

**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, 2005, 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, 2005, 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, 2005, 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 18, 2005 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 read in conjunction with this report in considering the results of our audit.

The City of Crete, Nebraska, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The budgetary comparison information on pages 28 through 29, is not a required part of the basic financial statements but is 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, PC*

Lincoln, Nebraska  
November 18, 2005

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

### 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. These financials include all relevant GASB pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements 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 or meets the following criteria:

- (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

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

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

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

The funds of the financial reporting entity are described below:

#### Governmental Funds

##### General Fund

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

##### Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The only Special Revenue Fund reported as major is the sales tax fund, which accounts for the city sales tax receipts and budgeted transfers out to various funds. The City's other 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

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

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

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

#### Fiduciary Funds

##### Agency Funds

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

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

#### MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

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

#### BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, receipts/revenues and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than principles generally accepted in the United States of America.

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 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Inventories** – In the proprietary funds inventories are valued at cost.

**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.

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.



**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

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

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

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

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

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

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

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.

***Receipts, Revenues, Expenditures and Expense –***

**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 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

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

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

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 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.

#### 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

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

- (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.

**Accounting Changes** – In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*. In June 2005, the GASB issued Statement No.47, *Accounting for Termination Benefits*. The City adopted GASB 46 and 47. The statements did not effect the City's statement of net assets, activities or cash flows.

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

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

### 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. The fair market value of these investments is the same as cost.

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

**NOTE 3 – CASH (CONTINUED)**

At September 30, 2005, 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.

	Bank	Category			Book
	Balance	1	2	3	Balance
Pinnacle Bank	\$ 1,676,172	200,000	-	1,476,172	1,594,720
City Bank	2,240,211	200,000	-	2,040,211	2,131,100
Edward Jones	189,000	-	189,000	-	189,000
Dain Rausher	5,942,016	-	5,942,016	-	5,941,589
Union Bank	16,291	2,450	13,841	-	16,291
US Bonds & Notes	500	500	-	-	500
	<u>\$ 10,064,190</u>	<u>402,950</u>	<u>6,144,857</u>	<u>3,516,383</u>	9,873,200
Amount held for trust and agency					(515)
Cash on hand					<u>200</u>
Total cash					<u>\$ 9,872,885</u>

The City had no unsecured deposits at September 30, 2005. During the fiscal year ended September 30, 2005, the City complied 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

### NOTE 10 – RETIREMENT PLANS (CONTINUED)

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, 2005 were \$19,179.

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 \$15,000/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 \$15,000 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.

# CITY OF CRETE, NEBRASKA

## Notes to Financial Statements

September 30, 2005

### NOTE 12 – COMMITMENTS AND CONTINGENCIES

**Capital Lease** – On September 20, 2005, the City entered into a lease with City Bank & Trust Company for the purpose of leasing a maintenance facility for use by the Park and Recreation Department. The lease agreement requires four annual payments of \$6,000 beginning October 17, 2006 with a final lump sum payment of \$48,344 due October 17, 2010. The City will receive title to the structure after all amounts due under the lease agreement have been paid. Although this lease is a capital lease, the City uses the modified cash basis of accounting in the general funds and will recognize the lease expense as the cash is expended. No lease expenses were paid for the year ended September 30, 2005.

**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 with 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 \$2,648,850 for the year ended September 30, 2005. 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, 2005. The City has the option to assign its rights and commitments in this contract if the entity to which it is assigning such rights and commitments is acceptable to MEAN.

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

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

# 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 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 18, 2005. 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 generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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:

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

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

Response – We will consider this.

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

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

A material weakness is a reportable 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 caused by error or fraud 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.

**Compliance and Other Matters**

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

However, we noted certain matters that we reported to management of the City in a separate letter dated February 15, 2006.

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 18, 2005



**CITY OF CRETE, NEBRASKA**

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

**September 30, 2005**

	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	1 \$ - 1,984,756	4 - 571,419	2,556,175
Cash held by County Treasurer	3 - 101,576	-	101,576
Investments	2 - 127,918	4 - 6,649,039	6,776,957
Accounts receivable, less allowance for doubtful accounts	-	714,945	714,945
Assessments receivable	-	173,318	173,318
Interest receivable	-	35,659	35,659
Inventory	-	341,696	341,696
Internal balances	1 - 358,900	4 - (358,900)	-
Prepaid expenses	-	45,945	45,945
<b>TOTAL CURRENT ASSETS</b>	<u>2,573,150</u>	<u>8,173,121</u>	<u>10,746,271</u>
<b>RESTRICTED ASSETS</b>			
Cash	-	4 - 473,973	473,973
Cash held by County Treasurer	3 - 2,595	-	2,595
Investments	2 - 54,114	4 - 774,912	829,026
Interest receivable	-	2,178	2,178
<b>TOTAL RESTRICTED ASSETS</b>	<u>56,709</u>	<u>1,251,063</u>	<u>1,307,772</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<u>-</u>	<u>12,819,113</u>	<u>12,819,113</u>
<b>OTHER ASSETS</b>	<u>-</u>	<u>58,292</u>	<u>58,292</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,629,859</u>	<u>22,301,589</u>	<u>24,931,448</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Bank overdraft	\$ 629,636	133,610	763,246
Current portion of bonds payable	-	250,990	250,990
Accounts payable	-	558,132	558,132
Accrued expenses	-	68,415	68,415
Payroll withholdings	39,921	-	39,921
Consumer deposits	-	68,334	68,334
<b>TOTAL CURRENT LIABILITIES</b>	<u>669,557</u>	<u>1,079,481</u>	<u>1,749,038</u>
<b>LONG-TERM LIABILITIES</b>	<u>-</u>	<u>3,767,092</u>	<u>3,767,092</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	8,765,556	8,765,556
Restricted for:			
Debt service	56,709	1,182,729	1,239,438
Capital projects	500,000	-	500,000
Other purposes	30,000	-	30,000
Unrestricted	1,373,593	7,506,731	8,880,324
<b>TOTAL NET ASSETS</b>	<u>1,960,302</u>	<u>17,455,016</u>	<u>19,415,318</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,629,859</u>	<u>22,301,589</u>	<u>24,931,448</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, 2005**

Functions/Programs	Program Receipts/Revenues				Net Receipts / Revenue (Disbursements / Expense) and Changes in Net Assets		
	Cash Disbursements/ Expenditures	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ (594,876)	588,061	-	-	(6,815)	-	(6,815)
Public Safety	(1,011,281)	67,572	-	71,402	(872,307)	-	(872,307)
Streets	(374,857)	18,196	-	48,026	(308,635)	-	(308,635)
Public Welfare	(172,370)	154,400	30,000	-	12,030	-	12,030
Culture and Recreation	(621,120)	70,991	4,196	14,913	(531,020)	-	(531,020)
Lottery	(15,336)	71,206	-	-	55,870	-	55,870
Assessments	-	186,651	-	-	186,651	-	186,651
Capital Projects	(242,477)	-	-	500,000	257,523	-	257,523
Principal, interest and charges on debt	(3,093,523)	13,056	-	-	(3,080,467)	-	(3,080,467)
<b>Total Governmental Activities</b>	<b>(6,125,840)</b>	<b>1,170,133</b>	<b>34,196</b>	<b>634,341</b>	<b>(4,287,170)</b>	<b>-</b>	<b>(4,287,170)</b>
<b>Business-Type Activities</b>							
Electric	(6,369,831)	6,285,611	-	-	-	(84,220)	(84,220)
Water	(590,118)	682,342	-	-	-	92,224	92,224
Sewer	(643,023)	518,294	-	-	-	(124,729)	(124,729)
<b>Total Business-Type Activities</b>	<b>(7,602,972)</b>	<b>7,486,247</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(116,725)</b>	<b>(116,725)</b>
<b>Total Primary Government</b>	<b>\$ (13,728,812)</b>	<b>8,656,380</b>	<b>34,196</b>	<b>634,341</b>	<b>(4,287,170)</b>	<b>(116,725)</b>	<b>(4,403,895)</b>
<b>General Revenues:</b>							
Property Tax					687,778	-	687,778
Motor Vehicle Tax					123,729	-	123,729
Sales and Use Tax					581,336	-	581,336
Highway allocation and incentive payments					403,606	-	403,606
State aid and equalization					269,448	-	269,448
Investment Earnings					42,068	299,246	341,314
Miscellaneous General Revenues					140,558	-	140,558
Net bond proceeds					-	-	-
<b>Total General Revenues</b>					<b>2,248,523</b>	<b>299,246</b>	<b>2,547,769</b>
<b>Change in Net Assets</b>					<b>(2,038,647)</b>	<b>182,521</b>	<b>(1,856,126)</b>
<b>Net Assets - Beginning</b>					<b>3,998,949</b>	<b>17,272,495</b>	<b>21,271,444</b>
<b>Net Assets - Ending</b>					<b>\$ 1,960,302</b>	<b>17,455,016</b>	<b>19,415,318</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, 2005

	<u>General Fund</u>	<u>Debt Service</u>	<u>Sales Tax</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 188,082	-	531,787	1,264,887	1,984,756
Cash held by County Treasurer	101,576	-	-	-	101,576
Investments	-	-	-	127,918	127,918
Interfund loans	-	358,900	(500,000)	500,000	358,900
<b>TOTAL CURRENT ASSETS</b>	<u>289,658</u>	<u>358,900</u>	<u>31,787</u>	<u>1,892,805</u>	<u>2,573,150</u>
<b>RESTRICTED ASSETS</b>					
Cash held by County Treasurer	-	2,595	-	-	2,595
Investments	-	54,114	-	-	54,114
<b>TOTAL RESTRICTED ASSETS</b>	<u>-</u>	<u>56,709</u>	<u>-</u>	<u>-</u>	<u>56,709</u>
<b>TOTAL ASSETS</b>	<u>\$ 289,658</u>	<u>415,609</u>	<u>31,787</u>	<u>1,892,805</u>	<u>2,629,859</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Bank overdraft	\$ 162,711	430,343	-	36,582	629,636
Payroll withholdings	39,921	-	-	-	39,921
<b>TOTAL CURRENT LIABILITIES</b>	<u>202,632</u>	<u>430,343</u>	<u>-</u>	<u>36,582</u>	<u>669,557</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	-	-	-	-
Reserved for:					
Capital projects	-	-	-	500,000	500,000
Debt service	-	56,709	-	-	56,709
Other purposes	-	-	-	30,000	30,000
Unreserved reported in:					
General fund	87,026	-	-	-	87,026
Debt service fund	-	(71,443)	-	-	(71,443)
Capital projects fund	-	-	-	98,334	98,334
Special revenue funds	-	-	31,787	1,227,889	1,259,676
<b>TOTAL NET ASSETS</b>	<u>87,026</u>	<u>(14,734)</u>	<u>31,787</u>	<u>1,856,223</u>	<u>1,960,302</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 289,658</u>	<u>415,609</u>	<u>31,787</u>	<u>1,892,805</u>	<u>2,629,859</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, 2005**

	General Fund	Debt Service	Sales Tax	Other Governmental Funds	Total
<b>REVENUES</b>					
Taxes	\$ 751,514	18,480	581,336	41,513	1,392,843
Intergovernmental	269,448	-	-	423,206	692,654
Charges for services	604,603	199,707	-	346,223	1,150,533
Investment income	3,215	33,103	1,484	4,266	42,068
Miscellaneous	119,944	-	-	20,614	140,558
<b>TOTAL REVENUES</b>	<u>1,748,724</u>	<u>251,290</u>	<u>582,820</u>	<u>835,822</u>	<u>3,418,656</u>
<b>EXPENDITURES</b>					
General Government	344,869	-	25,345	224,662	594,876
Public Safety	875,338	-	-	135,943	1,011,281
Streets	-	-	-	374,857	374,857
Public Welfare	99,060	-	-	73,310	172,370
Culture and Recreation	-	-	-	621,120	621,120
Lottery	-	-	-	15,336	15,336
Capital Projects	-	8,820	-	233,657	242,477
Principal, interest and charges on debt	-	3,093,523	-	-	3,093,523
<b>TOTAL EXPENDITURES</b>	<u>1,319,267</u>	<u>3,102,343</u>	<u>25,345</u>	<u>1,678,885</u>	<u>6,125,840</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<u>429,457</u>	<u>(2,851,053)</u>	<u>557,475</u>	<u>(843,063)</u>	<u>(2,707,184)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	564,280	326,327	-	1,073,683	1,964,290
Transfers out	(906,033)	-	(583,235)	(475,022)	(1,964,290)
Issuance of debt	-	-	-	-	-
Redemption of debt	-	-	-	-	-
Grants and contributions	103,397	-	-	565,140	668,537
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(238,356)</u>	<u>326,327</u>	<u>(583,235)</u>	<u>1,163,801</u>	<u>668,537</u>
<b>NET CHANGE IN FUND BALANCES</b>	191,101	(2,524,726)	(25,760)	320,738	(2,038,647)
<b>FUND BALANCES - BEGINNING</b>	<u>(104,075)</u>	<u>2,509,992</u>	<u>57,547</u>	<u>1,535,485</u>	<u>3,998,949</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 87,026</u>	<u>(14,734)</u>	<u>31,787</u>	<u>1,856,223</u>	<u>1,960,302</u>

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

**CITY OF CRETE, NEBRASKA**

**Statement of Net Assets  
Proprietary Funds**

**September 30, 2005**

	<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	\$ 208,390	363,029	-	571,419
Investments	6,349,350	-	299,689	6,649,039
Accounts receivable, less allowance for doubtful accounts	588,162	75,031	51,752	714,945
Assessments receivable	-	13,622	159,696	173,318
Interest receivable	34,916	-	743	35,659
Inventory	315,223	26,316	157	341,696
Prepaid expenses	29,532	8,704	7,709	45,945
<b>TOTAL CURRENT ASSETS</b>	<b>7,525,573</b>	<b>486,702</b>	<b>519,746</b>	<b>8,532,021</b>
<b>RESTRICTED ASSETS</b>				
Cash	51,020	422,953	-	473,973
Investments	662,554	4,874	107,484	774,912
Interest receivable	692	1,486	-	2,178
<b>TOTAL RESTRICTED ASSETS</b>	<b>714,266</b>	<b>429,313</b>	<b>107,484</b>	<b>1,251,063</b>
<b>NET PROPERTY AND EQUIPMENT</b>	<b>5,618,066</b>	<b>3,489,281</b>	<b>3,711,766</b>	<b>12,819,113</b>
<b>OTHER ASSETS</b>				
Deferred bond costs, less amortization	26,030	18,871	13,391	58,292
<b>TOTAL OTHER ASSETS</b>	<b>26,030</b>	<b>18,871</b>	<b>13,391</b>	<b>58,292</b>
<b>TOTAL ASSETS</b>	<b>\$ 13,883,935</b>	<b>4,424,167</b>	<b>4,352,387</b>	<b>22,660,489</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Bank overdraft	\$ -	-	133,610	133,610
Current portion of revenue bonds	110,450	80,540	60,000	250,990
Accounts payable	542,554	8,495	7,083	558,132
Accrued expenses	35,030	20,236	13,149	68,415
Interfund loans	(289,248)	664,061	(15,913)	358,900
Consumer deposits	68,334	-	-	68,334
<b>TOTAL CURRENT LIABILITIES</b>	<b>467,120</b>	<b>773,332</b>	<b>197,929</b>	<b>1,438,381</b>
<b>LONG-TERM LIABILITIES</b>	<b>1,718,575</b>	<b>1,232,630</b>	<b>815,887</b>	<b>3,767,092</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,756,771	2,172,906	2,835,879	8,765,556
Restricted for debt service	645,932	429,313	107,484	1,182,729
Unrestricted	7,295,537	(184,014)	395,208	7,506,731
<b>TOTAL NET ASSETS</b>	<b>11,698,240</b>	<b>2,418,205</b>	<b>3,338,571</b>	<b>17,455,016</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,883,935</b>	<b>4,424,167</b>	<b>4,352,387</b>	<b>22,660,489</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, 2005**

	<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	\$ 5,462,879	673,706	512,219	6,648,804
MEAN - lease	564,120	-	-	564,120
Other	258,612	8,636	6,075	273,323
<b>TOTAL OPERATING REVENUES</b>	<b>6,285,611</b>	<b>682,342</b>	<b>518,294</b>	<b>7,486,247</b>
<b>OPERATING EXPENSES</b>				
<b>Production and Treatment:</b>				
Salaries	155,631	-	118,386	274,017
Fuel and natural gas	217,005	-	-	217,005
Depreciation	158,580	78,860	111,329	348,769
Supplies and maintenance	55,659	20,648	23,788	100,095
Power and utilities	41,247	41,486	67,368	150,101
Other	-	-	10,160	10,160
	<u>628,122</u>	<u>140,994</u>	<u>331,031</u>	<u>1,100,147</u>
<b>Power Purchased</b>	<b>4,322,139</b>	<b>-</b>	<b>-</b>	<b>4,322,139</b>
<b>Transmission -</b>				
Depreciation	4,929	-	-	4,929
<b>Distribution and Collection:</b>				
Depreciation	155,290	40,117	30,550	225,957
Maintenance and vehicle expense	244,065	101,295	39,553	384,913
Supplies	-	8,892	-	8,892
	<u>399,355</u>	<u>150,304</u>	<u>70,103</u>	<u>619,762</u>
<b>General and Administrative:</b>				
Salaries	200,045	112,889	75,533	388,467
Payroll taxes and employee benefits	186,039	67,679	66,178	319,896
Insurance, general	79,087	25,038	22,141	126,266
Professional fees	24,531	11,459	13,216	49,206
Office expense	16,205	10,254	11,499	37,958
Repairs and maintenance	7,767	3,243	6,326	17,336
Depreciation	9,568	1,565	2,560	13,693
Bad debt	1,095	-	-	1,095
In lieu of taxes	265,400	-	-	265,400
Franchise fee	116,608	-	-	116,608
Other	20,181	3,326	2,144	25,651
	<u>926,526</u>	<u>235,453</u>	<u>199,597</u>	<u>1,361,576</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>6,281,071</b>	<b>526,751</b>	<b>600,731</b>	<b>7,408,553</b>
<b>OPERATING INCOME (LOSS)</b>	<b>4,540</b>	<b>155,591</b>	<b>(82,437)</b>	<b>77,694</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	273,110	16,006	10,130	299,246
Interest expense	(86,480)	(61,709)	(41,093)	(189,282)
Amortization	(2,280)	(1,658)	(1,199)	(5,137)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>184,350</b>	<b>(47,361)</b>	<b>(32,162)</b>	<b>104,827</b>
<b>CHANGE IN NET ASSETS</b>	<b>188,890</b>	<b>108,230</b>	<b>(114,599)</b>	<b>182,521</b>
<b>NET ASSETS - BEGINNING</b>	<b>11,509,350</b>	<b>2,309,975</b>	<b>3,453,170</b>	<b>17,272,495</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 11,698,240</b>	<b>2,418,205</b>	<b>3,338,571</b>	<b>17,455,016</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, 2005**

	<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	\$ 5,438,973	669,863	500,989	6,609,825
Cash received from MEAN lease	564,120	-	-	564,120
Cash received from other operating revenues	248,985	20,197	9,556	278,738
Cash paid to suppliers for goods and services	(4,995,865)	(171,347)	(236,430)	(5,403,642)
Cash paid to employees and professional contractors for services, including benefits and taxes	(642,677)	(232,225)	(197,037)	(1,071,939)
Cash paid for in lieu of tax	(265,400)	-	-	(265,400)
<b>Net cash provided (used) by operating activities</b>	<b>348,136</b>	<b>286,488</b>	<b>77,078</b>	<b>711,702</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of property and equipment	(353,583)	(37,166)	(15,921)	(406,670)
Principal payments on bonds	(108,100)	(78,775)	(58,500)	(245,375)
Interest payments on bonds	(86,480)	(61,715)	(41,120)	(189,315)
Loan from other funds	-	1,342	-	1,342
Increase (decrease) in bank overdraft	(99,009)	-	28,981	(70,028)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(647,172)</b>	<b>(176,314)</b>	<b>(86,560)</b>	<b>(910,046)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Redemption of investments	237,688	-	-	237,688
Purchase of investments	-	-	(648)	(648)
Investment income	276,677	15,718	10,130	302,525
<b>Net cash provided (used) by investing activities</b>	<b>514,365</b>	<b>15,718</b>	<b>9,482</b>	<b>539,565</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>215,329</b>	<b>125,892</b>	<b>-</b>	<b>341,221</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>44,081</b>	<b>660,090</b>	<b>-</b>	<b>704,171</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 259,410</b>	<b>785,982</b>	<b>-</b>	<b>1,045,392</b>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Income (loss) from operations	\$ 4,540	155,591	(82,437)	77,694
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:				
Depreciation	328,367	120,542	144,439	593,348
Adjustments for working capital changes:				
(Increase) decrease in:				
Receivables	(14,011)	7,718	(3,213)	(9,506)
Inventory	(30,062)	(1,025)	-	(31,087)
Prepaid expenses	1,034	491	13,202	14,727
Increase (decrease) in:				
Accounts payable and internal balances	45,971	1,999	5,142	53,112
Accrued expenses	7,847	1,172	(55)	8,964
Consumer deposits	4,450	-	-	4,450
<b>Net cash provided by operating activities</b>	<b>\$ 348,136</b>	<b>286,488</b>	<b>77,078</b>	<b>711,702</b>

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

**CITY OF CRETE, NEBRASKA**

**Statement of Fiduciary Net Assets  
Fiduciary Funds**

September 30, 2005

	<u>Fireman's Fund</u>	<u>Airport Authority</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 515	-
Cash at County Treasurer	-	<u>7,257</u>
<b>TOTAL CURRENT ASSETS</b>	<u>515</u>	-
<b>TOTAL ASSETS</b>	<u>\$ 515</u>	-
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to other taxing units	\$ 515	<u>7,257</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>515</u>	<u>7,257</u>
<b>LONG-TERM LIABILITIES</b>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 515</u>	<u>7,257</u>



**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Major classes of property and equipment in the proprietary funds at September 30, 2005 consist of the following:

	CAPITAL ASSETS, NOT DEPRECIATED				
	CAPITAL ASSETS, DEPRECIATED				
	Land	Buildings and Improvements	Equipment	Vehicles	Totals
<b>Business-type activities</b>					
<b>Electric</b>					
Balance September 30, 2004	\$ 103,232	12,698,746	1,359,620	521,108	14,682,706
Increases	-	161,246	66,403	125,934	353,583
Balance September 30, 2005	103,232	12,859,992	1,426,023	647,042	15,036,289
<b>Accumulated Depreciation</b>					
Balance September 30, 2004	-	7,457,691	1,150,717	481,448	9,089,856
Increases	-	272,079	36,935	19,353	328,367
Balance September 30, 2005	-	7,729,770	1,187,652	500,801	9,418,223
Capital assets, net	103,232	5,130,222	238,371	146,241	5,618,066
<b>Water</b>					
Balance September 30, 2004	\$ 6,587	5,082,401	183,370	52,475	5,324,833
Increases	-	2,718	34,448	-	37,166
Balance September 30, 2005	6,587	5,085,119	217,818	52,475	5,361,999
<b>Accumulated Depreciation</b>					
Balance September 30, 2004	-	1,600,307	100,717	51,152	1,752,176
Increases	-	115,336	4,966	240	120,542
Balance September 30, 2005	-	1,715,643	105,683	51,392	1,872,718
Capital assets, net	6,587	3,369,476	112,135	1,083	3,489,281
<b>Sewer</b>					
Balance September 30, 2004	100,721	5,744,880	414,620	154,503	6,414,724
Increases	-	1,560	14,361	-	15,921
Balance September 30, 2005	100,721	5,746,440	428,981	154,503	6,430,645
<b>Accumulated Depreciation</b>					
Balance September 30, 2004	-	2,224,146	195,791	154,503	2,574,440
Increases	-	131,077	13,362	-	144,439
Balance September 30, 2005	-	2,355,223	209,153	154,503	2,718,879
Capital assets, net	100,721	3,391,217	219,828	-	3,711,766
<b>Business-type Activities</b>					
Capital assets, net	\$ 210,540	11,890,915	570,334	147,324	12,819,113

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

**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	\$ 328,367
Water	120,542
Sewer	<u>144,439</u>
Total depreciation expense	<u>\$ 593,348</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

**NOTE 6 – LONG-TERM LIABILITIES**

As of September 30, 2005, the long-term debt payable from governmental fund resources consisted of the following:

	<u>Balance</u> <u>Sept. 30, 2004</u>	<u>Bonds</u> <u>issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2005</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	\$ 500,000	-	(45,000)	455,000	50,000
General obligation bond: Dated June, 2000, interest 4.50%-5.85%, final payment due June, 2020	2,225,000	-	(2,225,000)	-	-
General obligation various purpose bonds: Dated November, 2001, interest 2.10%-5.00%, final payment due November, 2021	1,225,000	-	(50,000)	1,175,000	50,000
General obligation refunding bonds, Dated February, 2003, interest 1.40%-4.50%, final payment due February, 2016	1,166,543	-	(109,625)	1,056,918	114,010
General obligation various purpose bonds: Dated September, 2004, interest 1.00%-4.20%, final payment due September, 2020	<u>3,580,000</u>	<u>-</u>	<u>(235,000)</u>	<u>3,345,000</u>	<u>240,000</u>
	<u>\$ 8,696,543</u>	<u>-</u>	<u>(2,664,625)</u>	<u>6,031,918</u>	<u>454,010</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

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

The following is a summary of bonds and notes payable in the proprietary funds at September 30, 2005:

	<u>Balance</u> <u>Sept. 30, 2004</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2005</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	\$ 1,937,125	-	(108,100)	1,829,025	110,450
Water bonds: Dated February, 2003, interest 1.40%-4.50%, final payment due February, 2016	30,735	-	(2,875)	27,860	2,990
Water bonds: Dated April, 2002, interest 1.90%-5.20%, final payment due April, 2017	1,361,210	-	(75,900)	1,285,310	77,550
Sewer bonds: Dated February, 2003, interest 1.40%-4.50%, final payment due February, 2016	132,722	-	(12,500)	120,222	13,000
Sewer bonds: Dated April, 2002, interest 1.90%-5.20%, final payment due April, 2017	<u>801,665</u>	<u>-</u>	<u>(46,000)</u>	<u>755,665</u>	<u>47,000</u>
	<u>\$ 4,263,457</u>	<u>-</u>	<u>(245,375)</u>	<u>4,018,082</u>	<u>250,990</u>

**CITY OF CRETE, NEBRASKA**

**Notes to Financial Statements**

**September 30, 2005**

**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, 2005 is as follows:

Year ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2006	\$ 454,010	210,940	250,990	95,172	1,011,112
2007	449,625	200,900	260,375	176,443	1,087,343
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	497,780	161,318	292,220	143,690	1,095,008
2011-2015	2,164,650	551,568	1,635,350	508,790	4,860,358
2016-2020	1,344,063	207,214	1,030,937	87,249	2,669,463
2021-2022	185,000	9,371	-	-	194,371
	<u>\$ 6,031,918</u>	<u>1,706,963</u>	<u>4,018,082</u>	<u>1,333,476</u>	<u>13,090,439</u>

Interest of \$342,218 and \$189,282 was paid on governmental and proprietary bonds, respectively, during the year.

**NOTE 7 – INTERFUND BALANCES AND ACTIVITY**

Interfund loans at September 30, 2005 consist of the following:

Due To	Due From		
	Water	Sewer	Debt Service
Debt Service	\$ 379,594	-	-
Electric	284,467	4,781	-
Sewer	-	-	20,694
Total	<u>\$ 664,061</u>	<u>4,781</u>	<u>20,694</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, 2005**

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

Transfers between funds of the primary government for the year ended September 30, 2005 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Funds</b>		
General Fund	\$ 564,280	906,033
Debt Service	326,327	-
Sales Tax	-	583,235
<b>Non-major Funds</b>	<u>1,073,683</u>	<u>475,022</u>
Total	<u>\$ 1,964,290</u>	<u>1,964,290</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 \$1,239,438, and amounts held by the non-major special revenue funds of \$500,000 for an economic development activity and \$30,000 to be held as an endowment with the interest being used for cemetery maintenance.

**NOTE 9 – DEFICIT NET ASSETS**

The following funds had a net asset or fund balance deficit as of September 30, 2005:

Debt service fund	\$ (14,734)
Special Revenue Funds:	
Fire Equipment	(5,532)
Library	(2,771)
Pool	(23,955)

**NOTE 10 – RETIREMENT PLANS**

The City sponsors a defined contribution plan with Principal Mutual Life Insurance Company. It covers all employees 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 compensation deferred. The City matches 100% of the deferred contribution. These requirements were established and may be amended by Board Resolution. The total accumulative pension contributions transferred to the plan's trustee for the year ended September 30, 2005 were \$123,713.

**CITY OF CRETE, NEBRASKA**

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

**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
<b>Receipts</b>				
General			2,416,401	
Debt Service			577,617	
Sales tax fund			582,820	
Other governmental funds			2,474,645	
Electric			6,528,755	
Water			705,778	
Sewer			520,675	
	<u>\$ 14,990,521</u>	<u>14,990,521</u>	<u>13,806,691</u>	<u>(1,183,830)</u>
<b>Disbursements</b>				
General			2,225,300	
Debt Service			3,102,343	
Sales tax fund			608,580	
Other governmental funds			2,153,907	
Electric			6,214,417	
Water			579,886	
Sewer			549,656	
	<u>19,828,785</u>	<u>19,828,785</u>	<u>15,434,089</u>	<u>4,394,696</u>
	<u>\$ (4,838,264)</u>	<u>(4,838,264)</u>	<u>(1,627,398)</u>	<u>3,210,866</u>

**CITY OF CRETE, NEBRASKA**

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

**For the Year Ended September 30, 2005**

***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	\$ 6,558,721	698,348	528,424	7,785,493
Accounts receivable	<u>(29,966)</u>	<u>7,430</u>	<u>(7,749)</u>	<u>(30,285)</u>
Receipts - Cash	<u>6,528,755</u>	<u>705,778</u>	<u>520,675</u>	<u>7,755,208</u>
Disbursements - Accrual	6,369,831	590,118	643,023	7,602,972
Investment purchase	(237,688)	-	648	(237,040)
Bond payments	108,100	78,775	58,500	245,375
Property and equipment	353,583	37,166	15,921	406,670
Depreciation and amortization	(330,647)	(122,200)	(145,638)	(598,485)
Inventory	30,062	1,025	-	31,087
Prepaid expenses	(25,127)	(491)	(17,738)	(43,356)
Accounts payable	(45,850)	(3,341)	(5,142)	(54,333)
Accrued expenses	<u>(7,847)</u>	<u>(1,166)</u>	<u>82</u>	<u>(8,931)</u>
Disbursements - Cash	<u>6,214,417</u>	<u>579,886</u>	<u>549,656</u>	<u>7,343,959</u>
Net income - Cash	<u>\$ 314,338</u>	<u>125,892</u>	<u>(28,981)</u>	<u>411,249</u>