until June 2015; some nine months after the claim was submitted.
- The Village made multiple donations throughout the year, as follows:

<b>Vendor</b>	<b>Description</b>	<b>Amount</b>
Southern Seven Clerk's Association	IIMC donation	\$100.00
McCool Junction Garden Club	2015 flower barrel donation	\$100.00
Nebraska Rural Water Association	2015 donation	\$100.00
<b>Total</b>		<b>\$300.00</b>

Neb. Rev. Stat. § 13-604(1) (Reissue 2012) authorizes a municipality “to spend its own revenue and other available resources” for any lawful purpose, including the following:

*Ordinary and necessary maintenance and operating expenses for (a) public safety, including law enforcement, fire protection, and building code enforcement; (b) environmental protection, including sewage disposal, sanitation and pollution abatement; (c) public transportation, including transit systems for streets and roads; (d) health; (e) recreation; (f) libraries; (g) social services as defined in section 68-1202; and (h) financial administration . . .*

Likewise, the Local Government Miscellaneous Expenditure Act, which is set out at Neb. Rev. Stat. §§ 13-2201 to 13-2204 (Reissue 2012), specifies various expenditures, aside from those otherwise authorized by law, that constitute allowable uses of public funds by designated political subdivisions. The provisions of the Act are made applicable to villages, among numerous other entities, by both subsections (2) and (3) of § 13-2202. Nowhere in the Act is provision made for the donation of public funds for a garden club or any such activities.

As noted in a previous comment herein, moreover, the prohibition against extending the State's credit to private enterprise, as set out in Article XIII, § 3, of the Nebraska Constitution is accompanied by a common law corollary forbidding the expenditure of public funds for private purposes.

- The Village also made a purchase that was described as memorial flowers, which does not appear to be authorized under the Local Government Miscellaneous Expenditures Act.

<b>Vendor</b>	<b>Description</b>	<b>Amount</b>
The Flower Box	White/Jacobsen memorial plants	\$85.85

On September 17, 1993, following the adoption of the Local Government Miscellaneous Expenditures Act, the Nebraska Accountability and Disclosure Commission (NADC) issued “A Guideline to the Use of Public Funds by Cities and Villages” (Guideline). That document attempts to answer some commonly asked questions regarding the appropriate use of public funds.

One of the issues addressed in the Guideline is the purchase of flowers, as follows:

*Question #6 – May municipal funds be expended for flowers and memorials for deceased elected officials, employees or their families?*

*Response – No.*

As determined by NADC, purchasing flowers for a funeral is not permissible under the Local Government Miscellaneous Expenditures Act.

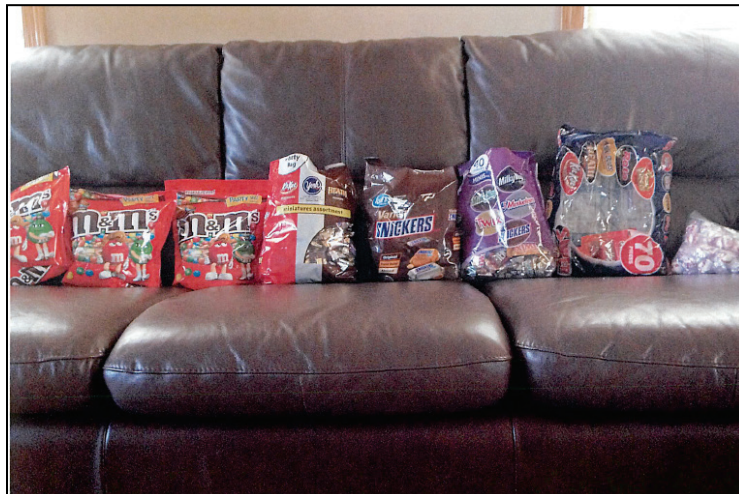
- The Village included payment for sales tax on 2 of 32 disbursements tested, as follows:

Vendor	Description	Sales Tax Paid
HD Supply Waterworks, Ltd.	2015 support, supplies	\$299.11
Municipal Automation & Control	SCADA computer update	\$625.45
<b>Total</b>		<b>\$924.56</b>

Per Neb. Rev. Stat. § 77-2704.15(1)(a) (Supp. 2015), purchases made by the State or its political subdivisions are exempt from sales tax, as follows:

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

- During June 2015, the former Clerk spent \$81.78 on a Village charge account to purchase large quantities of candy. The payment of this charge was approved by the Board at its July 2015 meeting. After the former Clerk's last day of employment, Village employees found the candy stored in the office, as shown in the following photograph:



The former Clerk's rationale for spending public funds on such a large supply of candy remains unknown, leading to serious doubts as to the reasonableness or necessity of the purchase.

A good internal control plan and sound business practices require procedures to ensure that Village claims are processed timely and in accordance with applicable statutory requirements, and expenditures approved by the Board are reasonable and necessary to municipal operations. Without such procedures, there is an increased risk for the loss or misuse of Village funds.

We recommend the Village implement procedures to ensure the following:

- All Village claims are processed timely.
- Disbursements by the Board are allowable by law.
- The Village refrains from paying sales taxes in Nebraska.
- Board-approved expenditures are reasonable and necessary to municipal operations.

## 6. **Payroll Processes**

The APA identified the following internal control issues with the Village's payroll processes:

### ***Termination Pay***

The former Clerk's last day of employment with the Village was September 28, 2015. Nevertheless, the Village continued to make payments to her after that date, as illustrated by the following table:

Payment Date	Regular Hours	Overtime	Vacation	Personal Time	Gross Wages
10/1/2015	40		135	38	\$2,707.23
11/4/2015		21.02			\$400.64
11/23/2015			124.99	(6.40)*	\$1,507.28
<b>Totals</b>	<b>40</b>	<b>21.02</b>	<b>259.99</b>	<b>31.6</b>	<b>\$4,615.15</b>

*\*This deduction was a correction to what the Village identified as an incorrect payment of personal time on the 10/01/2015 payment. The APA agrees with the original payment of 38 hours of personal time.*

The final payment made to the former Clerk on November 23, 2015, appears to have been unnecessary as her leave balance was previously paid on the October 1, 2015, check. On December 17, 2014, the former Clerk received 160 hours of vacation in accordance with Village policy, which is described below. As of her last day of employment, however, the former Clerk already had used 25 of those 160 hours, leaving a remaining vacation balance of 135 hours.

<b><i>Vacation</i></b>				
<b>Month</b>		<b>Earned</b>	<b>Used</b>	<b>Balance</b>
<i>Balance December 16, 2014</i>				35.00
<i>Anniversary date December 17, 2014 – Leave Earned</i>		160.00	-	195.00
December	2014	-	(35.00)	160.00
January	2015	-	-	160.00
February	2015	-	-	160.00
March	2015	-	-	160.00
April	2015	-	(15.00)	145.00
May	2015	-	(10.00)	135.00
June	2015	-	-	135.00
July	2015	-	-	135.00
August	2015	-	-	135.00
September	2015	-	-	135.00
<b>Totals</b>		<b>160.00</b>	<b>(60.00)</b>	<b>135.00</b>



The October 1, 2015, payment to the former Clerk appears to have been correctly calculated for the number of regular, vacation, and personal time hours. However, the Village processed another payment to the former Clerk on November 23, 2015, for additional vacation hours.

According to the Village, a letter from the Department of Labor (DOL) was received on November 10, 2015. That letter informed the Village that the Clerk had filed a formal complaint with the DOL, claiming that she was still owed payment for approximately 133 hours of vacation time. The letter requested the Village to review its records and provide the DOL with a response to the former Clerk's allegation.

Instead of responding to the DOL, the Village issued the November 23, 2015, check to the former Clerk for 118.59 additional leave hours. The Village's calculation of that payment is set out in the table below:

<b>Village Calculation (Based on 160 hours earned in December 2015)</b>	<b>Hours</b>
Weeks worked from December 17, 2014 to September 23, 2015	40.00
Hours vacation earned per week (160 hours/52 weeks)	3.08
Hours earned from December 17, 2014 to September 23, 2015	123.08
Days worked from September 24, 25, & 28, 2015	3.00
Hours vacation earned per day (3.077 hours/5 days)	0.62
Hours earned from September 24, 25, & 28, 2015	1.91
Hours earned from December 17, 2014 to September 28, 2015	124.99
Previously overpaid personal time hours*	(6.40)
<b>Hours paid on November 23, 2015</b>	<b>118.59</b>

*\*The APA determined personal time hours were not previously overpaid.*

In the November 23, 2015, payment, the Village appears to have prorated the amount to which the former Clerk would have been entitled on her December 17, 2015, anniversary date. According to the Section 303, "Vacation Benefits," of the Village's Employee Handbook (2007), however, she should have been paid only for the vacation balance accrued at the time of her termination. That provision states, "If your employment terminates, you will be paid for any unused vacation time that has been earned through your last day of work." (Emphasis added.) Therefore, the former Clerk was not entitled to the payment received for the vacation hours that she would have earned in December 2015.

Section 303 states also, "Once you enter into an eligible employment classification, you begin to earn paid vacation time according to the schedule in the policy." According to that schedule, "After 20 years of eligible service the employee is entitled to 20 vacation days or 160 hrs. each year." The same section of the Employee Handbook explains further, "You can use earned vacation time in the year after it is accrued." It provides also the following directive:

*"Employees may only carry a balance of vacation hours that is equal to or less than the maximum entitlement for the years of service. Should any employee fail to use their leave balance in any year, the entitlement from the subsequent year will be reduced by the amount of the carryover."*

In addition to the incorrect additional payment to the former Clerk, the APA noted also that the Village failed to withhold the proper retirement contribution from her October 1, 2015, check. The former Clerk had elected a 3% withholding from her wages each pay period to be contributed to a Simple IRA. The Village withheld the same dollar amount that was withheld in the prior pay period; however, that amount was not accurate based on the amount paid.



Finally, the November 23, 2015, check to the former Clerk included \$50.50, which represents \$30.50 for her retirement contribution and \$25.00 for her flexible spending account contribution, both of which had been deducted from the October 1, 2015, payment to her. According to the Board Chairman, these amounts were not properly matched by the Village, so they were paid back to the former Clerk.

Good internal control requires the Village to implement adequate procedures to ensure the accuracy of all payments made to terminated employees. Without such procedures, there is an increased risk for loss of Village funds.

We recommend the Village implement procedures to ensure the accuracy of all payments made to terminated employees. We further recommend the Village attempt to recover the funds erroneously paid to the former Clerk.

### ***Christmas Bonuses***

In December 2014, the Village paid Christmas cash bonuses, totaling \$960, to its employees as illustrated by the table below:

<b>Employee</b>	<b>Amount</b>
Andrew Riedmann	\$300
Jackie Reed	\$60
James Green	\$300
Vanee Holtmeier	\$300
<b>Totals</b>	<b>\$960.00</b>

Such gratuities appear problematic in light of the following statutory and constitutional considerations.

To start, the APA is unaware of any legal authority for the Village to give employee cash bonuses that are not part of a valid employment contract or formal policy. The Nebraska Supreme Court has offered the following observation regarding the ability of political subdivisions to act:

*A municipality or a political subdivision possesses, and can exercise, the following powers and no others: first, those granted in express words; second, those necessarily or fairly implied in or incident to the powers expressly granted; and third, those indispensable to the purposes of the municipality.*

*Professional Firefighters of Omaha, Local 385 v. City of Omaha*, 243 Neb. 166, 174, 498 N.W.2d 325 (1993). Elaborating upon the preceding rule, the Court has explained further, “Statutes granting powers to municipalities are to be strictly construed, and where doubt exists, such doubt must be resolved against the grant.” *L.J. Vontz Const. Co., Inc. v. City of Alliance*, 243 Neb. 334, 340-41, 500 N.W.2d 173 (1993).

The APA has found no express or even implied grant of authority for the Village to give employee Christmas cash bonuses. It would be patently absurd, moreover, to consider such bonuses “indispensable to the purposes of the municipality.”

Additionally, as referenced in a previous comment herein, the Local Government Miscellaneous Expenditure Act, which is set out at Neb. Rev. Stat §§ 13-2201 to 13-2204 (Reissue 2012), specifies the various types of auxiliary expenditures allowed by political subdivisions, including villages. In particular, § 13-2203(3) provides the following:

*In addition to other expenditures authorized by law, each governing body may approve . . . [t]he expenditure of public funds for plaques, certificates of achievement, or items of value awarded to elected or appointed officials, employees, or volunteers, including persons serving on local government boards or commissions. Before making any such expenditure, the governing body shall, by official action after a public hearing, establish a uniform policy which sets a dollar limit on the value of any plaque, certificate of achievement, or item of value to be awarded. Such policy, following its initial adoption, shall not be amended or altered more than once in any twelve-month period.*

(Emphasis added.) The above language permits the expenditure of public funds – which, pursuant to § 13-2202(4), means: “all money, including nontax money, used in the operation and functions of governing bodies” – for specifically designated items of value, not cash bonuses. More importantly, no such gifts may be given unless, after a public hearing and by official action, the City has first established a “uniform policy” that sets a dollar limit on the value of the item awarded.

When considering the language found in § 13-2203(3), it is necessary to keep in mind the doctrine of statutory interpretation encapsulated by the following Latin term: “expressio unius est exclusio alterius.” The Court has translated this to mean, “[T]he expression of one thing is the exclusion of the others.” *Vill. of Memphis v. Frahm*, 287 Neb. 427, 433, 843 N.W.2d 608, 615 (2014). Consequently, whenever a statute, such as § 13-2203(3), contains a listing of items, anything not expressly included in such list is understood to be intentionally excluded from it.

The APA finds it difficult to imagine how the cash Christmas bonuses given by the Village could be said to fall comfortably within the “plaques, certificates of achievement, or items of value awarded” language found in § 13-2203(3).

As also discussed in a previous comment herein, the Nebraska Accountability and Disclosure Commission issued “A Guideline to the Use of Public Funds by Cities and Villages” (Guideline) in 1993. Among other things, the Guideline addresses the issue of cash bonuses, as follows:

*Question #2: May municipal funds be used to provide cash bonuses in recognition of excellence, provide cash incentives for not using sick leave, or provide cash incentives for exemplary safety records?*

*Response: These uses of public funds are permissible. However, they are all likely to be considered compensation by the Internal Revenue Service. Cities and villages have the authority to establish compensation policies for city employees. A municipality may wish to consider establishing policies in this area if it intends to use any of the foregoing incentives.*

As the Guideline makes clear, the acceptable bonuses are incentives for specific performance, which constitute part of a formal employee compensation plan or policy – not gratuitous Christmas gifts or the like.

Finally, but by no means any less important, is the prohibition against gratuities found in Article III, § 19, of the Nebraska Constitution. That provision says, in relevant part, the following:

*The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered nor to any contractor after the contract has been entered into, except that retirement benefits of retired public officers and employees may be adjusted to reflect changes in the cost of living and wage levels that have occurred subsequent to the date of retirement.*

The Court has explained the meaning of “extra compensation” in Article III, § 19, as follows:

*A payment of compensation to a public servant constitutes extra compensation whenever there is no legal obligation to pay such compensation.*

*Myers v. Nebraska Equal Opportunity Com'n*, 255 Neb. 156, 163, 582 N.W.2d 362, 367 (1998) (quoting *Matter of Mullane v. McKenzie*, 269 N.Y. 369, 377, 199 N.E. 624, 627 (1936)). The Nebraska Attorney General has addressed further the prohibition in Article III, § 19, as follows:

*[T]he purpose of state constitutional provisions such as Art. III, § 19 which prohibit extra compensation to public employees after services are rendered is to prevent payments in the nature of gratuities for past services.*

Op. Att’y Gen. No. 95063 (Aug. 9, 1993). More succinctly yet, the Attorney General has stated regarding Article III, § 19, “Nebraska law generally requires work be performed in order for payment to be received.” Op. Att’y Gen. No. 95071 (Sept. 13, 1995).

It is important to note also that the Court has ruled the prohibition against extra compensation to a public official or employee to be applicable to both the State and its many political subdivisions. *Retired City Civilian Employees Club of City of Omaha v. City of Omaha Employees' Retirement System et al.*, 199 Neb. 507, 512, 260 N.W.2d 472, 475 (1977).

Good internal control requires procedures to ensure that any cash bonuses to Village employees are made in accordance with applicable statutory and constitutional provisions. Without such procedures, there is an increased risk for not only the unlawful distribution of Village funds but also the loss or misuse thereof.

We recommend the Village consult with the York County Attorney or the Nebraska Attorney General regarding the permissibility of giving employees Christmas cash bonuses.

#### ***Board Member Paid to be Clerk***

After the end of the audit period, the APA found that the Village paid a Board member to perform the duties of the Clerk. The payments to that Board member for those clerking duties are set out in the following table:

Date	Pay Rate	Hours	Gross Wages	Net Pay
11/16/2015	\$12.00	106.75	\$1,281.00	\$1,183.01
12/21/2015	\$12.00	60.25	\$723.00	\$667.69
01/11/2016	\$12.00	7.00	\$84.00	\$77.57
01/26/2016	\$12.00	10.50	\$126.00	\$116.36
<b>Totals</b>		<b>184.50</b>	<b>\$2,214.00</b>	<b>\$2,044.63</b>

Neb. Rev. Stat. § 17-209.02 (Reissue 2012) permits a Board member to perform “seasonal or emergency work” that involves assuming the duties of another Village office, as follows:

*The local governing body of a village may by ordinance combine and merge any elective or appointive office or employment or any combination of duties of any such offices or employments, except trustee, with any other elective or appointive office or employment so that one or more of such offices or employments or any combination of duties of any such offices or employments may be held by the same officer or employee at the same time, except that trustees may perform and upon board approval receive compensation for seasonal or emergency work . . .*

(Emphasis added.) Chapter 17, Article 2, of the Nebraska Revised Statutes provides no definition of “emergency” for purposes of § 17-209.02. Without such guidance, it is necessary to rely upon a long-standing rule of statutory interpretation that requires statutory language to be given its “plain and ordinary” meaning. The Nebraska Supreme Court has utilized this rule numerous times, as follows:

*In the absence of anything to the contrary, statutory language is to be given its plain and ordinary meaning; an appellate court will not resort to interpretation to ascertain the meaning of statutory words which are plain, direct, and unambiguous.*

*Nelson v. City of Omaha*, 256 Neb. 303, 311, 589 N.W.2d 522, 527 (1999). Webster’s New World Dictionary and Thesaurus (1996) defines an “emergency” as “a sudden, generally unexpected occurrence demanding immediate action.” When applied to § 17-209.02, such a definition appears to entail a necessary and immediate short-term response to a particular exigency.

In response to the APA’s inquiries, no documentation was provided to support that the Board member assumed the Clerk’s duties “for seasonal or emergency work,” as required by § 17-209.02. Consequently, such activity appears legally suspect.

Good internal control requires procedures to ensure adherence to specific statutory requirements when a Board member performs additional duties that fall under § 17-209.02. Without such controls, there is an increased risk not only for statutory noncompliance but also the loss or misuse of Village funds.

We recommend the Board ensures compliance with § 17-209.02 when compensating one of its members for performing additional work that falls under that statute.

### ***Incorrect Coding of Payroll***

The Village recorded the Village Maintenance Supervisor’s February 2015 paycheck incorrectly in its accounting system. The regular percentages used to allocate his payroll were 50% to the Street Fund, 25% to the Sewer Fund, and 25% to the Water Fund. Any overtime earned was to be charged to the Street Fund and any zoning activities were to be charged to the General Fund. The following table details the February 2015 allocation of the Village Maintenance Supervisor’s payroll in the accounting system.

Pay Type	Amount	Percentage	Amount	Village Coding	Correct Coding
Regular	\$1,277.60	50%	\$638.80	Sewer - Salaries	Street - Salaries
		25%	\$319.40	Street - Overtime	Sewer - Salaries
		25%	\$319.40	Water - Salaries	Water - Salaries
Overtime	\$470.57	100%	\$470.57	General - Planning Commission	Street - Overtime
Planning	\$300.00	100%	\$300.00	General - Planning Commission	General - Planning Commission

As shown in the table above, the Village incorrectly switched the coding of the Street and Sewer Funds, by charging 50% of the regular pay to the Sewer Fund, instead of the Street Fund and 25% of regular pay to the Street Fund instead of the Sewer Fund. Additionally, the overtime pay was incorrectly coded to the General Fund, instead of the Street Fund.

Good internal controls require procedures and records that accurately reflect time worked and the allocation of that time to the appropriate Village funds.

We recommend the Village implement procedures to ensure transactions are properly recorded in the accounting system.

***Other Internal Control Issues***

- The Village failed to maintain adequate employee payroll records, including documentation to support State and Federal income taxes withheld and retirement contributions. The table below details the lack of support for the various payroll withholdings, as well as the variances found:

	Year	Authorized Amount	Amount Withheld	Variance	Additional Information
Additional SIT	2014	\$40.00	\$50.00	(\$10.00)	In 2001, the employee elected to have \$15 withheld for State income taxes. Then, in 2007, he elected to have \$25 more withheld making the total \$40.
Additional SIT	2015	\$40.00	\$50.00	(\$10.00)	No new election was made between 2014 and 2015.
Retirement	2015	4%	5%	(1%)	According to the retirement form on file, 4% was to be withheld each pay period; however, 5% was withheld in 2015, with no documentation to support the change.

- The Village failed to remit the State income tax balance due to the Nebraska Department of Revenue for the 3<sup>rd</sup> Quarter of 2015 by the required due date of October 31, 2015. The balance was not paid until December 9, 2015. Such late payment is likely to result in additional interest and penalty fees.

Additionally, a copy of the Village's form used to remit income taxes due for the 3<sup>rd</sup> Quarter of 2015 could not be provided. However, the APA recalculated the amount that should have been paid, and compared it to the cleared check on the Village's bank statement to confirm that the proper amount was remitted.

Good internal control requires procedures and records to ensure that payroll amounts are adequately charged to the correct funds, deductions from employee pay checks are accurate and adequately supported, and income tax withholdings are remitted timely to the appropriate State and Federal agencies. Without such procedures, there is an increased risk for loss or misuse of State funds, improper payments or unauthorized deductions from employees' payroll, and possible penalties for the untimely remittance of income taxes.

We recommend the Board implement procedures to ensure payroll amounts are properly charged to the Village's funds, withholding documentation is properly maintained, and taxes are remitted timely and accurately to the appropriate State and Federal agencies.

## **7. Pledged Collateral**

The Village lacked procedures to ensure that its deposits were adequately secured by either Federal Deposit Insurance Corporation (FDIC) coverage or adequate pledged collateral.

Neb. Rev. Stat. § 77-2395(1) (Reissue 2009) states the following, in relevant part:

*[T]he custodial official shall not have on deposit in such depository any public money or public funds in excess of the amount insured or guaranteed by the Federal Deposit Insurance Corporation, unless and until the depository has furnished to the custodial official securities, the market value of which are in an amount not less than one hundred two percent of the amount on deposit which is in excess of the amount so insured or guaranteed.*

During the audit period, the FDIC coverage was \$250,000 per depositor, per insured bank. On several occasions throughout the fiscal year, the Village maintained balances, calculated at 102% of the statutorily allowed deposit amount, which exceeded \$250,000, making FDIC coverage alone inadequate to protect fully all of the Village's deposits. See the table below for details:

<b>Date</b>	<b>Total Bank Balances</b>	<b>102% Coverage Required</b>	<b>FDIC Coverage</b>	<b>Amount in Excess of FDIC</b>
9/30/2014	\$416,488	\$424,818	\$250,000	\$174,818
10/31/2014	\$380,256	\$387,861	\$250,000	\$137,861
11/30/2014	\$337,380	\$344,127	\$250,000	\$94,127
12/31/2014	\$322,247	\$328,692	\$250,000	\$78,692
1/31/2015	\$307,342	\$313,489	\$250,000	\$63,489
2/28/2015	\$313,400	\$319,668	\$250,000	\$69,668
3/31/2015	\$313,069	\$319,331	\$250,000	\$69,331
4/30/2015	\$316,955	\$323,294	\$250,000	\$73,294
5/31/2015	\$394,568	\$402,459	\$250,000	\$152,459
6/30/2015	\$388,224	\$395,989	\$250,000	\$145,989
7/31/2015	\$376,942	\$384,481	\$250,000	\$134,481
8/31/2015	\$322,339	\$328,785	\$250,000	\$78,785
9/30/2015	\$272,528	\$277,979	\$250,000	\$27,979

Without adequate procedures to ensure Village deposits are properly ensured, there is a risk not only of violating State law but also for the loss of Village funds.

We recommend the Board implement procedures to ensure its deposits are fully ensured by either FDIC coverage or other pledged collateral at all times throughout the year.

## **8. Related Party Disclosure**

The former Clerk supervised her daughter, who lived in the same household and provided janitorial services to the Village. The employee was paid \$925 for the fiscal year.

Neb. Rev. Stat. § 49-1499.04 (1) (Reissue 2010) states the following:

*An official or employee of a political subdivision may employ or recommend or supervise the employment of an immediate family member if (a) he or she does not abuse his or her official position as described in section 49-1499.05, (b) he or she makes a full disclosure on the record to the governing body of the political subdivision and a written disclosure to the person in charge of keeping records for the governing body, and (c) the governing body of the political subdivision approves the employment or supervisory position.*

Neb. Rev. Stat. § 49-1425 (Reissue 2010) defines immediate family as follows:

*Immediate family shall mean a child residing in an individual's household, a spouse of an individual, or an individual claimed by that individual or that individual's spouse as a dependent for federal income tax purposes.*

The APA found no documentation to indicate the former Clerk complied with the aforementioned statutory requirements upon the hiring and supervision of her daughter.

When Board members or Village staff employ an immediate family member and is in a supervisory position over that individual, there is an increased risk of exerting improper influence or collusion, when these relationships are not properly disclosed and monitored.

We recommend the Board implement procedures to ensure all current and future employments of family members that meet the definition provided in § 49-1425 are appropriately disclosed with the Clerk and with the governing body for consideration during the hiring process.

*Overall Village Response: The Village of McCool Junction greatly appreciates all the guidance your office has given to us during our audit. We have already remedied many of the recommendations that your office has brought to our attention. The remaining recommendations are and will be resolved within the next couple of months, as most will need Board approval.*

\* \* \* \* \*

It should be noted this report is critical in nature, as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the Village.

Draft copies of this report were furnished to the Village to provide management with an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Village declined to respond. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

This report is intended solely for the information and use of the Village, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



Craig Kubicek, CPA, CFE  
Assistant Deputy Auditor

cc: Nebraska Accountability and Disclosure Commission  
York County Attorney



**VILLAGE OF MCCOOL JUNCTION  
UTILITY ACCOUNT DETAILS**

**EXHIBIT A**

***Former Clerk Utility Details***

The following table illustrates the monthly utility charges and payments from the former Clerk.

<b>Former Clerk</b>					
<b>Month/Year</b>	<b>Beg. Bal.</b>	<b>Charges</b>	<b>Late Fee</b>	<b>Pmt</b>	<b>End. Bal.</b>
October 2010	\$934.04	\$43.35	\$0.00	(\$339.57)	\$637.82
November 2010	\$637.82	\$46.63	\$5.00	\$0.00	\$689.45
December 2010	\$689.45	\$41.39	\$5.00	(\$86.69)	\$649.15
January 2011	\$649.15	\$47.24	\$5.00	\$0.00	\$701.39
February 2011	\$701.39	\$45.03	\$5.00	\$0.00	\$751.42
March 2011	\$751.42	\$45.09	\$5.00	\$0.00	\$801.51
April 2011	\$801.51	\$43.48	\$5.00	\$0.00	\$849.99
May 2011	\$849.99	\$48.69	\$5.00	\$0.00	\$903.68
June 2011	\$903.68	\$56.40	\$5.00	\$0.00	\$965.08
July 2011	\$965.08	\$56.83	\$5.00	\$0.00	\$1,026.91
August 2011	\$1,026.91	\$56.91	\$5.00	\$0.00	\$1,088.82
September 2011	\$1,088.82	\$60.04	\$5.00	\$0.00	\$1,153.86
<b>FY 11 Totals</b>	<b>\$934.04</b>	<b>\$591.08</b>	<b>\$55.00</b>	<b>(\$426.26)</b>	<b>\$1,153.86</b>
October 2011	\$1,153.86	\$38.54	\$5.00	\$0.00	\$1,197.40
November 2011	\$1,197.40	\$44.44	\$5.00	\$0.00	\$1,246.84
December 2011	\$1,246.84	\$47.33	\$5.00	\$0.00	\$1,299.17
January 2012	\$1,299.17	\$45.76	\$5.00	\$0.00	\$1,349.93
February 2012	\$1,349.93	\$45.26	\$0.00	(\$87.14)	\$1,308.05
March 2012	\$1,308.05	\$47.28	\$0.00	(\$89.74)	\$1,265.59
April 2012	\$1,265.59	\$46.20	\$0.00	(\$45.11)	\$1,266.68
May 2012	\$1,266.68	\$54.45	\$5.00	\$0.00	\$1,326.13
June 2012	\$1,326.13	\$60.11	\$0.00	(\$109.97)	\$1,276.27
July 2012	\$1,276.27	\$85.00	\$0.00	(\$267.93)	\$1,093.34
August 2012	\$1,093.34	\$62.83	\$0.00	\$0.00	\$1,156.17
September 2012	\$1,156.17	\$60.24	\$5.00	\$0.00	\$1,221.41
<b>FY 12 Totals</b>	<b>\$1,153.86</b>	<b>\$637.44</b>	<b>\$30.00</b>	<b>(\$599.89)</b>	<b>\$1,221.41</b>
October 2012	\$1,221.41	\$73.37	\$0.00	(\$200.00)	\$1,094.78
November 2012	\$1,094.78	\$49.70	\$0.00	(\$200.00)	\$944.48
December 2012	\$944.48	\$40.73	\$0.00	(\$101.77)	\$883.44
January 2013	\$883.44	\$39.60	\$0.00	\$0.00	\$923.04
February 2013	\$923.04	\$41.97	\$0.00	(\$138.30)	\$826.71
March 2013	\$826.71	\$46.18	\$5.00	\$0.00	\$877.89
April 2013	\$877.89	\$46.31	\$5.00	\$0.00	\$929.20
May 2013	\$929.20	\$50.82	\$5.00	\$0.00	\$985.02
June 2013	\$985.02	\$57.52	\$5.00	\$0.00	\$1,047.54
July 2013	\$1,047.54	\$72.50	\$5.00	\$0.00	\$1,125.04
August 2013	\$1,125.04	\$48.16	\$5.00	\$0.00	\$1,178.20
September 2013	\$1,178.20	\$59.40	\$5.00	\$0.00	\$1,242.60
<b>FY13 Totals</b>	<b>\$1,221.41</b>	<b>\$626.26</b>	<b>\$35.00</b>	<b>(\$640.07)</b>	<b>\$1,242.60</b>
October 2013	\$1,242.60	\$48.16	\$5.00	\$0.00	\$1,295.76
November 2013	\$1,295.76	\$50.04	\$5.00	\$0.00	\$1,350.80
December 2013	\$1,350.80	\$51.90	\$5.00	\$0.00	\$1,407.70
January 2014	\$1,407.70	\$50.04	\$5.00	\$0.00	\$1,462.74
February 2014	\$1,462.74	\$50.04	\$0.00	(\$75.00)	\$1,437.78



**VILLAGE OF MCCOOL JUNCTION  
UTILITY ACCOUNT DETAILS**

**EXHIBIT A**

<b>Former Clerk</b>					
<b>Month/Year</b>	<b>Beg. Bal.</b>	<b>Charges</b>	<b>Late Fee</b>	<b>Pmt</b>	<b>End. Bal.</b>
March 2014	\$1,437.78	\$48.16	\$0.00	(\$350.00)	\$1,135.94
April 2014	\$1,135.94	\$51.90	(\$5.00)	\$0.00	\$1,182.84
May 2014	\$1,182.84	\$51.90	\$5.00	\$0.00	\$1,239.74
June 2014	\$1,239.74	\$61.26	\$0.00	(\$200.00)	\$1,101.00
July 2014	\$1,101.00	\$66.88	\$5.00	\$0.00	\$1,172.88
August 2014	\$1,172.88	\$76.24	\$5.00	\$0.00	\$1,254.12
September 2014	\$1,254.12	\$59.38	\$5.00	\$0.00	\$1,318.50
<b>FY14 Totals</b>	<b>\$1,242.60</b>	<b>\$665.90</b>	<b>\$35.00</b>	<b>(\$625.00)</b>	<b>\$1,318.50</b>
October 2014	\$1,318.50	\$55.64	\$5.00	\$0.00	\$1,379.14
November 2014	\$1,379.14	\$57.52	\$5.00	\$0.00	\$1,441.66
December 2014	\$1,441.66	\$59.38	\$5.00	\$0.00	\$1,506.04
January 2015	\$1,506.04	\$59.38	\$5.00	\$0.00	\$1,570.42
February 2015	\$1,570.42	\$57.52	\$5.00	\$0.00	\$1,632.94
March 2015	\$1,632.94	\$59.38	\$5.00	\$0.00	\$1,697.32
April 2015	\$1,697.32	\$59.38	\$5.00	\$0.00	\$1,761.70
May 2015	\$1,761.70	\$59.38	\$5.00	\$0.00	\$1,826.08
June 2015	\$1,826.08	\$61.26	\$5.00	\$0.00	\$1,892.34
July 2015	\$1,892.34	\$66.88	\$0.00	(\$300.00)	\$1,659.22
August 2015	\$1,659.22	\$66.88	\$5.00	\$0.00	\$1,731.10
September 2015	\$1,731.10	\$68.74	\$0.00	\$0.00	\$1,799.84
<b>FY15 Totals</b>	<b>\$1,318.50</b>	<b>\$731.34</b>	<b>\$50.00</b>	<b>(\$300.00)</b>	<b>\$1,799.84</b>

***First Lutheran Church***

The following table illustrates the monthly utility charges and payments for First Lutheran Church.

<b>First Lutheran Church</b>					
<b>Month/Year</b>	<b>Beg. Bal.</b>	<b>Charges</b>	<b>Late Fee</b>	<b>Pmt</b>	<b>End. Bal.</b>
October 2010	\$660.50	\$35.50	\$0.00	(\$308.50)	\$387.50
November 2010	\$387.50	\$34.00	\$0.00	\$0.00	\$421.50
December 2010	\$421.50	\$35.50	\$0.00	(\$74.00)	\$383.00
January 2011	\$383.00	\$35.50	\$0.00	\$0.00	\$418.50
February 2011	\$418.50	\$34.00	\$0.00	\$0.00	\$452.50
March 2011	\$452.50	\$35.50	\$0.00	\$0.00	\$488.00
April 2011	\$488.00	\$35.50	\$0.00	\$0.00	\$523.50
May 2011	\$523.50	\$34.00	\$0.00	\$0.00	\$557.50
June 2011	\$557.50	\$49.50	\$0.00	\$0.00	\$607.00
July 2011	\$607.00	\$70.50	\$0.00	\$0.00	\$677.50
August 2011	\$677.50	\$45.00	\$5.00	\$0.00	\$727.50
September 2011	\$727.50	\$37.50	\$5.00	\$0.00	\$770.00
<b>FY11 Totals</b>	<b>\$660.50</b>	<b>\$482.00</b>	<b>\$10.00</b>	<b>(\$382.50)</b>	<b>\$770.00</b>
October 2011	\$770.00	\$36.00	\$0.00	\$0.00	\$806.00
November 2011	\$806.00	\$37.50	\$0.00	\$0.00	\$843.50
December 2011	\$843.50	\$36.00	\$0.00	\$0.00	\$879.50
January 2012	\$879.50	\$37.50	\$5.00	\$0.00	\$922.00
February 2012	\$922.00	\$36.00	\$0.00	(\$67.50)	\$890.50
March 2012	\$890.50	\$37.50	\$0.00	(\$68.50)	\$859.50

**VILLAGE OF MCCOOL JUNCTION  
UTILITY ACCOUNT DETAILS**

**EXHIBIT A**

<b>First Lutheran Church</b>					
<b>Month/Year</b>	<b>Beg. Bal.</b>	<b>Charges</b>	<b>Late Fee</b>	<b>Pmt</b>	<b>End. Bal.</b>
April 2012	\$859.50	\$36.00	\$0.00	(\$34.00)	\$861.50
May 2012	\$861.50	\$50.00	\$0.00	\$0.00	\$911.50
June 2012	\$911.50	\$47.50	\$0.00	(\$35.50)	\$923.50
July 2012	\$923.50	\$37.00	\$0.00	(\$247.00)	\$713.50
August 2012	\$713.50	\$44.00	\$0.00	\$0.00	\$757.50
September 2012	\$757.50	\$37.00	\$0.00	\$0.00	\$794.50
<b>FY12 Totals</b>	<b>\$770.00</b>	<b>\$472.00</b>	<b>\$5.00</b>	<b>(\$452.50)</b>	<b>\$794.50</b>
October 2012	\$794.50	\$38.75	\$0.00	(\$200.00)	\$633.25
November 2012	\$633.25	\$37.00	\$0.00	(\$200.00)	\$470.25
December 2012	\$470.25	\$37.00	\$0.00	(\$73.50)	\$433.75
January 2013	\$433.75	\$38.75	\$0.00	\$0.00	\$472.50
February 2013	\$472.50	\$37.00	\$0.00	(\$123.50)	\$386.00
March 2013	\$386.00	\$38.75	\$5.00	\$0.00	\$429.75
April 2013	\$429.75	\$37.00	\$0.00	\$0.00	\$466.75
May 2013	\$466.75	\$38.75	\$0.00	\$0.00	\$505.50
June 2013	\$505.50	\$38.00	\$0.00	\$0.00	\$543.50
July 2013	\$543.50	\$38.00	\$5.00	\$0.00	\$586.50
August 2013	\$586.50	\$38.00	\$5.00	\$0.00	\$629.50
September 2013	\$629.50	\$39.75	\$0.00	\$0.00	\$669.25
<b>FY13 Totals</b>	<b>\$794.50</b>	<b>\$456.75</b>	<b>\$15.00</b>	<b>(\$597.00)</b>	<b>\$669.25</b>
October 2013	\$669.25	\$38.00	\$0.00	\$0.00	\$707.25
November 2013	\$707.25	\$59.00	\$0.00	\$0.00	\$766.25
December 2013	\$766.25	\$38.00	\$5.00	\$0.00	\$809.25
January 2014	\$809.25	\$38.00	\$5.00	\$0.00	\$852.25
February 2014	\$852.25	\$39.75	\$0.00	(\$75.00)	\$817.00
March 2014	\$817.00	\$45.00	\$0.00	(\$350.00)	\$512.00
April 2014	\$512.00	\$39.75	(\$5.00)	\$0.00	\$546.75
May 2014	\$546.75	\$78.25	\$5.00	\$0.00	\$630.00
June 2014	\$630.00	\$45.00	\$0.00	(\$200.00)	\$475.00
July 2014	\$475.00	\$46.75	\$0.00	\$0.00	\$521.75
August 2014	\$521.75	\$46.75	\$0.00	\$0.00	\$568.50
September 2014	\$568.50	\$45.00	\$0.00	\$0.00	\$613.50
<b>FY14 Totals</b>	<b>\$669.25</b>	<b>\$559.25</b>	<b>\$10.00</b>	<b>(\$625.00)</b>	<b>\$613.50</b>
October 2014	\$613.50	\$53.75	\$0.00	\$0.00	\$667.25
November 2014	\$667.25	\$137.75	\$0.00	\$0.00	\$805.00
December 2014	\$805.00	\$46.75	\$5.00	\$0.00	\$856.75
January 2015	\$856.75	\$45.00	\$5.00	\$0.00	\$906.75
February 2015	\$906.75	\$46.75	\$0.00	\$0.00	\$953.50
March 2015	\$953.50	\$45.00	\$0.00	\$0.00	\$998.50
April 2015	\$998.50	\$45.00	\$0.00	\$0.00	\$1,043.50
May 2015	\$1,043.50	\$45.00	\$5.00	\$0.00	\$1,093.50
June 2015	\$1,093.50	\$45.00	\$0.00	\$0.00	\$1,138.50
July 2015	\$1,138.50	\$46.75	\$0.00	(\$200.00)	\$985.25
August 2015	\$985.25	\$45.00	\$0.00	\$0.00	\$1,030.25
September 2015	\$1,030.25	\$46.75	\$0.00	\$0.00	\$1,077.00
<b>FY15 Totals</b>	<b>\$613.50</b>	<b>\$648.50</b>	<b>\$15.00</b>	<b>(\$200.00)</b>	<b>\$1,077.00</b>