

**CITY OF CRETE, NEBRASKA**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2012**

# 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, 2012, 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 of Crete, Nebraska'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, 2012, 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, 2012, and the respective changes in financial position and where applicable, cash flows 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 March 19, 2013 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 31 through 32 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 not presented the management's discussion and analysis that governmental 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  
March 19, 2013

**CITY OF CRETE, NEBRASKA**

**Statement of Net Assets – Modified Cash Basis**

**September 30, 2012**

	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 2,902,571	1,738,315	4,640,886
Cash held by County Treasurer	48,052	-	48,052
Restricted Cash	389,029	76,191	465,220
Restricted Cash held by County Treasurer	24,100	-	24,100
Accounts receivable, less allowance for doubtful accounts	-	1,134,685	1,134,685
Assessments receivable	-	174,329	174,329
Interest receivable	-	13,706	13,706
Prepaid Interest	-	790	790
Inventory	-	354,368	354,368
Employee advance - Cafeteria plan	1,904	-	1,904
Due from Crete Airport	14,421	-	14,421
Internal balances	<u>(144,171)</u>	<u>144,171</u>	<u>-</u>
<b>TOTAL CURRENT ASSETS</b>	<u>3,235,906</u>	<u>3,636,555</u>	<u>6,872,461</u>
<b>OTHER ASSETS</b>			
Investments	452,366	4,303,938	4,756,304
Restricted investments	32,000	653,375	685,375
Restricted interest receivable	-	176	176
Noncurrent assessments receivable	-	257,797	257,797
Bond discount, less accumulated amortization	<u>-</u>	<u>26,759</u>	<u>26,759</u>
<b>TOTAL OTHER ASSETS</b>	<u>484,366</u>	<u>5,242,045</u>	<u>5,726,411</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>-</u>	<u>12,410,542</u>	<u>12,410,542</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,720,272</u>	<u>21,289,142</u>	<u>25,009,414</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of bonds payable	\$ -	360,000	360,000
Accounts payable	-	719,417	719,417
Accrued expenses	-	126,854	126,854
Consumer deposits	-	178,788	178,788
Payroll withholdings	<u>221</u>	<u>-</u>	<u>221</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>221</u>	<u>1,385,059</u>	<u>1,385,280</u>
<b>LONG-TERM LIABILITIES</b>	<u>-</u>	<u>1,470,000</u>	<u>1,470,000</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	10,559,692	10,559,692
Restricted for:			
Debt service	211,538	550,954	762,492
Other purposes	229,341	-	229,341
Unrestricted	<u>3,279,172</u>	<u>7,323,437</u>	<u>10,602,609</u>
<b>TOTAL NET ASSETS</b>	<u>3,720,051</u>	<u>18,434,083</u>	<u>22,154,134</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,720,272</u>	<u>21,289,142</u>	<u>25,009,414</u>

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, 2012**

Functions/Programs	Cash Disbursements/ Expenditures	Program Receipts/Revenues			Net Receipts / Revenues (Disbursements/ Expenses) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ (1,076,085)	845,963	-	-	(230,122)	-	(230,122)
Public Safety	(1,461,313)	386,369	36,435	17,760	(1,020,749)	-	(1,020,749)
Streets	(663,796)	25,414	537,734	-	(100,648)	-	(100,648)
Public Welfare	(524,339)	72,138	491	-	(451,710)	-	(451,710)
Culture and Recreation	(2,004,319)	110,562	48,229	1,229	(1,844,299)	-	(1,844,299)
Economic Development	(162,269)	-	2,617	-	(159,652)	-	(159,652)
Lottery	(21,346)	41,389	-	-	20,043	-	20,043
Assessments	-	51,895	-	-	51,895	-	51,895
Principal, Interest and Charges on Debt	(643,230)	-	-	-	(643,230)	-	(643,230)
<b>Total Governmental Activities</b>	<b>(6,556,697)</b>	<b>1,533,730</b>	<b>625,506</b>	<b>18,989</b>	<b>(4,378,472)</b>	<b>-</b>	<b>(4,378,472)</b>
<b>Business-Type Activities</b>							
Electric	(7,656,271)	8,305,797	-	-	-	649,526	649,526
Water	(868,157)	995,597	-	-	-	127,440	127,440
Sewer	(729,629)	771,014	-	-	-	41,385	41,385
<b>Total Business-Type Activities</b>	<b>(9,254,057)</b>	<b>10,072,408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>818,351</b>	<b>818,351</b>
<b>Total Primary Government</b>	<b>\$ (15,810,754)</b>	<b>11,606,138</b>	<b>625,506</b>	<b>18,989</b>	<b>(4,378,472)</b>	<b>818,351</b>	<b>(3,560,121)</b>
General Receipts/Revenues:							
Property Tax					1,288,182	-	1,288,182
Property Tax Credit					41,441	-	41,441
Motor Vehicle Tax					127,081	-	127,081
Sales and Use Tax					1,056,484	-	1,056,484
State Aid and Equalization					397,951	-	397,951
Occupation and Franchise Tax					267,873	-	267,873
Unrestricted Investment Earnings					12,442	97,459	109,901
Restricted Investment Earnings					1,681	-	1,681
<b>Total General Receipts/Revenues</b>					<b>3,193,135</b>	<b>97,459</b>	<b>3,290,594</b>
Net Issuance of Debt					152,610	-	152,610
Surplus Transfer					300,000	(300,000)	-
<b>Total General Revenues, Issuance of Debt, and Transfers</b>					<b>3,645,745</b>	<b>(202,541)</b>	<b>3,443,204</b>
Change in Net Assets					(732,727)	615,810	(116,917)
Net Assets - Beginning					4,452,778	17,818,273	22,271,051
Net Assets - Ending					<b>\$ 3,720,051</b>	<b>18,434,083</b>	<b>22,154,134</b>

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

**CITY OF CRETE, NEBRASKA**

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

**September 30, 2012**

	<b>General</b>	<b>Debt</b>	<b>Capital</b>	<b>Other</b>	
	<b>Fund</b>	<b>Service</b>	<b>Improvements</b>	<b>Governmental</b>	<b>Total</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 1,742,178	31,007	-	1,250,680	3,023,865
Cash held by County Treasurer	48,052	-	-	-	48,052
Restricted Cash	31,685	187,051	4,254	166,039	389,029
Restricted Cash held by County Treasurer	-	24,100	-	-	24,100
Employee advances, cafeteria plan	1,816	-	-	88	1,904
Due from Crete Airport Authority	-	-	14,057	364	14,421
Interfund loans	9,066	-	-	5,145	14,211
<b>TOTAL CURRENT ASSETS</b>	<u>1,832,797</u>	<u>242,158</u>	<u>18,311</u>	<u>1,422,316</u>	<u>3,515,582</u>
<b>OTHER ASSETS</b>					
Investments	192,364	-	-	260,002	452,366
Restricted Investments	32,000	-	-	-	32,000
<b>TOTAL OTHER ASSETS</b>	<u>224,364</u>	<u>-</u>	<u>-</u>	<u>260,002</u>	<u>484,366</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,057,161</u>	<u>242,158</u>	<u>18,311</u>	<u>1,682,318</u>	<u>3,999,948</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Bank overdraft	\$ -	-	121,294	-	121,294
Interfund loans	127,375	31,007	-	-	158,382
Payroll withholdings	155	-	-	66	221
<b>TOTAL CURRENT LIABILITIES</b>	<u>127,530</u>	<u>31,007</u>	<u>121,294</u>	<u>66</u>	<u>279,897</u>
<b>FUND BALANCE</b>					
Nonspendable	32,000	-	-	-	32,000
Restricted	31,685	211,151	-	166,043	408,879
Committed	-	-	-	67,191	67,191
Assigned	1,607,831	-	-	1,449,018	3,056,849
Unassigned	258,115	-	(102,983)	-	155,132
<b>TOTAL FUND BALANCE</b>	<u>1,929,631</u>	<u>211,151</u>	<u>(102,983)</u>	<u>1,682,252</u>	<u>3,720,051</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 2,057,161</u>	<u>242,158</u>	<u>18,311</u>	<u>1,682,318</u>	<u>3,999,948</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, 2012**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Capital Improvements</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>REVENUES</b>					
Taxes	\$ 1,902,703	479,116	-	399,242	2,781,061
Intergovernmental	397,951	-	-	579,744	977,695
Charges for services	1,164,790	51,895	-	304,035	1,520,720
Investment income	6,184	1,064	18	6,857	14,123
Grants and donations	18,883	-	100	58,778	77,761
<b>TOTAL REVENUES</b>	<u>3,490,511</u>	<u>532,075</u>	<u>118</u>	<u>1,348,656</u>	<u>5,371,360</u>
<b>EXPENDITURES</b>					
Current:					
General Government	1,075,141	-	-	-	1,075,141
Public Safety	1,157,575	-	-	195,363	1,352,938
Streets	-	-	-	520,344	520,344
Public Welfare	523,916	-	-	-	523,916
Culture and Recreation	368,692	-	-	366,526	735,218
Economic Development	-	-	-	9,322	9,322
Lottery	-	-	-	21,346	21,346
Debt Service	-	437,874	4,390	205,356	647,620
Capital Outlay	6,979	-	1,338,999	329,264	1,675,242
<b>TOTAL EXPENDITURES</b>	<u>3,132,303</u>	<u>437,874</u>	<u>1,343,389</u>	<u>1,647,521</u>	<u>6,561,087</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<u>358,208</u>	<u>94,201</u>	<u>(1,343,271)</u>	<u>(298,865)</u>	<u>(1,189,727)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	437,582	35,000	-	1,307,435	1,780,017
Transfers out	(796,936)	-	-	(683,081)	(1,480,017)
Issuance of debt	-	250,000	157,000	-	407,000
Redemption of debt	-	(250,000)	-	-	(250,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(359,354)</u>	<u>35,000</u>	<u>157,000</u>	<u>624,354</u>	<u>457,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,146)	129,201	(1,186,271)	325,489	(732,727)
<b>FUND BALANCES - BEGINNING</b>	<u>1,930,777</u>	<u>81,950</u>	<u>1,083,288</u>	<u>1,356,763</u>	<u>4,452,778</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,929,631</u>	<u>211,151</u>	<u>(102,983)</u>	<u>1,682,252</u>	<u>3,720,051</u>

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



**CITY OF CRETE, NEBRASKA**

**Statement of Net Assets  
Proprietary Funds**

**September 30, 2012**

	<b>Business-Type Activities -- Enterprise Funds</b>			
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 1,227,379	276,145	234,791	1,738,315
Accounts receivable, less allowance for doubtful accounts	921,524	110,841	102,320	1,134,685
Assessments receivable	-	4,737	169,592	174,329
Interest receivable	11,645	407	1,654	13,706
Prepaid interest	371	261	158	790
Inventory	335,346	19,022	-	354,368
Interfund loans	791,319	7,196	28,638	827,153
<b>TOTAL CURRENT ASSETS</b>	<b>3,287,584</b>	<b>418,609</b>	<b>537,153</b>	<b>4,243,346</b>
<b>RESTRICTED ASSETS</b>				
Cash	76,191	-	-	76,191
Interest receivable	176	-	-	176
Investments	253,375	400,000	-	653,375
<b>TOTAL RESTRICTED ASSETS</b>	<b>329,742</b>	<b>400,000</b>	<b>-</b>	<b>729,742</b>
<b>NET PROPERTY AND EQUIPMENT</b>	<b>4,622,760</b>	<b>4,342,143</b>	<b>3,445,639</b>	<b>12,410,542</b>
<b>OTHER ASSETS</b>				
Investments	4,238,012	-	65,926	4,303,938
Noncurrent assessments receivable	-	-	257,797	257,797
Deferred bond costs, less amortization	12,577	8,830	5,352	26,759
<b>TOTAL OTHER ASSETS</b>	<b>4,250,589</b>	<b>8,830</b>	<b>329,075</b>	<b>4,588,494</b>
<b>TOTAL ASSETS</b>	<b>\$ 12,490,675</b>	<b>5,169,582</b>	<b>4,311,867</b>	<b>21,972,124</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of revenue bonds	\$ 169,200	118,800	72,000	360,000
Accounts payable	709,596	5,507	4,314	719,417
Accrued expenses	52,468	45,732	28,654	126,854
Interfund loans	1,440	667,840	13,702	682,982
Consumer deposits	178,788	-	-	178,788
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,111,492</b>	<b>837,879</b>	<b>118,670</b>	<b>2,068,041</b>
<b>LONG-TERM LIABILITIES</b>	<b>690,900</b>	<b>485,100</b>	<b>294,000</b>	<b>1,470,000</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,758,439	3,737,186	3,064,067	10,559,692
Restricted for debt service	150,954	400,000	-	550,954
Unrestricted	6,778,890	(290,583)	835,130	7,323,437
<b>TOTAL NET ASSETS</b>	<b>10,688,283</b>	<b>3,846,603</b>	<b>3,899,197</b>	<b>18,434,083</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 12,490,675</b>	<b>5,169,582</b>	<b>4,311,867</b>	<b>21,972,124</b>

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, 2012**

	<b>Business-Type Activities -- Enterprise Funds</b>			
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
User fees	7,446,246	968,365	759,684	9,174,295
User fees - interfund	226,964	11,343	2,589	240,896
MEAN - lease	545,316	-	-	545,316
Other	87,271	15,889	8,741	111,901
<b>TOTAL OPERATING REVENUES</b>	<b>8,305,797</b>	<b>995,597</b>	<b>771,014</b>	<b>10,072,408</b>
<b>OPERATING EXPENSES</b>				
<b>Production and Treatment:</b>				
Salaries	116,776	-	142,172	258,948
Fuel and natural gas	17,038	-	-	17,038
Depreciation	144,462	85,598	106,888	336,948
Supplies and maintenance	36,833	30,607	27,976	95,416
Power and utilities	49,872	78,026	77,816	205,714
Other	-	-	7,768	7,768
	<u>364,981</u>	<u>194,231</u>	<u>362,620</u>	<u>921,832</u>
<b>Power Purchased</b>	<b>6,029,546</b>	<b>-</b>	<b>-</b>	<b>6,029,546</b>
<b>Transmission -</b>				
Depreciation	3,951	-	-	3,951
<b>Distribution and Collection:</b>				
Depreciation	244,146	69,951	63,406	377,503
Maintenance and vehicle expense	273,306	234,372	39,007	546,685
Supplies	-	18,078	-	18,078
	<u>517,452</u>	<u>322,401</u>	<u>102,413</u>	<u>942,266</u>
<b>General and Administrative:</b>				
Salaries	193,641	131,146	88,774	413,561
Payroll taxes and employee benefits	178,912	130,991	72,205	382,108
Insurance, general	61,266	24,595	27,612	113,473
Professional fees	27,225	15,387	35,247	77,859
Office expense	16,948	5,183	11,486	33,617
Repairs and maintenance	6,775	4,346	6,248	17,369
Depreciation	11,538	2,506	2,815	16,859
Bad debt	9,901	2,908	1,345	14,154
Franchise fee	120,000	-	-	120,000
Other	75,420	7,282	3,309	86,011
	<u>701,626</u>	<u>324,344</u>	<u>249,041</u>	<u>1,275,011</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>7,617,556</b>	<b>840,976</b>	<b>714,074</b>	<b>9,172,606</b>
<b>OPERATING INCOME (LOSS)</b>	<b>688,241</b>	<b>154,621</b>	<b>56,940</b>	<b>899,802</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	73,252	3,239	20,968	97,459
Surplus transfer	(300,000)	-	-	(300,000)
Transfer in (out)	(300,000)	-	300,000	-
Interest expense	(26,423)	(18,553)	(10,326)	(55,302)
Amortization	(12,292)	(8,628)	(5,229)	(26,149)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(565,463)</b>	<b>(23,942)</b>	<b>305,413</b>	<b>(283,992)</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<b>122,778</b>	<b>130,679</b>	<b>362,353</b>	<b>615,810</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>122,778</b>	<b>130,679</b>	<b>362,353</b>	<b>615,810</b>
<b>NET ASSETS - BEGINNING</b>	<b>10,565,505</b>	<b>3,715,924</b>	<b>3,536,844</b>	<b>17,818,273</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 10,688,283</b>	<b>3,846,603</b>	<b>3,899,197</b>	<b>18,434,083</b>

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, 2012**

	<b>Business-Type Activities -- Enterprise Funds</b>			
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 7,493,062	960,105	715,848	9,169,015
Cash received for interfund services provided	221,843	10,943	2,709	235,495
Cash received from MEAN lease	504,574	-	-	504,574
Cash received from other operating revenues	99,966	15,090	8,741	123,797
Cash paid to suppliers for goods and services	(6,538,513)	(393,239)	(200,793)	(7,132,545)
Cash paid to employees and professional contractors for services, including benefits and taxes	(653,855)	(277,091)	(338,477)	(1,269,423)
<b>Net cash provided by operating activities</b>	<u>1,127,077</u>	<u>315,808</u>	<u>188,028</u>	<u>1,630,913</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Loan (to) from other funds	1,672	-	-	1,672
Transfer	(300,000)	-	300,000	-
Surplus transfer to general fund	(300,000)	-	-	(300,000)
<b>Net cash provided (used) by non-capital financing activities</b>	<u>(598,328)</u>	<u>-</u>	<u>300,000</u>	<u>(298,328)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Bond proceeds, net of issuance costs	845,908	593,936	359,961	1,799,805
Purchase of property and equipment	(88,142)	(262,929)	(1,640)	(352,711)
Principal payments on bonds	(1,055,150)	(740,850)	(449,000)	(2,245,000)
Interest payments on bonds	(45,744)	(32,119)	(19,466)	(97,329)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(343,128)</u>	<u>(441,962)</u>	<u>(110,145)</u>	<u>(895,235)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sale of investments	39,451	-	-	39,451
Purchase of investments	(151,204)	-	-	(151,204)
Investment income	75,888	3,458	24,079	103,425
<b>Net cash provided (used) by investing activities</b>	<u>(35,865)</u>	<u>3,458</u>	<u>24,079</u>	<u>(8,328)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	149,756	(122,696)	401,962	429,022
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,153,814</u>	<u>398,841</u>	<u>(167,171)</u>	<u>1,385,484</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,303,570</u>	<u>276,145</u>	<u>234,791</u>	<u>1,814,506</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, 2012**

	<u>Business-Type Activities -- Enterprise Funds</u>			
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Income (loss) from operations	\$ 688,241	154,621	56,940	899,802
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:				
Depreciation	404,097	158,055	173,109	735,261
Adjustments for working capital changes:				
(Increase) decrease in:				
Receivables	9,221	(6,552)	(42,694)	(40,025)
Inventory	(1,168)	1,013	-	(155)
Increase (decrease) in:				
Accounts payable and internal balances	25,730	8,467	(4,021)	30,176
Accrued expenses	(15,919)	204	4,694	(11,021)
Consumer deposits	<u>16,875</u>	<u>-</u>	<u>-</u>	<u>16,875</u>
Net cash provided by operating activities	<u>\$1,127,077</u>	<u>315,808</u>	<u>188,028</u>	<u>1,630,913</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, 2012**

	<u>Agency Funds</u>		
	<u>Fireman's</u>	<u>Airport</u>	
	<u>Fund</u>	<u>Authority</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash at County Treasurer	\$ -	2,999	2,999
<b>TOTAL CURRENT ASSETS</b>	<u>-</u>	<u>2,999</u>	<u>2,999</u>
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>2,999</u>	<u>2,999</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Due to other taxing units	\$ -	2,999	2,999
<b>TOTAL CURRENT LIABILITIES</b>	<u>-</u>	<u>2,999</u>	<u>2,999</u>
<b>NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ -</u>	<u>2,999</u>	<u>2,999</u>

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

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2012

### 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, 2012**

**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 and report the proceeds of the specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. 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 and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The reporting entity includes the following Capital Project Fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
-------------	--------------------------

*Major Fund*

Capital Improvements	Accounts for financial resources segregated for acquisitions or construction of major general government capital facilities (currently the pool and street projects).
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The other Capital Project Funds are reported as non-major funds in the "Other Governmental Funds" column.

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Debt Service Fund

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for 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.

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:

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets.



# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (a) 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.

#### 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Investments – Investments classified in the financial statements consist of certificates of deposit (whose original maturity term exceeds three months), and municipal issues. The certificates of deposit are carried at cost, which approximates fair value. The municipal issues 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,

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Compensation – General*, no liability is recorded for non-vesting accumulating rights to receive vacation and sick leave benefits.

**Long-term Debt** – Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The face amount of the debt is reported as other financing sources and payment of principal and interest reported as expenditures. Debt premiums, discounts and other debt 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.”

The City considers restricted net assets to be used 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. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- (a) Nonspendable - includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- (b) Restricted - consists of fund balance with constraints placed on the use of resources 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) Committed - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance or resolution.
- (d) Assigned - includes amounts that as constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority.

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- (e) Unassigned - represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

The City considers restricted fund balances to be used first when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The City considers the order of use for unrestricted fund balance amounts to be that committed amounts would be used first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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. 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 and other charges, Rural Fire District payments, grants and donations
Streets	Highway allocation and incentive payments, reimbursements and labor and materials sold
Public Welfare	Cemetery lot sales and specific donations
Culture and Recreation	Park and pool admission, lesson and registration fees, library fines and fees, grants and donations
Economic Development	Grants and donations for specific projects to promote and improve the City's economic health
Lottery	Keno receipts
Assessments	Paving assessment receipts

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 1<sup>st</sup>. Taxes are payable in two installments on May 1<sup>st</sup> and September 1<sup>st</sup>. 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.
- (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 Surplus Transfers or Capital Contributions. 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2012

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Accounting Changes** – In March 2012 the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections--2012--an amendment of GASB Statements No. 10 and No. 62*. The requirements of these Statements are effective for financial statements for periods beginning after December 15, 2012. These statements are not expected to have a material effect on the City's statement of net assets, activities, or cash flows.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans--an amendment of GASB Statement No. 25*, and Statement 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB Statement No. 27*. The requirements for Statement 67 and Statement 68 are effective for financial statements for periods beginning after June 15, 2013 and June 15, 2014, respectively. These statements are 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. The Capital Improvements Fund was determined to be a major fund for the fiscal year ended September 30, 2012. The fund was previously a non-major fund included in the "Other Governmental Funds" column. The beginning fund balances reflect the cumulative effect of this reclassification.

### 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. Other than the issues of noncompliance discussed in Notes 3 and 9, no other instances of noncompliance considered material to the financial statements were noted.

### 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, 2012, the City's funds were invested in demand accounts, Negotiable Order of Withdrawal (NOW) accounts, money market accounts, municipal issues, Nebraska Public Agency Investment Trust (NPAIT) and certificates of deposit. Investments consisted of certificates of deposit and municipal issues.

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 3 – CASH (CONTINUED)**

At September 30, 2012, the City held the following deposits and investments:

	Carrying Value	Maturities in Years				Credit Rating
		< 1	1-5	6-10	> 10	
Cash	13,331	13,331	-	-	-	n/a
Demand deposits	4,934,238	4,934,238	-	-	-	n/a
Time deposits - certificates of deposit	5,352,679	3,094,873	1,358,006	600,000	299,800	n/a
Money market accounts	4,254	4,254	-	-	-	AAAm
Money market accounts	105,168	105,168	-	-	-	unrated
Municipal issues	21,129	5,109	-	-	16,020	A to AAA
Municipal issues	66,501	10,018	46,188	10,295	-	unrated
NPAIT	50,485	50,485	-	-	-	unrated
Total deposits and investments	<u>\$ 10,547,785</u>	<u>8,217,476</u>	<u>1,404,194</u>	<u>610,295</u>	<u>315,820</u>	
Reconciliation to Statement of Net Assets						
Cash	4,640,886					
Restricted cash	465,220					
Cash - Agency Fund	-					
Investments	4,756,304					
Restricted investments	685,375					
	<u>\$ 10,547,785</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, 2012, the City's funds were not entirely insured or collateralized by the depository banks. The City had unsecured deposits at September 30, 2012 of \$33,208 at Pinnacle Bank. According to State legislation, the City is required to secure 102% of the deposits over the FDIC coverage. During the fiscal year ended September 30, 2012 the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy due to this amount.

**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 written 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2012

### NOTE 3 – CASH (CONTINUED)

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

- \$105,168 is held at Pinnacle bank in unrated money market funds.
- \$66,501 in municipal issues are comprised of bonds of various Nebraska counties, cities and school districts which are unrated.
- \$50,485 is held in NPAIT accounts which are unrated. No FDIC or joint custody funds are held by the trust which purchases securities in the trust's name to collateralize the City's funds. NPAIT invests in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans.

**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, 2012, 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, 2012**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Major classes of property and equipment in the proprietary funds at September 30, 2012 consist of the following:

	CAPITAL ASSETS, NOT DEPRECIATED		CAPITAL ASSETS, DEPRECIATED			
	Land	Construction in Progress	Buildings and Improvements	Equipment	Vehicles	Totals
<b>Business-type Activities</b>						
<b>Electric</b>						
Balance September 30, 2011	\$ 103,232	-	9,513,504	759,011	901,144	11,276,891
Increases	-	-	78,735	13,629	-	92,364
Decreases	-	-	(91)	-	-	(91)
Balance September 30, 2012	<u>103,232</u>	<u>-</u>	<u>9,592,148</u>	<u>772,640</u>	<u>901,144</u>	<u>11,369,164</u>
<b>Accumulated Depreciation</b>						
Balance September 30, 2011	-	-	5,146,877	507,680	687,840	6,342,397
Increases	-	-	296,249	50,005	57,844	404,098
Decreases	-	-	(91)	-	-	(91)
Balance September 30, 2012	<u>-</u>	<u>-</u>	<u>5,443,035</u>	<u>557,685</u>	<u>745,684</u>	<u>6,746,404</u>
Capital assets, net	<u>\$ 103,232</u>	<u>-</u>	<u>4,149,113</u>	<u>214,955</u>	<u>155,460</u>	<u>4,622,760</u>
<b>Water</b>						
Balance September 30, 2011	\$ -	-	5,753,249	1,109,636	21,648	6,884,533
Increases	-	-	38,098	215,178	-	253,276
Decreases	-	-	(64)	-	-	(64)
Balance September 30, 2012	<u>-</u>	<u>-</u>	<u>5,791,283</u>	<u>1,324,814</u>	<u>21,648</u>	<u>7,137,745</u>
<b>Accumulated Depreciation</b>						
Balance September 30, 2011	-	-	2,453,591	162,922	21,086	2,637,599
Increases	-	-	130,092	27,887	75	158,054
Decreases	-	-	(51)	-	-	(51)
Balance September 30, 2012	<u>-</u>	<u>-</u>	<u>2,583,632</u>	<u>190,809</u>	<u>21,161</u>	<u>2,795,602</u>
Capital assets, net	<u>\$ -</u>	<u>-</u>	<u>3,207,651</u>	<u>1,134,005</u>	<u>487</u>	<u>4,342,143</u>
<b>Sewer</b>						
Balance September 30, 2011	\$ 100,721	-	5,893,452	294,779	141,949	6,430,901
Increases	-	7,786	-	1,640	-	9,426
Decreases	-	-	-	-	-	-
Balance September 30, 2012	<u>100,721</u>	<u>7,786</u>	<u>5,893,452</u>	<u>296,419</u>	<u>141,949</u>	<u>6,440,327</u>
<b>Accumulated Depreciation</b>						
Balance September 30, 2011	-	-	2,602,515	124,154	94,910	2,821,579
Increases	-	-	138,802	14,148	20,159	173,109
Decreases	-	-	-	-	-	-
Balance September 30, 2012	<u>-</u>	<u>-</u>	<u>2,741,317</u>	<u>138,302</u>	<u>115,069</u>	<u>2,994,688</u>
Capital assets, net	<u>100,721</u>	<u>7,786</u>	<u>3,152,135</u>	<u>158,117</u>	<u>26,880</u>	<u>3,445,639</u>
<b>Business-type Activities</b>						
Capital assets, net	<u>\$ 203,953</u>	<u>7,786</u>	<u>10,508,899</u>	<u>1,507,077</u>	<u>182,827</u>	<u>12,410,542</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**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	\$ 404,097
Water	158,055
Sewer	<u>173,109</u>
 Total depreciation expense	 <u>\$ 735,261</u>

**NOTE 6 – LONG-TERM LIABILITIES**

As of September 30, 2012, the long-term debt payable from governmental fund resources consisted of the following:

	<u>Balance Sept. 30, 2011</u>	<u>Bonds Issued</u>	<u>Bonds Redeemed</u>	<u>Balance Sept. 30, 2012</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.	130,000	-	(65,000)	65,000	65,000
General obligation refunding Bonds: Dated April 2009, interest 1.00%-4.125%, final payment due November 2021.	2,985,000	-	(340,000)	2,645,000	350,000
Bond anticipation note: Dated September 2010, interest 4.00%, final payment due September 2012.	250,000	-	(250,000)	-	-
Bond anticipation note: Dated September 2012, interest 3.00%, final payment due September 2014.	-	250,000	-	250,000	-
Capital lease obligation - Certificated of Participation: Dated June 2011, interest 0.60%- 3.35%, final payment due 9/15/21.	1,200,000	-	(105,000)	1,095,000	115,000
Capital lease obligation - Certificated of Participation: Dated June 2012, interest 2.2%, final payment due 9/15/21.	-	157,000	-	157,000	15,000
	<u>\$ 4,565,000</u>	<u>407,000</u>	<u>(760,000)</u>	<u>4,212,000</u>	<u>545,000</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)**

The following is a summary of bonds and notes payable in the proprietary funds at September 30, 2012:

	<u>Balance</u> <u>Sept. 30, 2011</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2012</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%, redeemed April 2012.	\$ 1,055,150	-	(1,055,150)	-	-
Electric bonds: Dated March 2012, combined revenue refunding bond, series 2012, interest .5% - 1.15%, final payment due April 2017.	-	860,100	-	860,100	169,200
Water:					
Water bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, redeemed April 2012.	740,850	-	(740,850)	-	-
Water bonds: Dated March 2012, combined revenue refunding bond, series 2012, interest .5% - 1.15%, final payment due April 2017.	-	603,900	-	603,900	118,800
Sewer:					
Sewer bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, redeemed April 2012.	449,000	-	(449,000)	-	-
Sewer bonds: Dated March 2012, combined revenue refunding bond, series 2012, interest .5% - 1.15%, final payment due April 2017.	-	<u>366,000</u>	-	<u>366,000</u>	<u>72,000</u>
Total	<u>\$ 2,245,000</u>	<u>1,830,000</u>	<u>(2,245,000)</u>	<u>1,830,000</u>	<u>360,000</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)**

The aggregate schedule of maturities of long-term liabilities, including principal and interest, for the five years subsequent to September 30, 2012 is as follows:

Year ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 545,000	117,239	360,000	17,091	1,039,330
2014	731,000	105,612	365,000	13,430	1,215,042
2015	498,000	86,928	365,000	11,058	960,986
2016	365,000	76,224	370,000	7,955	819,179
2017	372,000	66,405	370,000	4,255	812,660
2018-2022	1,701,000	142,834	-	-	1,843,834
	<u>\$ 4,212,000</u>	<u>595,242</u>	<u>1,830,000</u>	<u>53,789</u>	<u>6,691,031</u>

Interest was paid by the following funds during the year:

Leasing Corporation	\$ 3,738
Economic Development	31,619
Debt Service Fund	<u>97,076</u>
Total governmental funds	<u>132,433</u>
Electric	45,744
Water	32,119
Sewer	<u>19,466</u>
Total proprietary funds	<u>97,329</u>
Total interest paid	<u>\$ 229,762</u>

**NOTE 7 – INTERFUND BALANCES AND ACTIVITY**

Interfund loans are expected to be repaid within one year. At September 30, 2012, these balances consisted of the following:

Due From	Due To					Total
	Electric	Water	Sewer	General	Other Governmental Funds	
General	\$ 117,403	2,738	2,089	-	5,145	127,375
Debt Service	-	4,458	26,549	-	-	31,007
Electric	-	-	-	1,440	-	1,440
Water	667,840	-	-	-	-	667,840
Sewer	<u>6,076</u>	-	-	<u>7,626</u>	-	<u>13,702</u>
Total	<u>\$ 791,319</u>	<u>7,196</u>	<u>28,638</u>	<u>9,066</u>	<u>5,145</u>	<u>841,364</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 7 – INTERFUND BALANCES AND ACTIVITY (CONTINUED)**

Transfers between funds for the year ended September 30, 2012 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Funds</b>						
General	\$ 437,582	796,936	-	-	437,582	796,936
Debt Service	35,000	-	-	-	35,000	-
Electric	-	-	-	300,000	-	300,000
<b>Non-major Funds</b>	<u>1,307,435</u>	<u>683,081</u>	<u>-</u>	<u>-</u>	<u>1,307,435</u>	<u>683,081</u>
Total	<u>\$ 1,780,017</u>	<u>1,480,017</u>	<u>-</u>	<u>300,000</u>	<u>1,780,017</u>	<u>1,780,017</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 (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move surplus from the Electric Fund to the General Fund.

**NOTE 8 – RESTRICTED NET ASSETS**

Restricted net assets are composed of amounts held by the proprietary, debt service fund and Leasing Corporation for the payment of long-term principal, interest and related costs of \$550,954, \$211,151, and \$387, respectively and amounts held by other funds as follows

General fund:

- \$32,000 held as an endowment with the interest being used for cemetery maintenance
- \$31,685 for park and recreation operations

Non-major special revenue funds:

- \$54,648 for community betterment from lottery operations. Community betterment is defined in the Nebraska County and City Lottery Act to include a) improving individual's education, health, sense of citizenship b) providing and maintaining public works and public structures c) supplementing governmental services and d) providing tax relief.
- \$96,745 for the 911 system operations and equipment
- \$14,259 for fire equipment
- \$4 for capital projects

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 9 – FUND BALANCE**

	General	Debt	Capital	Non Major	Total Govt
	Fund	Service	Improvements	Govt Funds	Funds
<b>Fund balances</b>					
<b>Nonspendable</b>					
Cemetery Maintenance	\$ 32,000	-	-	-	32,000
<b>Restricted</b>					
Economic Development	-	-	-	4	4
Parks & Recreation Operations	31,685	-	-	-	31,685
Debt Service	-	211,151	-	387	211,538
Community Betterment	-	-	-	54,648	54,648
Fire Equipment	-	-	-	14,259	14,259
911 Equipment & Operations	-	-	-	96,745	96,745
<b>Committed</b>					
Economic Development	-	-	-	67,191	67,191
<b>Assigned</b>					
General Government purposes	1,025,584	-	-	-	1,025,584
Public Safety	-	-	-	705,658	705,658
Streets	-	-	-	102,612	102,612
Public Welfare	420,148	-	-	-	420,148
Culture and Recreation	162,099	-	-	379,998	542,097
Capital Outlay	-	-	-	260,750	260,750
<b>Unassigned</b>	<u>258,115</u>	<u>-</u>	<u>(102,983)</u>	<u>-</u>	<u>155,132</u>
<b>Total fund balances</b>	<u>\$ 1,929,631</u>	<u>211,151</u>	<u>(102,983)</u>	<u>1,682,252</u>	<u>3,720,051</u>

The Capital Improvements fund had a deficit fund balance as of September 30, 2012. The deficit fund balance is not in compliance with state requirements.

**NOTE 10 – 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 \$144,005 for the year ended September 30, 2012. The employee contributions totaled \$144,005 for the year ended September 30, 2012.

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, 2012 were \$12,922.

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 10 – RETIREMENT PLANS (CONTINUED)**

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 11 – 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.

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 12 – 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 swimming pool project as well as operating leases for general business equipment.

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Future obligations on capital and operating leases in effect September 30, 2012 are:

	Year Ending September 30,	Operating	Capital
2013		\$ 4,758	139,595
2014		4,758	138,560
2015		4,758	137,122
2016		4,758	140,282
2017		4,189	138,063
2018-2022		224	550,745
Total minimum payments		\$ 23,445	1,244,367
Less interest on capital lease			(149,367)
Principal portion of capital lease payments (included in Note 6)			1,095,000

Operating lease expense for the year ended September 30, 2012 was \$5,922.

**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 \$5,619,660 for the year ended September 30, 2012. 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 \$545,316 for the year ended September 30, 2012. 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. The capacity compensation rate is scheduled to decrease over the next four fiscal years.

**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.



**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2012**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

***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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative)</b>
<b>Receipts</b>				
General			3,928,093	
Internal transfers			1,483,045	
Debt Service			817,075	
Capital improvements			152,728	
Other governmental funds			2,656,091	
Electric			9,276,265	
Water			1,591,596	
Sewer			1,436,103	
	<u>\$ 21,093,193</u>	<u>21,093,193</u>	<u>21,340,996</u>	<u>247,803</u>
<b>Disbursements</b>				
General			3,929,239	
General fund internal transfers			1,483,045	
Debt Service			687,874	
Capital improvements			1,338,999	
Other governmental funds			2,330,602	
Electric			9,126,509	
Water			1,714,292	
Sewer			1,034,141	
	<u>22,048,420</u>	<u>22,048,420</u>	<u>21,644,701</u>	<u>403,719</u>
	<u>\$ (955,227)</u>	<u>(955,227)</u>	<u>(303,705)</u>	<u>651,522</u>

**CITY OF CRETE, NEBRASKA**

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

**September 30, 2012**

***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	\$ 8,379,049	998,836	1,091,982	10,469,867
Accounts receivable	11,857	(6,333)	(15,840)	(10,316)
Sale of investments	39,451	-	-	39,451
Bond proceeds	845,908	593,936	359,961	1,799,805
Loans from other funds	-	5,157	-	5,157
Receipts - Cash	<u>9,276,265</u>	<u>1,591,596</u>	<u>1,436,103</u>	<u>12,303,964</u>
Disbursements - Accrual	8,256,271	868,157	729,629	9,854,057
Loans to other funds	4,931	-	23,744	28,675
Investment purchase	151,204	-	-	151,204
Bond payments	1,055,150	740,850	449,000	2,245,000
Property and equipment	88,142	262,929	1,640	352,711
Depreciation and amortization	(416,389)	(166,683)	(178,338)	(761,410)
Inventory	1,168	(1,013)	-	155
Prepaid expenses	371	261	158	790
Accounts payable	(49,208)	(3,310)	4,021	(48,497)
Accrued expenses	34,869	13,101	4,287	52,257
Disbursements - Cash	<u>9,126,509</u>	<u>1,714,292</u>	<u>1,034,141</u>	<u>11,874,942</u>
Net income (loss) - Cash	<u>\$ 149,756</u>	<u>(122,696)</u>	<u>401,962</u>	<u>429,022</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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2013. 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**

Management of the City is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 following deficiency to be a material weakness.

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 continue to 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 the mayor, council, and council committees 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 the mayor, council, and council committees to provide addition 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 instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described below.

Unsecured Deposits - The City had unsecured deposits at September 30, 2012 at Pinnacle Bank. During the fiscal year ended September 30, 2012, the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy due to these unsecured deposits.

Recommendation - According to State legislation, the City is required to secure 102% of the deposits over the FDIC coverage. The City should review the fair market value of the pledged securities at least monthly to ensure compliance and discuss the State statute requirement with the appropriate personnel at Pinnacle Bank.

Response - The administrative personnel will discuss the City's cash management and investment policy with the appropriate personnel at Pinnacle Bank to ensure a cooperative effort to ensure secured deposit compliance.

Conclusion - Response acknowledged.

Deficit Fund Balance - The Capital Improvements Fund had a negative fund balance of \$102,983 at September 30, 2012. During the fiscal year ended September 30, 2012, the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy due to the negative fund balance.

Recommendation - The City should review the fund balances at least monthly to ensure compliance.

Response - The administrative personnel will review fund balances monthly to ensure compliance.

Conclusion - Response acknowledged.

We also noted certain matters that we reported to management of the City in a separate letter dated March 19, 2013.

The City of Crete, Nebraska'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  
March 19, 2013