

CITY OF CRETE, NEBRASKA

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended September 30, 2010

CITY OF CRETE, NEBRASKA

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MARVIN E. JEWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Honorable Mayor and City Council
City of Crete, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crete, Nebraska (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the City of Crete, Nebraska prepares its financial statements of the governmental activities, each major fund and the aggregate remaining fund information on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund and the aggregate remaining fund information of the City of Crete, Nebraska, as of September 30, 2010, and the respective changes in financial position – modified cash basis thereof for the year then ended on the basis of accounting described in Note 1.

In our opinion, the business-type activities financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the City of Crete, Nebraska, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2011 on our consideration of the City of Crete, Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 29 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Marvin E. Jewell & Co., P.C.

Lincoln, Nebraska
February 14, 2011

CITY OF CRETE, NEBRASKA

Statement of Net Assets – Modified Cash Basis

September 30, 2010

	Governmental	Business-Type	
	Activities	Activities	Total
	<hr/>	<hr/>	
ASSETS			
CURRENT ASSETS			
Cash	\$ 2,563,532	1,371,561	3,935,093
Cash held by County Treasurer	86,439	32,407	118,846
Restricted Cash	265,359	78,170	343,529
Restricted Cash held by County Treasurer	68,204	-	68,204
Accounts receivable, less allowance for doubtful accounts	-	1,015,145	1,015,145
Assessments receivable	-	174,329	174,329
Interest receivable	-	34,489	34,489
Inventory	-	339,148	339,148
Employee advance - Cafeteria plan	3,425	-	3,425
Internal balances	(112,035)	112,035	-
Prepaid expenses	-	-	-
TOTAL CURRENT ASSETS	<hr/> 2,874,924	<hr/> 3,157,284	<hr/> 6,032,208
OTHER ASSETS			
Investments	106,336	3,908,708	4,015,044
Restricted investments	372,605	633,930	1,006,535
Restricted interest receivable	-	375	375
Noncurrent assessments receivable	-	309,357	309,357
Bond discount, less accumulated amortization	-	26,811	26,811
TOTAL OTHER ASSETS	<hr/> 478,941	<hr/> 4,879,181	<hr/> 5,358,122
NET PROPERTY AND EQUIPMENT	<hr/> -	<hr/> 13,011,212	<hr/> 13,011,212
TOTAL ASSETS	<hr/> \$ 3,353,865	<hr/> 21,047,677	<hr/> 24,401,542
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current portion of bonds payable	\$ -	290,000	290,000
Accounts payable	-	681,350	681,350
Accrued expenses	-	177,747	177,747
Consumer deposits	-	150,669	150,669
Other current liabilities	513	-	513
TOTAL CURRENT LIABILITIES	<hr/> 513	<hr/> 1,299,766	<hr/> 1,300,279
LONG-TERM LIABILITIES	<hr/> -	<hr/> 2,245,000	<hr/> 2,245,000
NET ASSETS			
Invested in capital assets, net of related debt	-	12,932,055	12,932,055
Restricted for:			
Debt service	330,194	561,806	892,000
Other purposes	368,711	-	368,711
Unrestricted	2,654,447	4,009,050	6,663,497
TOTAL NET ASSETS	<hr/> 3,353,352	<hr/> 17,502,911	<hr/> 20,856,263
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 3,353,865	<hr/> 21,047,677	<hr/> 24,401,542

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

Statement of Activities – Modified Cash Basis

For the Year Ended September 30, 2010

Functions/Programs	Program Receipts/Revenues			Net Receipts / Revenues (Disbursements/ Expenses) and Changes in Net Assets			
	Cash Disbursements/ Expenditures	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ (977,428)	1,273,232	-	-	295,804	-	295,804
Public Safety	(1,433,381)	322,234	33,542	38,639	(1,038,966)	-	(1,038,966)
Streets	(505,856)	19,091	420,700	157,112	91,047	-	91,047
Public Welfare	(444,362)	81,590	114,982	-	(247,790)	-	(247,790)
Culture and Recreation	(672,928)	109,314	238,625	39,510	(285,479)	-	(285,479)
Lottery	(12,523)	51,675	-	-	39,152	-	39,152
Assessments	-	81,941	-	-	81,941	-	81,941
Capital Projects	(123,255)	-	-	-	(123,255)	-	(123,255)
Principal, Interest and Charges on Debt	(514,129)	-	-	-	(514,129)	-	(514,129)
Total Governmental Activities	(4,683,862)	1,939,077	807,849	235,261	(1,701,675)	-	(1,701,675)
Business-Type Activities							
Electric	(7,667,300)	7,852,002	-	-	-	184,702	184,702
Water	(782,292)	931,964	-	-	-	149,672	149,672
Sewer	(748,195)	607,498	-	-	-	(140,697)	(140,697)
Total Business-Type Activities	(9,197,787)	9,391,464	-	-	-	193,677	193,677
Total Primary Government	\$ (13,881,649)	11,330,541	807,849	235,261	(1,701,675)	193,677	(1,507,998)
General Receipts/Revenues:							
Property Tax					1,237,670	-	1,237,670
Motor Vehicle Tax					126,134	-	126,134
Sales and Use Tax					689,258	-	689,258
State Aid and Equalization					251,752	-	251,752
Occupation and Franchise Tax					301,520	-	301,520
Investment Earnings					10,018	178,734	188,752
Insurance Proceeds					3,500	-	3,500
Net Bond/Note Proceeds (Redemptions)					250,000	-	250,000
Contributions - Internal Activities					82,500	(82,500)	-
Total General Receipts/Revenues and Contributions					2,952,352	96,234	3,048,586
Change in Net Assets					1,250,677	289,911	1,540,588
Net Assets - Beginning					2,102,675	17,213,000	19,315,675
Net Assets - Ending					\$ 3,353,352	17,502,911	20,856,263

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Balance Sheet – Modified Cash Basis
Governmental Funds**

September 30, 2010

	General	Debt	Other	
	Fund	Service	Governmental	
	Fund	Service	Funds	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 234,897	-	2,328,635	2,563,532
Restricted Cash	-	185,201	80,158	265,359
Cash held by County Treasurer	86,439	-	-	86,439
Restricted Cash held by County Treasurer	-	68,204	-	68,204
Employee advances, cafeteria plan	-	-	3,425	3,425
Interfund loans	6,279	-	30	6,309
TOTAL CURRENT ASSETS	<u>327,615</u>	<u>253,405</u>	<u>2,412,248</u>	<u>2,993,268</u>
OTHER ASSETS				
Investments	-	-	106,336	106,336
Restricted Investments	-	83,686	288,919	372,605
TOTAL OTHER ASSETS	<u>-</u>	<u>83,686</u>	<u>395,255</u>	<u>478,941</u>
TOTAL ASSETS	<u>\$ 327,615</u>	<u>337,091</u>	<u>2,807,503</u>	<u>3,472,209</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Interfund loans	\$ 104,649	7,263	6,885	118,797
Due to agency fund	60	-	-	60
TOTAL CURRENT LIABILITIES	<u>104,709</u>	<u>7,263</u>	<u>6,885</u>	<u>118,857</u>
FUND BALANCE				
Invested in capital assets, net of related debt				
Reserved for:				
Debt service	-	329,828	366	330,194
Other purposes	-	-	368,711	368,711
Unreserved reported in:				
General fund - Undesignated	222,906	-	-	222,906
Capital projects funds:				
Designated for subsequent years expenditures	-	-	418,548	418,548
Special revenue funds:				
Undesignated	-	-	1,249,527	1,249,527
Designated for subsequent years expenditures	-	-	763,466	763,466
TOTAL FUND BALANCE	<u>222,906</u>	<u>329,828</u>	<u>2,800,618</u>	<u>3,353,352</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 327,615</u>	<u>337,091</u>	<u>2,807,503</u>	<u>3,472,209</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis
Governmental Funds**

For the Year Ended September 30, 2010

	General	Debt	Other	
	Fund	Service	Governmental	
			Funds	Total
REVENUES				
Taxes	\$ 1,240,241	381,854	732,487	2,354,582
Intergovernmental	251,752	-	442,900	694,652
Charges for services	650,254	81,941	1,206,882	1,939,077
Investment income	1,196	1,569	7,253	10,018
Grants and donations	11,342	-	588,868	600,210
Insurance Proceeds	-	-	3,500	3,500
TOTAL REVENUES	<u>2,154,785</u>	<u>465,364</u>	<u>2,981,890</u>	<u>5,602,039</u>
EXPENDITURES				
General Government	307,803	-	669,625	977,428
Public Safety	1,025,511	-	407,870	1,433,381
Streets	-	-	505,856	505,856
Public Welfare	343,893	-	100,469	444,362
Culture and Recreation	-	-	672,928	672,928
Lottery	-	-	12,523	12,523
Capital Projects	-	1,358	121,897	123,255
Principal, interest and charges on debt	-	442,628	71,501	514,129
TOTAL EXPENDITURES	<u>1,677,207</u>	<u>443,986</u>	<u>2,562,669</u>	<u>4,683,862</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>477,578</u>	<u>21,378</u>	<u>419,221</u>	<u>918,177</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	550,008	35,000	1,158,655	1,743,663
Transfers out	(1,020,281)	(11,456)	(711,926)	(1,743,663)
Issuance of debt	-	250,000	-	250,000
Capital contributions	-	-	82,500	82,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>(470,273)</u>	<u>273,544</u>	<u>529,229</u>	<u>332,500</u>
NET CHANGE IN FUND BALANCES	7,305	294,922	948,450	1,250,677
FUND BALANCES - BEGINNING	<u>215,601</u>	<u>34,906</u>	<u>1,852,168</u>	<u>2,102,675</u>
FUND BALANCES - ENDING	<u>\$ 222,906</u>	<u>329,828</u>	<u>2,800,618</u>	<u>3,353,352</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Statement of Net Assets
Proprietary Funds**

September 30, 2010

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,071,209	438,468	-	1,509,677
Cash at County Treasurer	-	-	32,407	32,407
Accounts receivable, less allowance for doubtful accounts	843,738	107,681	63,726	1,015,145
Assessments receivable	-	4,737	169,592	174,329
Interest receivable	19,146	882	14,461	34,489
Inventory	318,651	20,497	-	339,148
Interfund loans	776,729	4,458	2,805	783,992
TOTAL CURRENT ASSETS	3,029,473	576,723	282,991	3,889,187
RESTRICTED ASSETS				
Cash	78,170	-	-	78,170
Interest receivable	375	-	-	375
Investments	233,930	400,000	-	633,930
TOTAL RESTRICTED ASSETS	312,475	400,000	-	712,475
NET PROPERTY AND EQUIPMENT	5,088,487	4,166,394	3,756,331	13,011,212
OTHER ASSETS				
Investments	3,842,782	-	65,926	3,908,708
Noncurrent assessments receivable	-	-	309,357	309,357
Deferred bond costs, less amortization	12,603	8,847	5,361	26,811
TOTAL OTHER ASSETS	3,855,385	8,847	380,644	4,244,876
TOTAL ASSETS	\$ 12,285,820	5,151,964	4,419,966	21,857,750
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Cash overdraft	\$ -	-	138,116	138,116
Current portion of revenue bonds	136,300	95,700	58,000	290,000
Accounts payable	664,902	8,368	8,080	681,350
Accrued expenses	88,682	53,382	35,683	177,747
Interfund loans	30	665,270	6,657	671,957
Consumer deposits	150,669	-	-	150,669
TOTAL CURRENT LIABILITIES	1,040,583	822,720	246,536	2,109,839
LONG-TERM LIABILITIES	1,055,150	740,850	449,000	2,245,000
NET ASSETS				
Invested in capital assets, net of related debt	5,015,474	4,160,760	3,755,821	12,932,055
Restricted for debt service	161,806	400,000	-	561,806
Unrestricted	5,012,807	(972,366)	(31,391)	4,009,050
TOTAL NET ASSETS	10,190,087	3,588,394	3,724,430	17,502,911
TOTAL LIABILITIES AND NET ASSETS	\$ 12,285,820	5,151,964	4,419,966	21,857,750

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds**

For the Year Ended September 30, 2010

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
OPERATING REVENUES				
User fees	7,015,999	909,921	596,586	8,522,506
User fees - interfund	185,022	11,351	2,776	199,149
MEAN - lease	564,120	-	-	564,120
Other	86,861	10,692	8,136	105,689
TOTAL OPERATING REVENUES	7,852,002	931,964	607,498	9,391,464
OPERATING EXPENSES				
Production and Treatment:				
Salaries	199,962	-	156,911	356,873
Fuel and natural gas	31,830	-	-	31,830
Depreciation	144,512	85,141	115,432	345,085
Supplies and maintenance	100,965	28,245	24,955	154,165
Power and utilities	48,914	47,264	69,460	165,638
Other	-	-	10,757	10,757
	<u>526,183</u>	<u>160,650</u>	<u>377,515</u>	<u>1,064,348</u>
Power Purchased	5,455,614	-	-	5,455,614
Transmission -				
Depreciation	4,028	-	-	4,028
Distribution and Collection:				
Depreciation	236,892	65,024	62,773	364,689
Maintenance and vehicle expense	267,535	213,124	49,044	529,703
Supplies	-	17,739	-	17,739
	<u>504,427</u>	<u>295,887</u>	<u>111,817</u>	<u>912,131</u>
General and Administrative:				
Salaries	202,980	116,520	80,398	399,898
Payroll taxes and employee benefits	163,337	106,615	84,464	354,416
Insurance, general	75,766	29,435	29,606	134,807
Professional fees	47,273	15,029	19,952	82,254
Office expense	17,116	10,494	9,586	37,196
Repairs and maintenance	7,176	3,226	7,349	17,751
Depreciation	12,411	1,958	2,439	16,808
Bad debt	8,153	2,806	1,820	12,779
Surplus transfer	410,000	-	-	410,000
Franchise fee	120,000	-	-	120,000
Other	61,978	3,963	1,607	67,548
	<u>1,126,190</u>	<u>290,046</u>	<u>237,221</u>	<u>1,653,457</u>
TOTAL OPERATING EXPENSES	7,616,442	746,583	726,553	9,089,578
OPERATING INCOME (LOSS)	235,560	185,381	(119,055)	301,886
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	138,768	5,667	34,299	178,734
Interest expense	(48,932)	(34,356)	(20,822)	(104,110)
Amortization	(1,926)	(1,353)	(820)	(4,099)
TOTAL NONOPERATING REVENUES (EXPENSES)	87,910	(30,042)	12,657	70,525
INCOME (LOSS) BEFORE CONTRIBUTIONS	323,470	155,339	(106,398)	372,411
CAPITAL CONTRIBUTIONS	(82,500)	-	-	(82,500)
CHANGE IN NET ASSETS	240,970	155,339	(106,398)	289,911
NET ASSETS - BEGINNING	9,949,117	3,433,055	3,830,828	17,213,000
NET ASSETS - ENDING	\$ 10,190,087	3,588,394	3,724,430	17,502,911

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Statement of Cash Flows
Proprietary Funds**

For the Year Ended September 30, 2010

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 7,022,414	906,067	598,917	8,527,398
Cash received for interfund services provided	183,521	11,351	2,847	197,719
Cash received from MEAN lease	564,120	-	-	564,120
Cash received from other operating revenues	88,425	12,379	35,602	136,406
Cash paid to suppliers for goods and services	(6,041,674)	(305,695)	(304,920)	(6,652,289)
Cash paid to employees and professional contractors for services, including benefits and taxes	(697,046)	(287,536)	(236,880)	(1,221,462)
Cash paid for surplus transfer	(410,000)	-	-	(410,000)
Net cash provided by operating activities	<u>709,760</u>	<u>336,566</u>	<u>95,566</u>	<u>1,141,892</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received from tax collections	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Disposition of equipment	29,138	-	-	29,138
Purchase of property and equipment	(307,069)	(170,297)	(15,144)	(492,510)
Principal payments on bonds	(129,250)	(90,750)	(55,000)	(275,000)
Interest payments on bonds	(25,588)	(18,008)	(32,667)	(76,263)
Loan (to) from other funds	(25,589)	(17,924)	10,889	(32,624)
Capital contribution from (to) other funds	(82,500)	-	-	(82,500)
Net cash provided (used) by capital and related financing activities	<u>(540,858)</u>	<u>(296,979)</u>	<u>(91,922)</u>	<u>(929,759)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of investments	283,553	-	-	283,553
Purchase of investments	(235,420)	-	-	(235,420)
Investment income	140,172	6,085	32,470	178,727
Net cash provided (used) by investing activities	<u>188,305</u>	<u>6,085</u>	<u>32,470</u>	<u>226,860</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>357,207</u>	<u>45,672</u>	<u>36,114</u>	<u>438,993</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>792,172</u>	<u>392,796</u>	<u>(141,823)</u>	<u>1,043,145</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,149,379</u>	<u>438,468</u>	<u>(105,709)</u>	<u>1,482,138</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Statement of Cash Flows (continued)
Proprietary Funds**

September 30, 2010

	<u>Business-Type Activities -- Enterprise Funds</u>			
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income (loss) from operations	\$ 235,560	185,381	(119,055)	301,886
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:				
Depreciation	397,843	152,123	180,644	730,610
Adjustments for working capital changes:				
(Increase) decrease in:				
Receivables	(7,851)	(3,598)	28,110	16,661
Inventory	38,522	621	-	39,143
Increase (decrease) in:				
Accounts payable and internal balances	24,654	1,487	7,965	34,106
Accrued expenses	6,733	552	(2,098)	5,187
Consumer deposits	14,299	-	-	14,299
Net cash provided by operating activities	<u>\$ 709,760</u>	<u>336,566</u>	<u>95,566</u>	<u>1,141,892</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

**Statement of Fiduciary Net Assets
Fiduciary Funds**

September 30, 2010

	<u>Agency Funds</u>		
	<u>Fireman's</u>	<u>Airport</u>	
	<u>Fund</u>	<u>Authority</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 695	-	695
Cash at County Treasurer	-	5,650	5,650
Due from General Fund	60	-	60
TOTAL CURRENT ASSETS	<u>755</u>	<u>5,650</u>	<u>6,405</u>
TOTAL ASSETS	<u>\$ 755</u>	<u>5,650</u>	<u>6,405</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Due to other taxing units	\$ 755	5,650	6,405
TOTAL CURRENT LIABILITIES	<u>755</u>	<u>5,650</u>	<u>6,405</u>
NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 755</u>	<u>5,650</u>	<u>6,405</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Crete, Nebraska (the City) is a governmental entity established under and governed by the laws of the State of Nebraska. As a political subdivision of the State, the City is exempt from State and Federal income taxes. The City has considered all potential component units for which it is financially accountable and other organizations which are fiscally dependent on the City or the significance of their relationship with the City is such that exclusion would be misleading or incomplete, in accordance with the provisions of Governmental Accounting Standards Council Statement No. 14. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City of Crete Leasing Corporation (Leasing Corporation) has been identified as a component unit. The Leasing Corporation serves all the citizens of the City and is governed by a board comprised of the City's elected council and Mayor. Budgeting, accounting and administrative functions are performed by the City. The Leasing Corporation is a duly and validly existing nonprofit corporation created pursuant to Nebraska Revenue Statute. The Leasing Corporation is reported with the non-major funds in Other Governmental Funds in the accompanying financial statements. The City is not includable as a component unit within another reporting entity.

Basis of Presentation – The accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information for the City have been prepared in conformity with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applies to governmental units.

The business-type activities financial statements have been prepared in conformity with generally accepted accounting principles. These financials include all relevant GASB pronouncements and applicable Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB guidance issued after November 30, 1989.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts/revenues and expenditures/expenses. Fund financial statements are provided for governmental, proprietary and fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City, is determined by the Board to be major, or meets the following criteria:

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (a) Total assets, liabilities, receipts/revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total for all funds of that category or type and
- (b) Total assets, liabilities, receipts/revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The City's Special Revenue Funds are reported as non-major funds in the "Other Governmental Funds" column.

Capital Project Funds

Capital Project Funds are used to account for resources designated for the acquisition or construction of specific capital projects or items. The City's Capital Project Funds are reported as non-major funds in the "Other Governmental Funds" column.

Debt Service Fund

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

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-type 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The reporting entity includes the following enterprise funds that are reported as major funds:

<u>Fund</u>	<u>Brief Description</u>
<i>Major Funds</i>	
Electric	Accounts for the activities of the City's electric distribution operations.
Water	Accounts for the activities of the City's water distribution operations.
Sewer	Accounts for the activities of the City's sewer system operations.

Fiduciary Funds

Agency Funds

The agency funds account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others.

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

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the activities' basis of accounting, as defined in item (b) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- (a) All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- (b) The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, receipts/revenues and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than principles generally accepted in the United States of America. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Cash-based interfund receivables and payables
- Investments
- Cash-based payroll liabilities

As a result of the use of this modified 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.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, business-type activities are presented using the accrual method of accounting, which is a comprehensive basis of accounting generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Revenues from user fees and sale of labor, material and water are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the proprietary funds are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents – For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments – Investments classified in the financial statements consist of certificates of deposit (whose original maturity term exceeds three months), municipal issues, and mutual funds. The certificates of deposit are carried at cost, which approximates fair value. The municipal issues and mutual funds are carried at fair value which is based on quoted market prices. Income from the investment, including net changes in fair value, is reported as investment income in the respective fund as it is earned.

Allowance for Doubtful Accounts – Estimated allowances for uncollectible amounts in the proprietary funds are determined based upon past collection experience and current economic conditions.

Inventories – In the proprietary funds inventories are valued at cost using the first in/first out (FIFO) method.

Prepaid Expenses – Prepaid expenses in the proprietary funds consist of insurance costs that have been prepaid for the next fiscal year. These costs will be recognized as expenditures in the subsequent year.

Capital Assets – Capital assets resulting from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

In the proprietary funds, capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value on the date received. Support received from federal and state grants and from the municipality and others to pay for a portion of the utility plant are considered contributions in aid of construction and are classified in the income statement as contributions and recognized when earned.

Maintenance and repairs are expended as incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to revenue or charged to an expense.

Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Buildings and improvements.....	25-40 years
Plant.....	10-40 years
Equipment.....	5-10 years

Accrued Expenses – Accrued expenses represent the proprietary funds' liability for accrued interest on long-term debt obligations as well as the proprietary funds' liability for accrued salaries, retirement, vacation and sick leave. The City pays wages every two weeks. The cost of unused employee vacation time payable in the event of employee termination is also accrued. No accruals are made in the governmental funds as they are using the modified cash basis of accounting. In accordance with the provisions of Accounting Standards Codification (ASC) 710, *Compensation – General*, no liability is recorded for non-vesting accumulating rights to receive vacation and sick leave benefits.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Debt – Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The face amount of the bond is reported as other financing sources and payment of principal and interest reported as expenditures. Bond premiums, discounts and other bond issuance costs are recognized during the current period. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Long-term debts of proprietary funds are reported as liabilities in the government-wide and proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

Equity Classification – In the government-wide statements, equity is classified as net assets and displayed in three components:

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

It is the City’s policy to first use restricted net assets prior to use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Governmental fund equity is classified as a fund balance. In the fund financial statements, governmental funds report fund balances as either a reserved fund balance or an unreserved fund balance.

- (a) Reserved fund balance – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.
- (b) Unreserved fund balance – Composed of designated and undesignated portions. The undesignated portion of the unreserved fund balance represents that portion of fund balance that is available for budgeting in future periods. Designated fund balance represents tentative plans for future use of financial resources.

Proprietary fund equity is classified the same as in the government-wide statements.

Receipts, Revenues, Expenditures and Expenses –

PROGRAM RECEIPTS/REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each governmental activity or from parties outside the City’s taxpayers are reported as program receipts/revenues.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City has the following program receipts/revenues in each activity:

General Government	Fees, rents, permits, licenses, specific donations, and specific grants
Public Safety	Fire and rescue service calls, specific grants, specific donations, other charges and Rural Fire District payments
Streets	Reimbursements, labor and materials sold, and highway allocation and incentive payments
Public Welfare	Cemetery lot sales and specific donations
Culture and Recreation	Admission and registration fees, specific grants and specific donations
Lottery	Keno receipts
Assessments	Paving assessment receipts
Capital Projects	Grant and contribution receipts for specific capital projects

All other governmental receipts/revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose. Property taxes attach as an enforceable lien on property as of January 1st. Taxes are payable in two installments on May 1st and September 1st. The County bills and collects property taxes and remits to the City monthly. City property tax revenues are recognized when received by the County Treasurer.

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, non-capital financing or investing activities.

Internal and Interfund Balances and Activities – In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- (a) Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- (b) Interfund services – Sales or purchases of goods and services between funds are reported as receipts/revenues and expenditures/expenses.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (c) Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements, but as adjustments to expenditures/expenses in the respective funds.
- (d) Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- (a) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
- (b) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Contributions – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles and with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense and commitments and contingencies disclosures). Accordingly, actual results could differ from those estimates.

Accounting Changes – In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus* to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. This statement is not expected to have a material effect on the City's statement of net assets, activities or cash flows.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state and local laws and contractual regulations. No instances of noncompliance considered material to the financial statements were noted.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 3 – CASH

The statutes of the State of Nebraska authorize the City to invest in certificates of deposit and time deposits of banks or capital stock financial institutions, obligations of the United States government and agencies thereof, and any securities as provided in the Public Funds Deposit Security Act. During the fiscal year ended September 30, 2010, the City complied with the provisions of its enabling State legislation and the City's cash management and investment policy, except as noted below.

At September 30, 2010, the City held the following deposits and investments:

	Carrying Value	Maturities in Years				Credit Rating
		Less than 1	1-5	6-10	More than 10	
Cash	200	200	-	-	-	n/a
Demand deposits	3,909,140	3,909,140	-	-	-	n/a
Time deposits - certificates of deposit	4,857,161	2,581,972	1,674,189	287,000	314,000	n/a
Money market accounts	104,201	104,201	-	-	-	AAAm
Money market accounts	250,158	250,158	-	-	-	unrated
Municipal issues	36,152	-	5,141	15,293	15,718	A to AAA
Municipal issues	96,775	-	40,974	40,640	15,161	unrated
Mutual funds	31,491	31,491	-	-	-	unrated
STFIT accounts	15,618	15,618	-	-	-	unrated
Total deposits and investments	\$ 9,300,896	6,892,780	1,720,304	342,933	344,879	

Reconciliation to Statement of Net Assets

Cash	3,935,788
Restricted cash	343,529
Investments	4,015,044
Restricted investments	1,006,535
	<u>\$ 9,300,896</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. No deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) shall be allowed to accumulate in the bank unless 1) the bank gives a surety bond; 2) the bank can give the City securities as collateral on the excess funds; 3) the bank can issue a joint custody receipt to the benefit of the City where a third party bank actually holds the security.

As of September 30, 2010, the City's funds were entirely insured or collateralized by the depository banks and the Securities Investor Protection Corporation. The City's funds were invested in demand accounts, Negotiable Order of Withdrawal (NOW) accounts, money market accounts, municipal issues, Short-Term Federal Investment Trust (STFIT) accounts, certificates of deposit and mutual funds. Investments consisted of certificates of deposit, municipal issues and mutual funds.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 3 – CASH (CONTINUED)

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

- \$15,618 is held in STFIT accounts which are unrated. STFIT invests in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans.
- \$250,158 is held at Pinnacle bank in unrated money market funds.
- \$96,775 in municipal issues are comprised of bonds of various Nebraska counties, cities and school districts which are unrated.
- \$31,491 is held in unrated mutual funds.

The mutual funds were received by the City at the end of the fiscal year as a donation for the library operations. As the mutual funds are not authorized investments under the Nebraska Public Funds Deposit Act, the City converted the mutual funds to cash by redeeming the shares in October, 2010.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investment in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. At September 30, 2010, the City had no concentration of credit risk as defined above.

NOTE 4 – RECEIVABLES

Management considers all accounts receivable to be collectible, accordingly, no allowance for doubtful accounts has been deemed necessary.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 5 – PROPERTY AND EQUIPMENT

Major classes of property and equipment in the proprietary funds at September 30, 2010 consist of the following:

	CAPITAL ASSETS, NOT DEPRECIATED		CAPITAL ASSETS, DEPRECIATED			Totals
	Land	Construction in Progress	Buildings and Improvements	Equipment	Vehicles	
Business-type Activities						
Electric						
Balance September 30, 2009	\$ 103,232	-	9,148,667	583,918	960,275	10,796,092
Increases	-	-	206,194	86,487	86,561	379,242
Decreases	-	-	-	-	(145,692)	(145,692)
Balance September 30, 2010	<u>103,232</u>	<u>-</u>	<u>9,354,861</u>	<u>670,405</u>	<u>901,144</u>	<u>11,029,642</u>
Accumulated Depreciation						
Balance September 30, 2009	-	-	4,569,268	411,216	679,382	5,659,866
Increases	-	-	288,341	45,642	63,860	397,843
Decreases	-	-	-	-	(116,554)	(116,554)
Balance September 30, 2010	<u>-</u>	<u>-</u>	<u>4,857,609</u>	<u>456,858</u>	<u>626,688</u>	<u>5,941,155</u>
Capital assets, net	<u>103,232</u>	<u>-</u>	<u>4,497,252</u>	<u>213,547</u>	<u>274,456</u>	<u>5,088,487</u>
Water						
Balance September 30, 2009	\$ -	-	5,622,261	833,004	21,648	6,476,913
Increases	-	-	31,194	141,241	-	172,435
Decreases	-	-	-	-	-	-
Balance September 30, 2010	<u>-</u>	<u>-</u>	<u>5,653,455</u>	<u>974,245</u>	<u>21,648</u>	<u>6,649,348</u>
Accumulated Depreciation						
Balance September 30, 2009	-	-	2,197,788	118,063	14,980	2,330,831
Increases	-	-	127,563	20,475	4,085	152,123
Decreases	-	-	-	-	-	-
Balance September 30, 2010	<u>-</u>	<u>-</u>	<u>2,325,351</u>	<u>138,538</u>	<u>19,065</u>	<u>2,482,954</u>
Capital assets, net	<u>-</u>	<u>-</u>	<u>3,328,104</u>	<u>835,707</u>	<u>2,583</u>	<u>4,166,394</u>
Sewer						
Balance September 30, 2009	\$ 100,721	-	5,857,314	283,123	141,949	6,383,107
Increases	-	-	9,612	3,850	-	13,462
Decreases	-	-	-	-	-	-
Balance September 30, 2010	<u>100,721</u>	<u>-</u>	<u>5,866,926</u>	<u>286,973</u>	<u>141,949</u>	<u>6,396,569</u>
Accumulated Depreciation						
Balance September 30, 2009	-	-	2,308,695	96,307	54,592	2,459,594
Increases	-	-	146,820	13,665	20,159	180,644
Decreases	-	-	-	-	-	-
Balance September 30, 2010	<u>-</u>	<u>-</u>	<u>2,455,515</u>	<u>109,972</u>	<u>74,751</u>	<u>2,640,238</u>
Capital assets, net	<u>100,721</u>	<u>-</u>	<u>3,411,411</u>	<u>177,001</u>	<u>67,198</u>	<u>3,756,331</u>
Business-type Activities						
Capital assets, net	<u>\$ 203,953</u>	<u>-</u>	<u>11,236,767</u>	<u>1,226,255</u>	<u>344,237</u>	<u>13,011,212</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 5 – PROPERTY AND EQUIPMENT (CONTINUED)

No depreciation expense is recognized in the governmental funds. Depreciation expense was charged to the business-type activities as follows:

Electric	\$ 397,843
Water	152,123
Sewer	<u>180,644</u>
 Total depreciation expense	 <u>\$ 730,610</u>

NOTE 6 – LONG-TERM LIABILITIES

As of September 30, 2010, the long-term debt payable from governmental fund resources consisted of the following:

	<u>Balance Sept. 30, 2009</u>	<u>Bonds Issued</u>	<u>Bonds Redeemed</u>	<u>Balance Sept. 30, 2010</u>	<u>Amount Due Within One Year</u>
Leasehold building refunding bonds: Dated April 2009, interest 2.00%-3.00%, final payment due April 2013.	255,000	-	(65,000)	190,000	60,000
General Obligation Refunding Bonds: Dated April 2009, interest 1.00%-4.125%, final payment due November 2021	3,645,000	-	(320,000)	3,325,000	340,000
Bond anticipation note: Dated September 2010, interest 4.00%, final payment due September 2012.	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>
	<u>\$ 3,900,000</u>	<u>250,000</u>	<u>(385,000)</u>	<u>3,765,000</u>	<u>400,000</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of bonds and notes payable in the proprietary funds at September 30, 2010:

	<u>Balance</u> <u>Sept. 30, 2009</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2010</u>	<u>Amount Due</u> <u>Within One Year</u>
Electric:					
Electric bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, final payment due April 2017.	\$ 1,320,700	-	(129,250)	1,191,450	136,300
Water:					
Water bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, final payment due April 2017.	927,300	-	(90,750)	836,550	95,700
	<u>927,300</u>	<u>-</u>	<u>(90,750)</u>	<u>836,550</u>	<u>95,700</u>
Sewer:					
Sewer bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, final payment due April 2017.	562,000	-	(55,000)	507,000	58,000
	<u>562,000</u>	<u>-</u>	<u>(55,000)</u>	<u>507,000</u>	<u>58,000</u>
Total	\$ 2,810,000	-	(275,000)	2,535,000	290,000

The aggregate schedule of maturities of long-term liabilities, including principal and interest, for the five years subsequent to September 30, 2010 is as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2011	\$ 400,000	108,095	290,000	98,713	896,808
2012	655,000	100,815	295,000	87,836	1,138,651
2013	415,000	81,690	310,000	76,628	883,318
2014	350,000	71,428	320,000	64,693	806,121
2015	365,000	62,034	335,000	52,292	814,326
2016-2020	1,220,000	186,910	985,000	64,828	2,456,738
2021-2022	360,000	10,969	-	-	370,969
	<u>\$ 3,765,000</u>	<u>621,941</u>	<u>2,535,000</u>	<u>444,990</u>	<u>7,366,931</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Interest was paid on bonds by the following funds during the year:

Leasing Corporation	\$ 6,501
Debt Service Fund	<u>108,322</u>
Total governmental funds	<u>114,823</u>
Electric	51,177
Water	35,933
Sewer	<u>21,778</u>
Total proprietary funds	<u>108,888</u>
Total interest paid	<u>\$ 223,711</u>

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

Interfund loans at September 30, 2010 consist of the following:

	<u>Due From</u>							<u>Due To</u>							<u>Total</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Landfill</u>	<u>General</u>	<u>Fireman's Fund</u>	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Landfill</u>	<u>General</u>	<u>Fireman's Fund</u>			
General	\$ 104,649	-	-	-	-	60	-	-	-	-	-	-	104,709		
Debt Service	-	4,458	2,805	-	-	-	-	-	-	-	-	-	7,263		
Payroll	-	-	-	-	6,279	-	-	-	-	-	-	-	6,279		
Pool	153	-	-	-	-	-	-	-	-	-	-	-	153		
Electric	-	-	-	30	-	-	-	-	-	-	-	-	30		
Water	665,270	-	-	-	-	-	-	-	-	-	-	-	665,270		
Sewer	<u>6,657</u>	-	-	-	-	-	-	-	-	-	-	-	<u>6,657</u>		
Total	<u>\$ 776,729</u>	<u>4,458</u>	<u>2,805</u>	<u>30</u>	<u>6,279</u>	<u>60</u>	<u>4,458</u>	<u>2,805</u>	<u>30</u>	<u>6,279</u>	<u>60</u>	<u>60</u>	<u>790,361</u>		

Interfund loans are recorded when funds overdraw their share of pooled cash. These balances are expected to be repaid within one year.

Transfers between funds for the year ended September 30, 2010 were as follows:

	<u>Governmental Activities</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds		
General	\$ 550,008	1,020,281
Debt Service	35,000	11,456
Non-major Funds	<u>1,158,655</u>	<u>711,926</u>
Total	<u>\$ 1,743,663</u>	<u>1,743,663</u>

The flow of assets from one fund to another where repayment is not expected is reported as transfers. Transfers are used to (1) move receipts/revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 8 – RESTRICTED NET ASSETS

Restricted net assets are composed of amounts held by the proprietary and debt service funds for the payment of long-term principal, interest and related costs of \$561,806 and \$330,194, respectively and amounts held by the non-major special revenue funds of:

- \$32,000 to be held as an endowment with the interest being used for cemetery maintenance
- \$100,000 for cemetery operations
- \$197,951 for library operations
- \$38,760 for park and recreation operations

NOTE 9 – RETIREMENT PLANS

The City sponsors a defined contribution plan with Principal Mutual Life Insurance Company. It covers all full time employees who have reached age 19 and who have put in one year of service except firemen personnel. The plan was established and is amended by Board resolution. Enrollment in the plan is mandatory. Each participant shall have 6% of their regular earnings deferred. Employees in the police department shall have 6% of all earnings deferred. In addition, employees over age 50 are eligible to make catch up contributions. The City matches 100% of the deferred contribution, excluding the over 50 catch up contributions. Employer contributions vest at a rate of 20% per year. These requirements were established and may be amended by Board Resolution.

The City's contribution amounted to \$138,110 for the year ended September 30, 2010. The employee contributions totaled \$138,110 for the year ended September 30, 2010.

The City also sponsors a non-qualified deferred compensation 457 plan with Principal and Hartford. The plan was established and is amended by Board Resolution. Enrollment in the plan is voluntary and no participation is required. The City does not match any portion of this plan. These requirements were established and may be amended by Board Resolution. The total accumulative pension contributions transferred to the plan's trustees for the year ended September 30, 2010 were \$14,852.

In addition to providing pension benefits, the City sponsors a flexible spending plan to cover medical expenses not reimbursed by other health insurance plans. All employees are eligible to participate with the exception of firemen personnel. Participants designate an amount to be withheld from each paycheck and then submit vouchers for reimbursement of allowable expenses. The reimbursement may not exceed the amount in the individual participants' account. The participant has ninety days after the end of the plan year to zero out his account before the money is remitted to the City Treasurer.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss from torts; theft of; damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 10 – RISK MANAGEMENT (CONTINUED)

The City manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
(a) Torts, errors and omissions	Purchased commercial insurance	None
(b) Workers compensation, health and life	Purchased commercial insurance	Health insurance claims not exceeding \$25,000 per covered person
(c) Physical property loss and natural disasters	Purchased commercial insurance	None

The City entered into a contract with Regional Care, Inc. (RCI) effective July 1, 2005. This contract establishes RCI as the third party claims administrator of the self funded insurance plan. Insurance is provided by Midlands Choice to cover claims exceeding \$25,000 per covered person.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three years.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Sale of Hospital – On May 8, 2007, the City sold to Tabitha, Inc. several parcels of real estate including all structural components for \$1,355,000 due on September 27, 2017, with no interest accrual. For each year that Tabitha, Inc. uses the real estate for any health care related services, the City shall forgive one-tenth of the principal. If the real estate is used for such purposes for the entire ten year term of the note, the entire note shall be forgiven.

Capital and Operating Leases – The City has entered into capital lease agreements for the capital projects as well as operating leases for general business equipment. Although some of these leases are capital leases, the City uses the modified cash basis of accounting in the general funds and will recognize the lease expenses as the cash is expended.

Future obligations on capital and operating leases in effect September 30, 2010 are:

Year Ending	
September 30,	
2011	\$ 63,022
2012	3,308
2013	1,028
2014	-
2015	-
	<u>\$ 67,358</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2010

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Concentration of Credit Risk – The City provides electric, water and sewer services to residents of the City of Crete, Nebraska. In the course of providing these services, the City extends credit to its customers, which is uncollateralized.

Purchase Power Contract – On May 29, 1986 the City entered into a contract with Municipal Energy Agency of Nebraska (MEAN) for total power requirement. This agreement states that the City will purchase its power needs in excess of the power supplied by the United States Department of Energy, Western Area Power Administration directly from MEAN. To ensure that MEAN had adequate power to supply their municipal customers, MEAN participated in the building of certain power plants. The City committed to purchase power directly from MEAN for the longer of ten years or when the bonds to build the power plant had been paid in full. The power plant bonds are scheduled to be paid in full in the year 2041. The dollar amount of power purchased from MEAN was \$5,058,411 for the year ended September 30, 2010. As part of this agreement, the City has agreed to maintain its facility in working order so that if additional power is needed by MEAN it can use the City's facility to generate such power. MEAN has agreed to pay the City a fee for maintaining its power plant in working condition. The amount paid to the City was \$564,120 for the year ended September 30, 2010. The City has the option to assign its rights and commitments in this contract if the entity to which it is assigning such rights and commitments is acceptable to MEAN.

Compliance Audits – In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation – The City is subject to claims and other actions arising in the ordinary course of business. Some of these claims and actions have resulted in lawsuits where the City is a defendant. Management believes that the ultimate obligations, if any, which may result from unfavorable outcomes of such lawsuits, will not have a material adverse effect on the financial position, results of operations or cash flows of the City and such obligations, if any, would be adequately covered by insurance.

CITY OF CRETE, NEBRASKA

**Budgetary Comparison Schedule – Budget and Actual – Cash Basis
(Required Supplementary Information)**

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Receipts				
General			2,704,793	
Debt Service			750,364	
Other governmental funds			4,140,545	
Electric			8,269,891	
Water			914,840	
Sewer			678,967	
	<u>\$ 27,529,378</u>	<u>27,529,378</u>	<u>17,459,400</u>	<u>(10,069,978)</u>
Disbursements				
General			2,697,488	
Debt Service			455,442	
Other governmental funds			3,192,095	
Electric			7,912,684	
Water			869,168	
Sewer			642,853	
	<u>27,531,500</u>	<u>27,531,500</u>	<u>15,769,730</u>	<u>11,761,770</u>
	<u>\$ (2,122)</u>	<u>(2,122)</u>	<u>1,689,670</u>	<u>1,691,792</u>

CITY OF CRETE, NEBRASKA

**Notes to Budgetary Comparison Schedule
(Required Supplementary Information)**

September 30, 2010

Basis of Accounting

The budget is prepared on the cash basis of accounting. Revenues and expenditures are reported when they result from cash transactions. Because state law requires that a municipality's annual budget be prepared on the cash basis of accounting, the budget adopted by the City Council is inconsistent with generally accepted accounting principles.

Budget Law

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

- (a) The City Council shall prepare a proposed all-purpose operating budget statement in writing and file with the secretary or clerk.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) A copy of the adopted budget must be filed with the levying board and the State Auditor's office. Proof of publication shall be attached.
- (d) Budgets are adopted on a cash basis. Amendments that alter the total expenditures require that an additional public hearing be held.

Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year expenses are expected to be paid. Appropriations for budgeted funds lapse at fiscal year end.

Reconciliation of Proprietary Funds to Cash Basis for Budget Comparison

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receipts - Accrual	\$ 7,990,770	937,631	641,797	9,570,198
Accounts receivable	(7,981)	(4,867)	26,281	13,433
Sale of investments	283,553	-	-	283,553
Loans from other funds	(25,589)	(17,924)	10,889	(32,624)
Sale of equipment	29,138	-	-	29,138
Receipts - Cash	<u>8,269,891</u>	<u>914,840</u>	<u>678,967</u>	<u>9,863,698</u>
Disbursements - Accrual	7,749,800	782,292	748,195	9,280,287
Loans to other funds	(1,534)	(1,687)	(1,687)	(4,908)
Investment purchase	235,420	-	-	235,420
Bond payments	129,250	90,750	55,000	275,000
Property and equipment	307,069	170,297	15,144	492,510
Depreciation and amortization	(399,769)	(153,476)	(181,464)	(734,709)
Inventory	(38,522)	(621)	-	(39,143)
Prepaid expenses	(25,589)	(17,966)	10,889	(32,666)
Accounts payable	(38,953)	(1,445)	(6,278)	(46,676)
Accrued expenses	(4,488)	1,024	3,054	(410)
Disbursements - Cash	<u>7,912,684</u>	<u>869,168</u>	<u>642,853</u>	<u>9,424,705</u>
Net income - Cash	<u>\$ 357,207</u>	<u>45,672</u>	<u>36,114</u>	<u>438,993</u>

MARVIN E. JEWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**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***

The Honorable Mayor and City Council
City of Crete, Nebraska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Crete, Nebraska (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 14, 2011. Our report discloses that the City prepares its financial statements of the governmental activities, each major fund and the aggregate remaining fund information on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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 deficiency in internal control over financial reporting described below to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described below that we consider to be significant deficiencies in internal control over financial reporting. *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 deficiency to be a significant deficiency and a material weakness in internal control over financial reporting:

Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Authorization or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities. Adequate personnel are not available to assign responsibilities in such a way that different employees handle different parts of the same transaction. Authorization or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated February 14, 2011.

The City of Crete's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and the use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marvin E. Jewell & Co., P.C.

Lincoln, Nebraska
February 14, 2011