

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, 2004, 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 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 opinion.

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 a basis of accounting that demonstrates compliance with 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, 2004, 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, 2004, 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 November 19, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 33 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Lincoln, Nebraska
November 19, 2004

CITY OF CRETE, NEBRASKA

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the City of Crete, Nebraska's financial report presents management's discussion and analysis of the financial performance of the City of Crete, Nebraska (the City) for the fiscal year ended September 30, 2004. This discussion should be read in conjunction with the accompanying financial statements and related notes. The financial statements, notes and this discussion are the responsibility of the City of Crete, Nebraska's management.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Modified Cash Basis provides a broad overview of the City's overall financial status. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The City's financial statements of the governmental activities, each major fund and the aggregate remaining fund information are prepared on the modified cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the City. Non-financial factors also need to be considered to assess the overall health of the City. Government-wide financial statements generally divide the City into two kinds of activities:

Governmental activities – These activities are generally financed through taxes, charges for services and State and Federal grants and contributions. The governmental activities of the City include general administrative services, public safety, streets, public welfare, parks and recreation and libraries.

Business-type activities – These activities are intended to recover all or a significant portion of their costs through user fees and charges. The business-type activities of the City include electric, water and sewer. The City accounts for its business-type activities financial transactions as an enterprise fund. Enterprise funds are used to account for governmental operations that are financed and operated in a manner similar to private business.

Component units – No component units for the City were identified.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements focus on the individual parts of the City, reporting the City's operations in more detail than the government-wide statements by providing information about the City's most significant "major" funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds – The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending. The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the general and major funds to demonstrate compliance with this budget.

Proprietary funds – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water and sewer systems. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water and sewer systems, all of which are considered to be major funds of the City.

Fiduciary funds – Fiduciary funds statements provide information about financial relationships in which the City acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the government-wide statements.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Required supplementary information

This Management Discussion and Analysis and the Budgetary Comparison Schedules represent financial information which provides users of this report with additional data that supplements the government-wide statements, fund financial statements and notes.

BASIS OF ACCOUNTING

The City prepares its financial statements of the governmental activities, each major fund and the aggregate remaining fund information on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and related assets and liabilities. Under the modified cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the 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. Also, capital assets (land, buildings, furniture, equipment and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

The City accounts for financial transactions of the proprietary funds (business-type activities) as enterprise funds. Enterprise funds are used to account for governmental operations that are financed and operated in a manner similar to private business. The City prepares its financial statements of these funds using the accrual basis of accounting.

DISCUSSION OF NET ASSETS

CITY OF CRETE, NEBRASKA
Condensed Statements of Net Assets
September 30, 2004 and 2003

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
TOTAL ASSETS	<u>\$ 4,494,284</u>	<u>2,425,179</u>	<u>22,368,611</u>	<u>22,370,205</u>	<u>26,862,895</u>	<u>24,795,384</u>
CURRENT LIABILITIES	495,335	92,811	1,078,034	882,737	1,573,369	975,548
LONG-TERM LIABILITIES	-	-	4,018,082	4,263,457	4,018,082	4,263,457
TOTAL LIABILITIES	<u>495,335</u>	<u>92,811</u>	<u>5,096,116</u>	<u>5,146,194</u>	<u>5,591,451</u>	<u>5,239,005</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	-	8,742,334	8,593,898	8,742,334	8,593,898
Restricted	2,371,919	120,609	1,232,394	1,223,288	3,604,313	1,343,897
Unrestricted	<u>1,627,030</u>	<u>2,211,759</u>	<u>7,297,767</u>	<u>7,406,825</u>	<u>8,924,797</u>	<u>9,618,584</u>
TOTAL NET ASSETS	<u>3,998,949</u>	<u>2,332,368</u>	<u>17,272,495</u>	<u>17,224,011</u>	<u>21,271,444</u>	<u>19,556,379</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,494,284</u>	<u>2,425,179</u>	<u>22,368,611</u>	<u>22,370,205</u>	<u>26,862,895</u>	<u>24,795,384</u>

For the fiscal year ended September 30, 2004, net assets of the City increased 8.77%. There were no significant changes for the fiscal year ended September 30, 2004.

DISCUSSION OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2004</u>	<u>2003</u>	
REVENUES			
Taxes	\$ 1,286,389	\$ 1,113,517	15.52
Intergovernmental	703,085	692,439	1.54
Charges for services	1,092,411	1,058,661	3.19
Investment income	25,530	20,180	26.51
Miscellaneous	41,200	275,748	(85.06)
TOTAL REVENUE	<u>3,148,615</u>	<u>3,160,545</u>	(0.38)
OTHER FINANCING SOURCES			
Transfers in	1,988,590	2,108,434	(5.68)
Grants and contributions	247,312	376,362	(34.29)
Issuance of debt	3,770,000	1,276,168	195.42
TOTAL OTHER FINANCING SOURCES	<u>6,005,902</u>	<u>3,760,964</u>	59.69
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>9,154,517</u>	<u>6,921,509</u>	32.26
EXPENSES			
General Government	476,918	512,566	(6.95)
Public Safety	1,412,321	828,904	70.38
Streets	364,075	344,605	5.65
Public Welfare	174,548	125,195	39.42
Culture and Recreation	578,360	524,797	10.21
Lottery	16,682	14,093	18.37
Capital Projects	186,505	335,661	(44.44)
Principal, interest and charges on debt	1,089,937	487,069	123.77
TOTAL EXPENSES	<u>4,299,346</u>	<u>3,172,890</u>	35.50
OTHER FINANCING USES			
Transfers out	1,988,590	2,108,434	(5.68)
Redemption of debt	1,200,000	1,564,712	(23.31)
TOTAL OTHER FINANCING USES	<u>3,188,590</u>	<u>3,673,146</u>	(13.19)
TOTAL EXPENSES AND OTHER FINANCING USES	<u>7,487,936</u>	<u>6,846,036</u>	9.38
CHANGE IN NET ASSETS	<u>\$ 1,666,581</u>	<u>\$ 75,473</u>	2,108.18

Governmental revenues increased 32.26%, while governmental expenses increased 9.38%. Revenues increased due to the issuance of advance refunding bonds. There were no significant changes in governmental expenses.

	<u>Business-type activities</u>		<u>Percentage Change</u>
	<u>2004</u>	<u>2003</u>	
OPERATING REVENUE			
User fees	\$ 6,379,177	\$ 6,207,022	2.77
MEAN - lease	564,120	564,120	-
Other	129,825	322,370	(59.73)
TOTAL OPERATING REVENUE	<u>7,073,122</u>	<u>7,093,512</u>	(0.29)
NON OPERATING REVENUE			
Investment earnings	316,208	345,209	(8.40)
TOTAL NON-OPERATING REVENUE	<u>316,208</u>	<u>345,209</u>	(8.40)
TOTAL REVENUES	<u>7,389,330</u>	<u>7,438,721</u>	(0.66)
OPERATING AND ADMINISTRATIVE EXPENSES			
Production and treatment	923,438	1,139,678	(18.97)
Power purchased	4,195,077	4,058,760	3.36
Transmission	4,719	4,509	4.66
Distribution and collection	668,610	693,117	(3.54)
General and administrative	1,347,572	1,302,444	3.46
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>7,139,416</u>	<u>7,198,508</u>	(0.82)
NONOPERATING EXPENSES			
Interest expense	196,293	203,442	(3.51)
Amortization	5,137	5,059	1.54
TOTAL NONOPERATING EXPENSES	<u>201,430</u>	<u>208,501</u>	(3.39)
TOTAL EXPENSES	<u>7,340,846</u>	<u>7,407,009</u>	(0.89)
CHANGE IN NET ASSETS	<u>\$ 48,484</u>	<u>\$ 31,712</u>	52.89

Proprietary fund revenues decreased 0.66%, while proprietary fund expenses decreased 0.89%. There were no significant changes to the proprietary fund revenues and expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

A refunding bond was issued during the fiscal year to refinance two existing bonds. There were no other significant events.

BUDGETARY HIGHLIGHTS

No significant differences were noted between original and final budget amounts, or between final budget amounts and actual results.

CAPITAL ASSET AND DEBT ADMINISTRATION

There were no major capital asset events for the fiscal year.

A refunding general obligation bond with interest payable at 1.00% to 4.20% was issued to refinance two existing general obligation bonds. The 1999 general obligation bonds called in September of 2004 had interest payable at 4.75% to 5.50%. The 2000 general obligation bonds that is scheduled to be called in June of 2005 has interest payable at 5.10% to 5.85%. The redemption of this bond will be reflected on next year's financials.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The redemption of \$2,225,000 of bonds in the next fiscal year was funded by the issuance of the refunding bond in the current fiscal year. No other conditions were noted that would be expected to have a significant effect on the financial position or results of operations.

CITY OF CRETE, NEBRASKA

Statement of Net Assets – Modified Cash Basis

September 30, 2004

	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 1,607,627	242,796	1,850,423
Cash held by County Treasurer	63,799	-	63,799
Investments	97,917	6,891,583	6,989,500
Accounts receivable, less allowance for doubtful accounts	-	691,686	691,686
Assessments receivable	-	182,547	182,547
Interest receivable	-	40,126	40,126
Inventory	-	310,609	310,609
Internal balances	353,022	(353,022)	-
Prepaid expenses	-	60,672	60,672
TOTAL CURRENT ASSETS	<u>2,122,365</u>	<u>8,066,997</u>	<u>10,189,362</u>
RESTRICTED ASSETS			
Cash	-	461,375	461,375
Cash held by County Treasurer	1,670	-	1,670
Investments	2,370,249	769,408	3,139,657
Interest receivable	-	1,611	1,611
TOTAL RESTRICTED ASSETS	<u>2,371,919</u>	<u>1,232,394</u>	<u>3,604,313</u>
NET PROPERTY AND EQUIPMENT	<u>-</u>	<u>13,005,791</u>	<u>13,005,791</u>
OTHER ASSETS	<u>-</u>	<u>63,429</u>	<u>63,429</u>
TOTAL ASSETS	<u>\$ 4,494,284</u>	<u>22,368,611</u>	<u>26,862,895</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Bank overdraft	\$ 424,646	203,638	628,284
Current portion of bonds payable	-	245,375	245,375
Accounts payable	-	505,653	505,653
Accrued expenses	-	59,484	59,484
Payroll withholdings	70,689	-	70,689
Consumer deposits	-	63,884	63,884
TOTAL CURRENT LIABILITIES	<u>495,335</u>	<u>1,078,034</u>	<u>1,573,369</u>
LONG-TERM LIABILITIES	<u>-</u>	<u>4,018,082</u>	<u>4,018,082</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	8,742,334	8,742,334
Restricted	2,371,919	1,232,394	3,604,313
Unrestricted	1,627,030	7,297,767	8,924,797
TOTAL NET ASSETS	<u>3,998,949</u>	<u>17,272,495</u>	<u>21,271,444</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,494,284</u>	<u>22,368,611</u>	<u>26,862,895</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, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Cash	Charges for	Operating	Capital	Governmental	Business-Type	Total
	Disbursements	Services	Grants and Contributions	Grants and Contributions			
Governmental Activities							
General Government	\$ (476,918)	581,535	-	-	104,617	-	104,617
Public Safety	(1,412,321)	33,246	126,661	76,008	(1,176,406)	-	(1,176,406)
Streets	(364,075)	33,927	-	-	(330,148)	-	(330,148)
Public Welfare	(174,548)	134,259	-	6,741	(33,548)	-	(33,548)
Culture and Recreation	(578,360)	73,227	17,903	-	(487,230)	-	(487,230)
Lottery	(16,682)	65,191	-	-	48,509	-	48,509
Assessments	-	183,953	-	-	183,953	-	183,953
Capital Projects	(186,505)	-	19,999	-	(166,506)	-	(166,506)
Principal, interest and charges on debt	(1,089,937)	13,056	-	-	(1,076,881)	-	(1,076,881)
Total Governmental Activities	(4,299,346)	1,118,394	164,563	82,749	(2,933,640)	-	(2,933,640)
Business-Type Activities							
Electric	(6,114,673)	5,921,125	-	-	-	(193,548)	(193,548)
Water	(594,340)	638,319	-	-	-	43,979	43,979
Sewer	(631,833)	513,678	-	-	-	(118,155)	(118,155)
Total Business-Type Activities	(7,340,846)	7,073,122	-	-	-	(267,724)	(267,724)
Total Primary Government	\$ (11,640,192)	8,191,516	164,563	82,749	(2,933,640)	(267,724)	(3,201,364)
General Revenues:							
Property Tax					635,165	-	635,165
Motor Vehicle Tax					117,901	-	117,901
Sales and Use Tax					533,323	-	533,323
Highway allocation and incentive payments					400,038	-	400,038
State aid and equalization					277,064	-	277,064
Investment Earnings					25,530	316,208	341,738
Miscellaneous General Revenues					41,200	-	41,200
Net bond proceeds					2,570,000	-	2,570,000
Total General Revenues					4,600,221	316,208	4,916,429
Change in Net Assets					1,666,581	48,484	1,715,065
Net Assets - Beginning					2,332,368	17,224,011	19,556,379
Net Assets - Ending					\$ 3,998,949	17,272,495	21,271,444

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

CITY OF CRETE, NEBRASKA

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

September 30, 2004

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 83,604	-	1,524,023	1,607,627
Cash held by County Treasurer	63,799	-	-	63,799
Investments	-	-	97,917	97,917
Interfund loans	-	353,022	-	353,022
TOTAL CURRENT ASSETS	<u>147,403</u>	<u>353,022</u>	<u>1,621,940</u>	<u>2,122,365</u>
RESTRICTED ASSETS				
Cash held by County Treasurer	-	1,670	-	1,670
Investments	-	2,370,249	-	2,370,249
TOTAL RESTRICTED ASSETS	<u>-</u>	<u>2,371,919</u>	<u>-</u>	<u>2,371,919</u>
TOTAL ASSETS	<u>\$ 147,403</u>	<u>2,724,941</u>	<u>1,621,940</u>	<u>4,494,284</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Bank overdraft	\$ 180,789	214,949	28,908	424,646
Payroll withholdings	70,689	-	-	70,689
TOTAL CURRENT LIABILITIES	<u>251,478</u>	<u>214,949</u>	<u>28,908</u>	<u>495,335</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	-	-	-
Reserved for debt service	-	2,371,919	-	2,371,919
Unreserved	(104,075)	138,073	1,593,032	1,627,030
TOTAL NET ASSETS	<u>(104,075)</u>	<u>2,509,992</u>	<u>1,593,032</u>	<u>3,998,949</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 147,403</u>	<u>2,724,941</u>	<u>1,621,940</u>	<u>4,494,284</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, 2004

	<u>General</u>	<u>Debt</u>	<u>Other</u>	
	<u>Fund</u>	<u>Service</u>	<u>Governmental</u>	
			<u>Funds</u>	<u>Total</u>
REVENUES				
Taxes	\$ 695,953	18,149	572,287	1,286,389
Intergovernmental	277,064	-	426,021	703,085
Charges for services	574,377	197,009	321,025	1,092,411
Investment income	4,059	15,479	5,992	25,530
Miscellaneous	<u>2,451</u>	<u>-</u>	<u>38,749</u>	<u>41,200</u>
TOTAL REVENUES	<u>1,553,904</u>	<u>230,637</u>	<u>1,364,074</u>	<u>3,148,615</u>
EXPENDITURES				
General Government	260,162	-	216,756	476,918
Public Safety	849,724	-	562,597	1,412,321
Streets	-	-	364,075	364,075
Public Welfare	89,675	-	84,873	174,548
Culture and Recreation	-	-	578,360	578,360
Lottery	-	-	16,682	16,682
Capital Projects	-	-	186,505	186,505
Principal, interest and charges on debt	<u>-</u>	<u>1,089,937</u>	<u>-</u>	<u>1,089,937</u>
TOTAL EXPENDITURES	<u>1,199,561</u>	<u>1,089,937</u>	<u>2,009,848</u>	<u>4,299,346</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>354,343</u>	<u>(859,300)</u>	<u>(645,774)</u>	<u>(1,150,731)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	458,000	339,028	1,191,562	1,988,590
Transfers out	(1,054,770)	-	(933,820)	(1,988,590)
Issuance of debt	-	3,770,000	-	3,770,000
Redemption of debt	-	(1,200,000)	-	(1,200,000)
Grants and contributions	<u>29,795</u>	<u>-</u>	<u>217,517</u>	<u>247,312</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(566,975)</u>	<u>2,909,028</u>	<u>475,259</u>	<u>2,817,312</u>
NET CHANGE IN FUND BALANCES	(212,632)	2,049,728	(170,515)	1,666,581
FUND BALANCES - BEGINNING	<u>108,557</u>	<u>460,264</u>	<u>1,763,547</u>	<u>2,332,368</u>
FUND BALANCES - ENDING	<u>\$ (104,075)</u>	<u>2,509,992</u>	<u>1,593,032</u>	<u>3,998,949</u>

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

CITY OF CRETE, NEBRASKA

**Statement of Net Assets
Proprietary Funds**

September 30, 2004

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ -	242,796	-	242,796
Investments	6,591,894	-	299,689	6,891,583
Accounts receivable, less allowance for doubtful accounts	574,784	81,039	35,863	691,686
Assessments receivable	-	15,332	167,215	182,547
Interest receivable	38,762	-	1,364	40,126
Inventory	285,161	25,291	157	310,609
Prepaid expenses	30,566	9,195	20,911	60,672
TOTAL CURRENT ASSETS	7,521,167	373,653	525,199	8,420,019
RESTRICTED ASSETS				
Cash	44,081	417,294	-	461,375
Investments	657,698	4,874	106,836	769,408
Interest receivable	413	1,198	-	1,611
TOTAL RESTRICTED ASSETS	702,192	423,366	106,836	1,232,394
NET PROPERTY AND EQUIPMENT	5,592,850	3,572,657	3,840,284	13,005,791
OTHER ASSETS				
Deferred bond costs, less amortization	28,310	20,529	14,590	63,429
TOTAL OTHER ASSETS	28,310	20,529	14,590	63,429
TOTAL ASSETS	\$ 13,844,519	4,390,205	4,486,909	22,721,633
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Bank overdraft	\$ 99,009	-	104,629	203,638
Current portion of revenue bonds	108,100	78,775	58,500	245,375
Accounts payable	496,583	7,018	2,052	505,653
Accrued expenses	27,183	19,070	13,231	59,484
Interfund loans	(288,615)	662,197	(20,560)	353,022
Consumer deposits	63,884	-	-	63,884
TOTAL CURRENT LIABILITIES	506,144	767,060	157,852	1,431,056
LONG-TERM LIABILITIES	1,829,025	1,313,170	875,887	4,018,082
NET ASSETS				
Invested in capital assets, net of related debt	3,655,725	2,180,712	2,905,897	8,742,334
Restricted	702,192	423,366	106,836	1,232,394
Unrestricted	7,151,433	(294,103)	440,437	7,297,767
TOTAL NET ASSETS	11,509,350	2,309,975	3,453,170	17,272,495
TOTAL LIABILITIES AND NET ASSETS	\$ 13,844,519	4,390,205	4,486,909	22,721,633

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, 2004

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
OPERATING REVENUES				
User fees	\$ 5,256,023	630,978	492,176	6,379,177
MEAN - lease	564,120	-	-	564,120
Other	100,982	7,341	21,502	129,825
TOTAL OPERATING REVENUES	5,921,125	638,319	513,678	7,073,122
OPERATING EXPENSES				
Production and Treatment:				
Salaries	157,384	-	123,162	280,546
Fuel and natural gas	70,095	-	-	70,095
Depreciation	138,718	78,173	110,801	327,692
Supplies and maintenance	56,464	9,119	25,567	91,150
Power and utilities	40,615	38,757	64,486	143,858
Other	-	-	10,097	10,097
	<u>463,276</u>	<u>126,049</u>	<u>334,113</u>	<u>923,438</u>
Power Purchased	4,195,077	-	-	4,195,077
Transmission -				
Depreciation	4,719	-	-	4,719
Distribution and Collection:				
Depreciation	149,074	39,473	30,467	219,014
Maintenance and vehicle expense	281,765	126,034	29,701	437,500
Supplies	-	12,096	-	12,096
	<u>430,839</u>	<u>177,603</u>	<u>60,168</u>	<u>668,610</u>
General and Administrative:				
Salaries	185,848	98,083	74,154	358,085
Payroll taxes and employee benefits	192,632	69,372	63,248	325,252
Insurance, general	87,925	25,254	21,335	134,514
Professional fees	24,502	14,510	13,063	52,075
Office expense	18,349	11,419	10,890	40,658
Repairs and maintenance	12,230	3,539	6,801	22,570
Depreciation	15,915	1,198	2,847	19,960
Bad debt	51	-	-	51
In lieu of taxes	265,400	-	-	265,400
Franchise fee	116,600	-	-	116,600
Other	9,372	1,669	1,366	12,407
	<u>928,824</u>	<u>225,044</u>	<u>193,704</u>	<u>1,347,572</u>
TOTAL OPERATING EXPENSES	6,022,735	528,696	587,985	7,139,416
OPERATING INCOME	(101,610)	109,623	(74,307)	(66,294)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	292,035	14,885	9,288	316,208
Interest expense	(89,658)	(63,986)	(42,649)	(196,293)
Amortization	(2,280)	(1,658)	(1,199)	(5,137)
TOTAL NONOPERATING REVENUES (EXPENSES)	200,097	(50,759)	(34,560)	114,778
CHANGE IN NET ASSETS	98,487	58,864	(108,867)	48,484
NET ASSETS - BEGINNING	11,410,863	2,251,111	3,562,037	17,224,011
NET ASSETS - ENDING	\$ 11,509,350	2,309,975	3,453,170	17,272,495

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, 2004

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 5,213,040	632,831	497,901	6,343,772
Cash received from MEAN lease	564,120	-	-	564,120
Cash received from other operating revenues	184,692	7,341	15,802	207,835
Cash paid to suppliers for goods and services	(4,739,203)	(175,435)	(240,832)	(5,155,470)
Cash paid to employees and professional contractors for services, including benefits and taxes	(655,833)	(232,674)	(196,083)	(1,084,590)
Cash paid for in lieu of tax	(265,400)	-	-	(265,400)
Net cash provided (used) by operating activities	<u>301,416</u>	<u>232,063</u>	<u>76,788</u>	<u>610,267</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of property and equipment	(501,518)	(44,492)	(43,314)	(589,324)
Disposition of property and equipment	993	-	-	993
Principal payments on bonds	(103,400)	(75,475)	(56,500)	(235,375)
Interest payments on bonds	(89,658)	(63,991)	(42,671)	(196,320)
Increase in bank overdraft	99,009	-	54,350	153,359
Net cash provided (used) by capital and related financing activities	<u>(594,574)</u>	<u>(183,958)</u>	<u>(88,135)</u>	<u>(866,667)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(370,779)	-	(640)	(371,419)
Investment income	299,220	14,703	11,987	325,910
Net cash provided (used) by investing activities	<u>(71,559)</u>	<u>14,703</u>	<u>11,347</u>	<u>(45,509)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(364,717)</u>	<u>62,808</u>	<u>-</u>	<u>(301,909)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>408,798</u>	<u>597,282</u>	<u>-</u>	<u>1,006,080</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 44,081</u>	<u>660,090</u>	<u>-</u>	<u>704,171</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income (loss) from operations	\$ (101,610)	109,623	(74,307)	(66,294)
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:				
Depreciation	308,426	118,844	144,115	571,385
Adjustments for working capital changes:				
(Increase) decrease in:				
Receivables	22,701	1,853	26,219	50,773
Inventory	32,135	1,265	-	33,400
Prepaid expenses	2,760	(367)	(13,382)	(10,989)
Increase (decrease) in:				
Accounts payable and internal balances	57,081	5,549	(916)	61,714
Accrued expenses	(14,010)	(4,704)	(4,941)	(23,655)
Restricted liabilities	(6,067)	-	-	(6,067)
Net cash provided by operating activities	<u>\$ 301,416</u>	<u>232,063</u>	<u>76,788</u>	<u>610,267</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, 2004

	<u>Fireman's Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ <u>510</u>
TOTAL CURRENT ASSETS	<u>510</u>
TOTAL ASSETS	<u>\$ 510</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Due to other taxing units	\$ <u>510</u>
TOTAL CURRENT LIABILITIES	<u>510</u>
LONG-TERM LIABILITIES	<u>-</u>
NET ASSETS	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 510</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

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. 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. No component units were identified. The accompanying financial statements present the financial position and the changes in net assets and cash flows of the City only. 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. Generally accepted accounting principles include all relevant GASB Pronouncements. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. See *Accounting Changes* in Note 1. Encumbrance accounting is not used by the City.

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, revenues and expenditures/expenses. Funds 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 or meets the following criteria:

- (a) Total assets, liabilities, 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, 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Fund is reported as a non-major fund 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. 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds

Agency Funds

The agency fund accounts 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, 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 fund utilizes 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 recognized assets, liabilities, net assets/fund equity, 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.

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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 principles 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.

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

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

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 or charged to an expense.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 salaries and vacation. 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 accrual is made for sick pay since it does not vest. No accruals are made in the governmental funds as they are using the modified cash basis of accounting. In accordance with the provisions of SFAS No. 43, *Accounting for Compensated Absences*, 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 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. Bonds payable are reported net of the applicable bond premium or discount.

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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In the fund financial statements, governmental equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

Revenues, Expenditures and Expense –

PROGRAM 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 revenues. The City has the following program revenues in each activity:

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

All other governmental 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING REVENUE 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 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 Transfers – 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 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). Accordingly, actual results could differ from those estimates.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Changes – In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments throughout the United States. According to the provisions of Statement No. 34, the City is a "Phase 3" government with annual revenues of less than \$10 million in the first fiscal year ending after June 15, 1999, requiring implementation for periods beginning after June 15, 2003. The City adopted GASB Statement No. 34 in August 2003.

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. During the fiscal year ended September 30, 2004, 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 City's unsecured deposits at Pinnacle Bank.

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 any securities as provided in the Public Funds Deposit Security Act.

No deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) shall be allowed to accumulate in the bank unless:

- (a) The bank gives a surety bond;
- (b) The bank can give the City securities as collateral on the excess of funds;
- (c) The bank can issue a joint custody receipt to the benefit of the City where a third party bank actually holds the security.

The City's funds were invested in demand checking accounts, money market checking accounts and/or certificates of deposit.

At September 30, 2004, the City's cash were comprised of the following:

- Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 - Insured or collateralized with securities held by pledging financial institution's trust department or agent in the entity's name.
- Category 3 - Uncollateralized or collateralized with securities held by pledging financial institution or trust department but not in the entity's name.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 3 – CASH (CONTINUED)

	Bank Balance	Category			Book Balance
		1	2	3	
Pinnacle Bank	\$ 1,578,896	100,000	-	1,275,000	1,500,511
City Bank	1,852,726	100,000	-	1,752,726	1,757,317
Edward Jones	189,000	-	189,000	-	189,000
Dain Rausher	6,033,514	-	6,033,514	-	6,033,513
Union Bank	2,332,141	2,487	13,520	2,316,134	2,332,140
US Bonds & Notes	500	500	-	-	500
	<u>\$ 11,986,777</u>	<u>202,987</u>	<u>6,236,034</u>	<u>5,343,860</u>	11,812,981
Amount held for trust and agency					(510)
Cash on hand					<u>200</u>
Total cash					<u>\$ 11,812,671</u>

The City's had unsecured deposits at September 30, 2004 at Pinnacle Bank. During the fiscal year ended September 30, 2004, the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy.

NOTE 4 – RECEIVABLES

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

NOTE 5 – PROPERTY AND EQUIPMENT

The following is a summary of changes in the governmental general fixed assets account group during the fiscal year:

	Balance	Additions	Deletions	Balance
	Sept. 30, 2003			Sept. 30, 2004
Buildings and Improvements	\$ 3,342,734	62,419	-	3,405,153
Vehicles	1,042,247	49,099	-	1,091,346
Equipment	2,146,682	512,195	-	2,658,877
	<u>\$ 6,531,663</u>	<u>623,713</u>	<u>-</u>	<u>7,155,376</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 5 – PROPERTY AND EQUIPMENT (CONTINUED)

Major classes of property and equipment in the proprietary funds at September 30, 2004 consist of the following:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Land	\$ 103,232	6,587	100,721	210,540
Buildings and improvements	\$ 12,698,746	5,082,401	5,744,880	23,526,027
Equipment	1,359,620	183,370	414,620	1,957,610
Vehicles	<u>521,108</u>	<u>52,475</u>	<u>154,503</u>	<u>728,086</u>
Total property and equipment	14,682,706	5,324,833	6,414,724	26,422,263
Less: Accumulated depreciation	<u>9,089,856</u>	<u>1,752,176</u>	<u>2,574,440</u>	<u>13,416,472</u>
Net property and equipment	<u>\$ 5,592,850</u>	<u>3,572,657</u>	<u>3,840,284</u>	<u>13,005,791</u>

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

Electric	\$ 308,426
Water	118,844
Sewer	<u>144,115</u>
Total depreciation expense	<u>\$ 571,385</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 6 – LONG-TERM LIABILITIES

The following is a summary of bonds and notes payable in the governmental long-term debt account group at September 30, 2004:

	<u>Balance</u> <u>Sept. 30, 2003</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2004</u>	<u>Amount Due</u> <u>Within One Year</u>
Leasehold revenue bonds: Dated April, 1998, interest 3.7%- 5.05%, final payment due April, 2013	\$ 545,000	-	(45,000)	500,000	45,000
General obligation various purpose bonds: Dated September, 1999, interest 4.00%-5.50%, final payment due September, 2014	1,200,000	-	(1,200,000)	-	-
General obligation bond: Dated June, 2000, interest 4.50%-5.85%, final payment due June, 2020	2,310,000	-	(85,000)	2,225,000	2,225,000
General obligation various purpose bonds: Dated November, 2001, interest 2.10%-5.00%, final payment due November, 2021	1,275,000	-	(50,000)	1,225,000	50,000
General obligation refunding bonds, Dated February, 2003, interest 1.40%-4.50%, final payment due February, 2016	1,276,168	-	(109,625)	1,166,543	109,625
General obligation various purpose bonds: Dated September, 2004, interest 1.00%-4.20%, final payment due September, 2020	-	3,770,000	(190,000)	3,580,000	235,000
	<u>\$ 6,606,168</u>	<u>3,770,000</u>	<u>(1,679,625)</u>	<u>8,696,543</u>	<u>2,664,625</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of bonds and notes payable in the proprietary funds at September 30, 2004:

	<u>Balance</u> <u>Sept. 30, 2003</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2004</u>	<u>Amount Due</u> <u>Within One Year</u>
Electric bonds: Dated April, 2002, interest 1.90%-5.20%, final payment due April, 2017	\$ 2,040,525	-	(103,400)	1,937,125	108,100
Water bonds: Dated February, 2003, interest 1.40%-4.50%, final payment due February, 2016	33,610	-	(2,875)	30,735	2,875
Water bonds: Dated April, 2002, interest 1.90%-5.20%, final payment due April, 2017	1,433,810	-	(72,600)	1,361,210	75,900
Sewer bonds: Dated February, 2003, interest 1.40%-4.50%, final payment due February, 2016	145,222	-	(12,500)	132,722	12,500
Sewer bonds: Dated April, 2002, interest 1.90%-5.20%, final payment due April, 2017	<u>845,665</u>	-	<u>(44,000)</u>	<u>801,665</u>	<u>46,000</u>
	<u>\$ 4,498,832</u>	<u>-</u>	<u>(235,375)</u>	<u>4,263,457</u>	<u>245,375</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

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, 2004 is as follows:

Year ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2005	\$ 2,664,625	342,218	245,375	193,053	3,445,271
2006	454,010	210,940	250,990	185,272	1,101,212
2007	449,625	200,900	260,375	176,444	1,087,344
2008	459,010	189,421	265,990	166,453	1,080,874
2009	477,780	176,231	282,220	155,679	1,091,910
2010-2014	2,362,885	637,228	1,570,160	581,820	5,152,093
2015-2019	1,363,608	263,413	1,388,347	157,908	3,173,276
2020-2022	465,000	28,831	-	-	493,831
	<u>\$ 8,696,543</u>	<u>2,049,182</u>	<u>4,263,457</u>	<u>1,616,629</u>	<u>16,625,811</u>

Interest of \$359,259 and \$196,320 was paid on governmental and proprietary bonds, respectively, during the year.

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

Interfund loans at September 30, 2004 consist of the following:

Due To	Due From		
	Water	Sewer	Debt Service
Debt Service	\$ 378,252	-	-
Electric	283,945	4,670	-
Sewer	-	-	25,230
Total	<u>\$ 662,197</u>	<u>4,670</u>	<u>25,230</u>

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

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 7 – INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Transfers between funds of the primary government for the year ended September 30, 2004 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds		
General Fund	\$ 1,054,770	458,000
Debt Service	-	339,028
Non-major Funds	<u>933,820</u>	<u>1,191,562</u>
Total	<u>\$ 1,988,590</u>	<u>1,988,590</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 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.

NOTE 8 – RESTRICTED ASSETS

Restricted assets are composed of amounts held by the debt service fund for the payment of general long-term principal, interest and related costs of \$3,540,429 and consumer deposits of \$63,884.

NOTE 9 – DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of September 30, 2004:

General Fund	\$ (104,075)
Special Revenue Funds:	
Fire Equipment	(2,463)
Pool	(10,412)
State Grant Ball Field	(16,033)

NOTE 10 – RETIREMENT PLANS

The City sponsors a defined contribution plan with Principal Mutual Life Insurance Company. It covers all employees except firemen personnel. Each participant shall have 6% of their compensation deferred. The City matches 100% of the deferred contribution. The total accumulative pension contributions were \$115,901.

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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

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	None
(c) Physical property loss and natural disasters	Purchased commercial insurance	None

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

Concentration of Credit Risk – The City provides 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 2017. The City has agreed to participate in MEAN CB4 Project which includes a new electric generating station. The estimated Project construction cost to MEAN is 76 million dollars to be funded through issuing electric revenue bonds with an anticipated payoff date of 2037. The City plans to commit to purchase power directly from MEAN until the bonds are paid in full. The dollar amount of power purchased from MEAN was \$2,560,406 for the year ended September 30, 2004. 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, 2004. 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2004

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 – Cash Basis
(Required Supplementary Information)**

For the Year Ended September 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Receipts				
General			2,041,699	
Debt Service			4,339,665	
Other governmental funds			2,773,153	
Electric			6,261,072	
Water			654,875	
Sewer			525,690	
	<u>\$ 15,163,628</u>	<u>15,163,628</u>	<u>16,596,154</u>	<u>1,432,526</u>
Disbursements				
General			2,254,331	
Debt Service			2,289,937	
Other governmental funds			2,943,668	
Electric			6,724,798	
Water			592,067	
Sewer			580,040	
	<u>16,559,752</u>	<u>16,559,752</u>	<u>15,384,841</u>	<u>1,174,911</u>
	<u>\$ (1,396,124)</u>	<u>(1,396,124)</u>	<u>1,211,313</u>	<u>2,607,437</u>

CITY OF CRETE, NEBRASKA

**Notes to Budgetary Comparison Schedule – Cash Basis
(Required Supplementary Information)**

For the Year Ended September 30, 2004

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	\$ 6,213,160	653,204	522,966	7,389,330
Accounts receivable	47,912	1,671	2,724	52,307
Receipts - Cash	<u>6,261,072</u>	<u>654,875</u>	<u>525,690</u>	<u>7,441,637</u>
Disbursements - Accrual	6,114,673	594,340	631,833	7,340,846
Investment purchase	370,779	-	640	371,419
Bond payments	103,400	75,475	56,500	235,375
Property and equipment	500,525	44,492	43,314	588,331
Depreciation and amortization	(310,706)	(120,502)	(145,314)	(576,522)
Inventory	(32,135)	(1,265)	-	(33,400)
Prepaid expenses	21,333	367	(12,812)	8,888
Accounts payable	(57,081)	(5,549)	916	(61,714)
Accrued expenses	14,010	4,709	4,963	23,682
Disbursements - Cash	<u>6,724,798</u>	<u>592,067</u>	<u>580,040</u>	<u>7,896,905</u>
Net income - Cash	<u>\$ (463,726)</u>	<u>62,808</u>	<u>(54,350)</u>	<u>(455,268)</u>

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

Report on Compliance and on Internal Control Over Financial
Reporting 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 the City of Crete, Nebraska (the City), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 19, 2004. Our report discloses that the City prepares its financial statements of the governmental activities, each major fund and the aggregate remaining fund information on a basis of accounting that demonstrates compliance with 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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

The City had unsecured deposits at September 30, 2004 at Pinnacle Bank. During the fiscal year ended September 30, 2004, the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The reportable condition is as follows:

Due to the size of the accounting staff, there is limited possibility for separation of accounting duties.

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards* (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we consider the reportable condition described above to be a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the City in a separate letter dated March 14, 2005.

This report is intended solely for the information and use of the Mayor, City Council, management, 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
November 19, 2004