

CITY OF CRETE, NEBRASKA
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended September 30, 2009

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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major fund and the aggregate remaining fund information of the City of Crete, Nebraska, as of September 30, 2009, 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, 2009, 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 March 15, 2010 on our consideration of the City of Crete, Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 29 through 30, is not a required part of the basic financial statements but is supplementary information required to accompany those financial statements. 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
March 15, 2010

CITY OF CRETE, NEBRASKA

Statement of Net Assets – Modified Cash Basis

September 30, 2009

	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 1,779,705	964,248	2,743,953
Cash held by County Treasurer	128,143	-	128,143
Restricted Cash	-	78,897	78,897
Restricted Cash held by County Treasurer	44,091	-	44,091
Accounts receivable, less allowance for doubtful accounts	-	1,004,307	1,004,307
Assessments receivable	-	174,329	174,329
Interest receivable	-	34,079	34,079
Inventory	-	378,291	378,291
Employee advance - Cafeteria plan	1,182	-	1,182
Internal balances	(62,530)	62,530	-
Prepaid expenses	-	54,444	54,444
TOTAL CURRENT ASSETS	<u>1,890,591</u>	<u>2,751,125</u>	<u>4,641,716</u>
OTHER ASSETS			
Investments	96,876	3,527,697	3,624,573
Restricted investments	115,208	1,063,074	1,178,282
Restricted interest receivable	-	778	778
Noncurrent assessments receivable	-	335,136	335,136
Bond discount, less accumulated amortization	-	30,910	30,910
TOTAL OTHER ASSETS	<u>212,084</u>	<u>4,957,595</u>	<u>5,169,679</u>
NET PROPERTY AND EQUIPMENT	<u>-</u>	<u>13,205,821</u>	<u>13,205,821</u>
TOTAL ASSETS	<u>\$ 2,102,675</u>	<u>20,914,541</u>	<u>23,017,216</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current portion of bonds payable	\$ -	275,000	275,000
Accounts payable	-	577,834	577,834
Accrued expenses	-	177,337	177,337
Consumer deposits	-	136,370	136,370
TOTAL CURRENT LIABILITIES	<u>-</u>	<u>1,166,541</u>	<u>1,166,541</u>
LONG-TERM LIABILITIES	<u>-</u>	<u>2,535,000</u>	<u>2,535,000</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	13,199,293	13,199,293
Restricted for:			
Debt service	140,670	1,005,601	1,146,271
Capital projects	-	-	-
Other purposes	32,000	-	32,000
Unrestricted	1,930,005	3,008,106	4,938,111
TOTAL NET ASSETS	<u>2,102,675</u>	<u>17,213,000</u>	<u>19,315,675</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,102,675</u>	<u>20,914,541</u>	<u>23,017,216</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, 2009

Functions/Programs	Program Receipts/Revenues				Net Receipts / Revenues (Disbursements/ Expenses) and Changes in Net Assets		
	Cash	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
	Disbursements/ Expenditures		Grants and Contributions	Grants and Contributions			
Governmental Activities							
General Government	\$ (1,143,727)	1,458,918	5,000	50,000	370,191	-	370,191
Public Safety	(1,268,536)	145,667	36,433	22,235	(1,064,201)	-	(1,064,201)
Streets	(479,674)	23,639	454,171	775,343	773,479	-	773,479
Public Welfare	(471,700)	160,037	-	-	(311,663)	-	(311,663)
Culture and Recreation	(673,183)	89,057	38,004	11,287	(534,835)	-	(534,835)
Lottery	(20,866)	63,092	-	-	42,226	-	42,226
Assessments	-	116,565	-	-	116,565	-	116,565
Capital Projects	(266,776)	-	-	-	(266,776)	-	(266,776)
Principal, Interest and Charges on Debt	(2,841,252)	-	-	-	(2,841,252)	-	(2,841,252)
Total Governmental Activities	(7,165,714)	2,056,975	533,608	858,865	(3,716,266)	-	(3,716,266)
Business-Type Activities							
Electric	(6,953,235)	7,413,056	4,657	-	-	464,478	464,478
Water	(763,618)	939,233	-	-	-	175,615	175,615
Sewer	(753,734)	951,725	-	-	-	197,991	197,991
Total Business-Type Activities	(8,470,587)	9,304,014	4,657	-	-	838,084	838,084
Total Primary Government	\$ (15,636,301)	11,360,989	538,265	858,865	(3,716,266)	838,084	(2,878,182)
General Receipts/Revenues:							
Property Tax					1,110,394	-	1,110,394
Motor Vehicle Tax					126,374	-	126,374
Sales and Use Tax					619,961	-	619,961
State Aid and Equalization					279,066	-	279,066
Occupation and Franchise Tax					276,676	-	276,676
Investment Earnings					10,741	201,987	212,728
Miscellaneous General Revenues					39,637	-	39,637
Net Bond/Note Proceeds (Redemptions)					(791,493)	-	(791,493)
Contributions - Internal Activities					2,823,834	(2,823,834)	-
Total General Receipts/Revenues and Contributions					4,495,190	(2,621,847)	1,873,343
Change in Net Assets					778,924	(1,783,763)	(1,004,839)
Net Assets - Beginning					1,323,751	18,996,763	20,320,514
Net Assets - Ending					\$ 2,102,675	17,213,000	19,315,675

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

CITY OF CRETE, NEBRASKA

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

September 30, 2009

	General	Debt	State	Other	
	Fund	Service	Funds	Governmental	Total
	Fund	Service	Funds	Funds	Total
ASSETS					
CURRENT ASSETS					
Cash	\$ 190,967	-	122	1,889,553	2,080,642
Cash held by County Treasurer	128,143	-	-	-	128,143
Restricted Cash held by County Treasurer	-	44,091	-	-	44,091
Employee advances, cafeteria plan	-	-	-	1,182	1,182
Interfund loans	3,640	47,180	-	2,500	53,320
TOTAL CURRENT ASSETS	<u>322,750</u>	<u>91,271</u>	<u>122</u>	<u>1,893,235</u>	<u>2,307,378</u>
OTHER ASSETS					
Investments	-	-	-	96,876	96,876
Restricted Investments	-	83,208	-	32,000	115,208
TOTAL OTHER ASSETS	<u>-</u>	<u>83,208</u>	<u>-</u>	<u>128,876</u>	<u>212,084</u>
TOTAL ASSETS	<u>\$ 322,750</u>	<u>174,479</u>	<u>122</u>	<u>2,022,111</u>	<u>2,519,462</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Cash overdraft	\$ -	139,573	-	161,364	300,937
Interfund loans	107,149	-	-	8,701	115,850
TOTAL CURRENT LIABILITIES	<u>107,149</u>	<u>139,573</u>	<u>-</u>	<u>170,065</u>	<u>416,787</u>
FUND BALANCE					
Invested in capital assets, net of related debt					
Reserved for:					
Debt service	-	127,299	-	13,371	140,670
Other purposes	-	-	-	32,000	32,000
Unreserved reported in:					
General fund - Undesignated	215,601	-	-	-	215,601
Debt service fund - Undesignated	-	(92,393)	-	-	(92,393)
Capital projects funds:					
Undesignated	-	-	122	(161,322)	(161,200)
Designated for subsequent years expenditures	-	-	-	390,930	390,930
Special revenue funds:					
Undesignated	-	-	-	925,607	925,607
Designated for subsequent years expenditures	-	-	-	651,460	651,460
TOTAL FUND BALANCE	<u>215,601</u>	<u>34,906</u>	<u>122</u>	<u>1,852,046</u>	<u>2,102,675</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 322,750</u>	<u>174,479</u>	<u>122</u>	<u>2,022,111</u>	<u>2,519,462</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, 2009

	General Fund	Debt Service	State Funds	Other Governmental Funds	Total
REVENUES					
Taxes	\$ 1,182,406	287,926	-	663,073	2,133,405
Intergovernmental	279,066	-	-	467,211	746,277
Charges for services	448,411	141,821	-	1,466,743	2,056,975
Investment income	1,468	4,716	-	4,557	10,741
Grants and donations	18,233	5,000	775,343	126,686	925,262
Miscellaneous	5,897	-	-	33,740	39,637
TOTAL REVENUES	<u>1,935,481</u>	<u>439,463</u>	<u>775,343</u>	<u>2,762,010</u>	<u>5,912,297</u>
EXPENDITURES					
General Government	313,535	-	-	830,192	1,143,727
Public Safety	929,774	-	-	338,762	1,268,536
Streets	-	-	-	479,674	479,674
Public Welfare	375,787	-	-	95,913	471,700
Culture and Recreation	-	-	-	673,183	673,183
Lottery	-	-	-	20,866	20,866
Capital Projects	-	186,767	-	80,009	266,776
Principal, interest and charges on debt	-	2,773,253	-	67,999	2,841,252
TOTAL EXPENDITURES	<u>1,619,096</u>	<u>2,960,020</u>	<u>-</u>	<u>2,586,598</u>	<u>7,165,714</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>316,385</u>	<u>(2,520,557)</u>	<u>775,343</u>	<u>175,412</u>	<u>(1,253,417)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	817,118	805,443	-	1,364,285	2,986,846
Transfers out	(1,073,556)	-	(775,343)	(1,137,947)	(2,986,846)
Issuance of debt	-	3,645,000	-	-	3,645,000
Redemption of debt	-	(4,186,493)	-	(250,000)	(4,436,493)
Capital contributions	-	2,823,834	-	-	2,823,834
TOTAL OTHER FINANCING SOURCES (USES)	<u>(256,438)</u>	<u>3,087,784</u>	<u>(775,343)</u>	<u>(23,662)</u>	<u>2,032,341</u>
NET CHANGE IN FUND BALANCES	59,947	567,227	-	151,750	778,924
FUND BALANCES - BEGINNING	<u>155,654</u>	<u>(532,321)</u>	<u>122</u>	<u>1,700,296</u>	<u>1,323,751</u>
FUND BALANCES - ENDING	<u>\$ 215,601</u>	<u>34,906</u>	<u>122</u>	<u>1,852,046</u>	<u>2,102,675</u>

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

CITY OF CRETE, NEBRASKA

**Statement of Net Assets
Proprietary Funds**

September 30, 2009

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 720,506	385,565	-	1,106,071
Accounts receivable, less allowance for doubtful accounts	835,854	102,396	66,057	1,004,307
Assessments receivable	-	4,737	169,592	174,329
Interest receivable	20,147	1,300	12,632	34,079
Inventory	357,173	21,118	-	378,291
Interfund loans	776,761	1,687	1,687	780,135
Prepaid interest	25,589	17,966	10,889	54,444
TOTAL CURRENT ASSETS	2,736,030	534,769	260,857	3,531,656
RESTRICTED ASSETS				
Cash	71,666	7,231	-	78,897
Interest receivable	778	-	-	778
Investments	597,148	400,000	65,926	1,063,074
TOTAL RESTRICTED ASSETS	669,592	407,231	65,926	1,142,749
NET PROPERTY AND EQUIPMENT	5,136,226	4,146,082	3,923,513	13,205,821
OTHER ASSETS				
Investments	3,527,697	-	-	3,527,697
Noncurrent assessments receivable	-	-	335,136	335,136
Deferred bond costs, less amortization	14,529	10,200	6,181	30,910
TOTAL OTHER ASSETS	3,542,226	10,200	341,317	3,893,743
TOTAL ASSETS	\$ 12,084,074	5,098,282	4,591,613	21,773,969
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Cash overdraft	\$ -	-	141,823	141,823
Current portion of revenue bonds	129,250	90,750	55,000	275,000
Accounts payable	568,105	6,174	3,555	577,834
Accrued expenses	84,194	54,406	38,737	177,337
Interfund loans	25,588	677,347	14,670	717,605
Consumer deposits	136,370	-	-	136,370
TOTAL CURRENT LIABILITIES	943,507	828,677	253,785	2,025,969
LONG-TERM LIABILITIES	1,191,450	836,550	507,000	2,535,000
NET ASSETS				
Invested in capital assets, net of related debt	5,135,386	4,142,586	3,921,321	13,199,293
Restricted for debt service	532,444	407,231	65,926	1,005,601
Unrestricted	4,281,287	(1,116,762)	(156,419)	3,008,106
TOTAL NET ASSETS	9,949,117	3,433,055	3,830,828	17,213,000
TOTAL LIABILITIES AND NET ASSETS	\$ 12,084,074	5,098,282	4,591,613	21,773,969

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, 2009

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
OPERATING REVENUES				
User fees	6,625,392	918,804	557,313	8,101,509
User fees - interfund	180,242	11,244	2,972	194,458
MEAN - lease	564,120	-	-	564,120
Grants	4,657	-	-	4,657
Special assessments	-	-	384,150	384,150
Other	43,302	9,185	7,290	59,777
TOTAL OPERATING REVENUES	7,417,713	939,233	951,725	9,308,671
OPERATING EXPENSES				
Production and Treatment:				
Salaries	195,007	-	146,274	341,281
Fuel and natural gas	29,492	-	-	29,492
Depreciation	145,004	85,058	114,979	345,041
Supplies and maintenance	68,049	33,119	36,673	137,841
Power and utilities	48,553	44,506	70,339	163,398
Other	-	-	13,965	13,965
	<u>486,105</u>	<u>162,683</u>	<u>382,230</u>	<u>1,031,018</u>
Power Purchased	5,020,332	-	-	5,020,332
Transmission -				
Depreciation	4,027	-	-	4,027
Distribution and Collection:				
Depreciation	238,542	62,185	55,918	356,645
Maintenance and vehicle expense	219,890	205,966	56,565	482,421
Supplies	-	20,119	-	20,119
	<u>458,432</u>	<u>288,270</u>	<u>112,483</u>	<u>859,185</u>
General and Administrative:				
Salaries	193,168	116,662	84,037	393,867
Payroll taxes and employee benefits	164,031	102,688	85,447	352,166
Insurance, general	68,476	19,366	27,079	114,921
Professional fees	22,367	12,377	12,070	46,814
Office expense	17,061	11,138	10,416	38,615
Repairs and maintenance	10,498	4,467	9,021	23,986
Depreciation	12,874	1,876	2,642	17,392
Bad debt	16	-	-	16
In lieu of taxes	300,000	-	-	300,000
Franchise fee	120,000	-	-	120,000
Other	20,151	4,610	2,990	27,751
	<u>928,642</u>	<u>273,184</u>	<u>233,702</u>	<u>1,435,528</u>
TOTAL OPERATING EXPENSES	6,897,538	724,137	728,415	8,350,090
OPERATING INCOME (LOSS)	520,175	215,096	223,310	958,581
NONOPERATING REVENUES (EXPENSES)				
Transfers in	-	-	567,354	567,354
Transfers out	(567,354)	-	-	(567,354)
Investment earnings	179,303	9,817	12,867	201,987
Interest expense	(53,771)	(37,704)	(22,662)	(114,137)
Amortization	(1,926)	(1,777)	(2,657)	(6,360)
TOTAL NONOPERATING REVENUES (EXPENSES)	(443,748)	(29,664)	554,902	81,490
INCOME (LOSS) BEFORE CONTRIBUTIONS	76,427	185,432	778,212	1,040,071
CAPITAL CONTRIBUTIONS	(2,941,000)	25,877	91,289	(2,823,834)
CHANGE IN NET ASSETS	(2,864,573)	211,309	869,501	(1,783,763)
NET ASSETS - BEGINNING	12,813,690	3,221,746	2,961,327	18,996,763
NET ASSETS - ENDING	\$ 9,949,117	3,433,055	3,830,828	17,213,000

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, 2009

	Business-Type Activities -- Enterprise Funds			
	Electric	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,445,961	919,416	551,329	7,916,706
Cash received for interfund services provided	177,181	11,727	5,550	194,458
Cash received from MEAN lease	564,120	-	-	564,120
Cash received from other operating revenues	47,959	9,185	32,835	89,979
Cash paid to suppliers for goods and services	(5,581,504)	(316,256)	(329,255)	(6,227,015)
Cash paid to employees and professional contractors for services, including benefits and taxes	(611,129)	(269,398)	(229,102)	(1,109,629)
Cash paid for in lieu of taxes	(300,000)	-	-	(300,000)
Net cash provided by operating activities	742,588	354,674	31,357	1,128,619
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received from tax collections	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Disposition of equipment	-	-	99,344	99,344
Purchase of property and equipment	(100,412)	(350,764)	(146,630)	(597,806)
Principal payments on bonds	(126,900)	(92,320)	(68,000)	(287,220)
Interest payments on bonds	(81,398)	(57,152)	(34,821)	(173,371)
Loan (to) from other funds	20,940	21,072	25,073	67,085
Capital contribution from (to) other funds	(3,508,354)	-	567,354	(2,941,000)
Net cash provided (used) by capital and related financing activities	(3,796,124)	(479,164)	442,320	(3,832,968)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of investments	1,901,089	-	-	1,901,089
Purchase of investments	(189,237)	-	-	(189,237)
Investment income	195,285	10,325	235	205,845
Net cash provided (used) by investing activities	1,907,137	10,325	235	1,917,697
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,146,399)	(114,165)	473,912	(786,652)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,938,571	506,961	(615,735)	1,829,797
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 792,172	392,796	(141,823)	1,043,145

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

CITY OF CRETE, NEBRASKA

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

September 30, 2009

	<u>Business-Type Activities -- Enterprise Funds</u>			
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Income (loss) from operations	\$ 520,175	215,096	223,310	958,581
Adjustments to reconcile income from operations to net cash provided (used) by operating activities:				
Depreciation	400,447	149,119	173,539	723,105
Adjustments for working capital changes:				
(Increase) decrease in:				
Receivables	(196,202)	612	(364,589)	(560,179)
Inventory	(27,244)	1,476	-	(25,768)
Prepaid expenses	-	114	-	114
Increase (decrease) in:				
Accounts payable and internal balances	27,063	(13,539)	(2,861)	10,663
Accrued expenses	4,639	1,796	1,958	8,393
Consumer deposits	<u>13,710</u>	<u>-</u>	<u>-</u>	<u>13,710</u>
Net cash provided by operating activities	<u>\$ 742,588</u>	<u>354,674</u>	<u>31,357</u>	<u>1,128,619</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, 2009

	<u>Agency Funds</u>		
	<u>Fireman's</u>	<u>Airport</u>	
	<u>Fund</u>	<u>Authority</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 695	11,952	12,647
Cash at County Treasurer	-	<u>6,317</u>	<u>6,317</u>
TOTAL CURRENT ASSETS	<u>695</u>	<u>18,269</u>	<u>18,964</u>
TOTAL ASSETS	<u>\$ 695</u>	<u>18,269</u>	<u>18,964</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Due to other taxing units	\$ 695	<u>18,269</u>	<u>18,964</u>
TOTAL CURRENT LIABILITIES	<u>695</u>	<u>18,269</u>	<u>18,964</u>
NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 695</u>	<u>18,269</u>	<u>18,964</u>

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

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

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. The City of Crete Leasing Corporation (Leasing Corporation) has been identified as a component unit. The Leasing Corporation serves all the citizens of the City and is governed by a board comprised of the City's elected council and Mayor. Budgeting, accounting and administrative functions are performed by the City. The Leasing Corporation is a duly and validly existing nonprofit corporation created pursuant to Nebraska Revenue Statute. The Leasing Corporation is reported with the non-major funds in Other Governmental Funds in the accompanying financial statements. The City is not includable as a component unit within another reporting entity.

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

FUND FINANCIAL STATEMENTS

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

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The only Special Revenue Fund reported as major is the State Funds fund, which accounts for the receipt and disbursement of grant monies. 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 Funds are reported as non-major funds in the "Other Governmental Funds" column.

Debt Service Fund

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

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fiduciary Funds

Agency Funds

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

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

MEASUREMENT FOCUS

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

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

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

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

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 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 – All cash of the City is insured by the FDIC or covered by collateral held by correspondent bank's trust departments as required by Nebraska statute. 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, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Maintenance and repairs are expended as incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is included in income.

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

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, 2009

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.

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

Receipts, Revenues, Expenditures and Expenses –

PROGRAM RECEIPTS/REVENUES

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

General Government	Fees, rents, permits, licenses, specific donations, and specific grants
Public Safety	Fire and rescue service calls, specific grants, specific donations, other charges and Rural Fire District payments
Streets	Reimbursements, labor and materials sold, and highway allocation and incentive payments

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Welfare	Cemetery lot sales and specific donations
Culture and Recreation	Admission and registration fees, specific grants and specific donations
Lottery	Keno receipts
Assessments	Paving and storm 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.

OPERATING REVENUES AND EXPENSES

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

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

FUND FINANCIAL STATEMENTS

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

- (a) Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- (b) Interfund services – Sales or purchases of goods and services between funds are reported as receipts/revenues and expenditures/expenses.
- (c) Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements, but as adjustments to expenditures/expenses in the respective funds.
- (d) Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (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.

Accounting Changes – In March, 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

In March, 2009, the GASB issued Statement No. 55 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and Statement No. 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. In December, 2009, the GASB issued Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* and Statement No. 58 *Accounting for Financial Reporting for Chapter 9 Bankruptcies*. These statements are not expected to have an effect on the City's statement of net assets, activities or cash flows.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state and local laws and contractual regulations. Other than the issue of noncompliance discussed in Note 9, no additional 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.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 3 – CASH (CONTINUED)

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.

As of September 30, 2009, the City's funds were entirely insured or collateralized by the depository banks. 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.

During the fiscal year ended September 30, 2009, 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, 2009

NOTE 5 – PROPERTY AND EQUIPMENT

Major classes of property and equipment in the proprietary funds at September 30, 2009 consist of the following:

	CAPITAL ASSETS, NOT DEPRECIATED		CAPITAL ASSETS, DEPRECIATED			Totals
	Land	Construction in Progress	Buildings and Improvements	Equipment	Vehicles	
Business-type Activities						
Electric						
Balance September 30, 2008	\$ 103,232	-	9,062,114	569,219	960,275	10,694,840
Increases	-	-	86,553	14,699	-	101,252
Decreases	-	-	-	-	-	-
Balance September 30, 2009	<u>103,232</u>	<u>-</u>	<u>9,148,667</u>	<u>583,918</u>	<u>960,275</u>	<u>10,796,092</u>
Accumulated Depreciation						
Balance September 30, 2008	-	-	4,283,543	374,182	601,694	5,259,419
Increases	-	-	285,725	37,034	77,688	400,447
Decreases	-	-	-	-	-	-
Balance September 30, 2009	<u>-</u>	<u>-</u>	<u>4,569,268</u>	<u>411,216</u>	<u>679,382</u>	<u>5,659,866</u>
Capital assets, net	<u>103,232</u>	<u>-</u>	<u>4,579,399</u>	<u>172,702</u>	<u>280,893</u>	<u>5,136,226</u>
Water						
Balance September 30, 2008	\$ -	-	5,620,913	668,448	20,890	6,310,251
Increases	-	-	1,348	164,556	758	166,662
Decreases	-	-	-	-	-	-
Balance September 30, 2009	<u>-</u>	<u>-</u>	<u>5,622,261</u>	<u>833,004</u>	<u>21,648</u>	<u>6,476,913</u>
Accumulated Depreciation						
Balance September 30, 2008	-	-	2,070,406	100,500	10,806	2,181,712
Increases	-	-	127,382	17,563	4,174	149,119
Decreases	-	-	-	-	-	-
Balance September 30, 2009	<u>-</u>	<u>-</u>	<u>2,197,788</u>	<u>118,063</u>	<u>14,980</u>	<u>2,330,831</u>
Capital assets, net	<u>-</u>	<u>-</u>	<u>3,424,473</u>	<u>714,941</u>	<u>6,668</u>	<u>4,146,082</u>
Sewer						
Balance September 30, 2008	\$ 100,721	-	5,811,937	280,475	157,052	6,350,185
Increases	-	-	45,377	2,648	100,797	148,822
Decreases	-	-	-	-	(115,900)	(115,900)
Balance September 30, 2009	<u>100,721</u>	<u>-</u>	<u>5,857,314</u>	<u>283,123</u>	<u>141,949</u>	<u>6,383,107</u>
Accumulated Depreciation						
Balance September 30, 2008	-	-	2,162,549	82,354	57,709	2,302,612
Increases	-	-	146,146	13,953	13,440	173,539
Decreases	-	-	-	-	(16,557)	(16,557)
Balance September 30, 2009	<u>-</u>	<u>-</u>	<u>2,308,695</u>	<u>96,307</u>	<u>54,592</u>	<u>2,459,594</u>
Capital assets, net	<u>100,721</u>	<u>-</u>	<u>3,548,619</u>	<u>186,816</u>	<u>87,357</u>	<u>3,923,513</u>
<i>Business-type Activities</i>						
Capital assets, net	<u>\$ 203,953</u>	<u>-</u>	<u>11,552,491</u>	<u>1,074,459</u>	<u>374,918</u>	<u>13,205,821</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

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	\$ 400,447
Water	149,119
Sewer	<u>173,539</u>
Total depreciation expense	<u>\$ 723,105</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 6 – LONG-TERM LIABILITIES

As of September 30, 2009, the long-term debt payable from governmental fund resources consisted of the following:

	<u>Balance</u> <u>Sept. 30, 2008</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Redeemed</u>	<u>Balance</u> <u>Sept. 30, 2009</u>	<u>Amount Due</u> <u>Within One Year</u>
Leasehold revenue bonds: Dated April 1998, interest 3.70%-5.05%, final payment due April 2013.	\$ 305,000	-	(305,000)	-	-
General obligation various purpose bonds: Dated November 2001, interest 2.10%-5.00%, final payment due November 2021.	1,020,000	-	(1,020,000)	-	-
General obligation refunding bonds: Dated February 2003, interest 1.40%-4.50%, final payment due February 2016.	719,273	-	(719,273)	-	-
General obligation various purpose bonds: Dated September 2004, interest 1.00%-4.20%, final payment due September 2020.	2,625,000	-	(2,625,000)	-	-
Bond anticipation note: Dated September 2007, interest 4.75%, final payment due September 2009.	1,713,000	-	(1,713,000)	-	-
Bond anticipation note: Dated July 2008, interest 4.25%, final payment due October 2009.	606,000	-	(606,000)	-	-
Leasehold building refunding bonds: Dated April 2009, interest 2.00%-3.00%, final payment due April 2013.	-	255,000	-	255,000	65,000
General Obligation Refunding Bonds: Dated April 2009, Interest 1.00%-4.125%, final payment due November 2021	-	3,645,000	-	3,645,000	320,000
	<u>\$ 6,988,273</u>	<u>3,900,000</u>	<u>(6,988,273)</u>	<u>3,900,000</u>	<u>385,000</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of bonds and notes payable in the proprietary funds at September 30, 2009:

	Balance Sept. 30, 2008	Bonds Issued	Bonds Redeemed	Balance Sept. 30, 2009	Amount Due Within One Year
Electric:					
Electric bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, final payment due April 2017.	\$ 1,447,600	-	(126,900)	1,320,700	129,250
Water:					
Water bonds: Dated February 2003, interest 1.40%-4.50%, final payment due February 2016.	19,005	-	(19,005)	-	-
Water bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, final payment due April 2017.	1,016,400	-	(89,100)	927,300	90,750
	1,035,405	-	(108,105)	927,300	90,750
Sewer:					
Sewer bonds: Dated February 2003, interest 1.40%-4.50%, final payment due February 2016.	81,722	-	(81,722)	-	-
Sewer bonds: Dated April 2007, combined revenue refunding bond, series 2007, interest 3.6% - 4%, final payment due April 2017.	616,000	-	(54,000)	562,000	55,000
	697,722	-	(135,722)	562,000	55,000
Total	\$ 3,180,727	-	(370,727)	2,810,000	275,000

The aggregate schedule of maturities of long-term liabilities, including principal and interest, for the five years subsequent to September 30, 2009 is as follows:

Year ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2010	\$ 385,000	114,823	275,000	108,887	883,710
2011	400,000	98,095	290,000	98,713	886,808
2012	405,000	90,815	295,000	87,837	878,652
2013	415,000	81,690	310,000	76,628	883,318
2014-2018	1,425,000	271,512	1,640,000	181,813	3,518,325
2019-2022	870,000	59,829	-	-	929,829
	\$ 3,900,000	716,764	2,810,000	553,878	7,980,642

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Interest of \$213,304 and \$120,952 was paid on governmental and proprietary bonds, respectively, during the year.

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

Interfund loans at September 30, 2009 consist of the following:

<u>Due To</u>	<u>Due From</u>						<u>Total</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Landfill</u>	<u>General</u>	<u>Payroll</u>	
Debt Service	\$ 25,588	13,508	8,084	-	-	-	47,180
General	-	-	-	-	-	3,640	3,640
Street	-	-	-	-	2,500	-	2,500
Electric	-	663,839	6,586	1,687	104,649	-	776,761
Water	-	-	-	1,687	-	-	1,687
Sewer	-	-	-	1,687	-	-	1,687
Total	\$ 25,588	677,347	14,670	5,061	107,149	3,640	833,455

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

Transfers between funds for the year ended September 30, 2009 were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds						
General	\$ 817,118	1,073,556	-	-	817,118	1,073,556
Debt Service	805,443	-	-	-	805,443	-
State Funds	-	775,343	-	-	-	775,343
Electric	-	-	-	567,354	-	567,354
Sewer	-	-	567,354	-	567,354	-
Non-major Funds	1,364,285	1,137,947	-	-	1,364,285	1,137,947
Total	\$ 2,986,846	2,986,846	567,354	567,354	3,554,200	3,554,200

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 proprietary and debt service funds for the payment of long-term principal, interest and related costs of \$1,005,601 and \$140,670, respectively and amounts held by the non-major special revenue funds of \$32,000 to be held as an endowment with the interest being used for cemetery maintenance.

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 9 – DEFICIT NET ASSETS

The Capital Improvement Fund (a capital projects fund) had a fund balance deficit of \$161,364 as of September 30, 2009.

NOTE 10 – RETIREMENT PLANS

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

The City's contribution amounted to \$133,135 for the year ended September 30, 2009. The employee contributions totaled \$134,135 for the year ended September 30, 2009, which included \$1,000 in catch up contributions elected by employees over age 50.

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, 2009 were \$14,042.

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, 2009

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 \$20,000 per covered person
(c) Physical property loss and natural disasters	Purchased commercial insurance	None

The City entered into a contract with Regional Care, Inc. (RCI) effective July 1, 2005. This contract establishes RCI as the third party claims administrator of the self funded insurance plan. Insurance is provided by Midlands Choice to cover claims exceeding \$20,000 per covered person. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

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

Future obligations on capital and operating leases in effect September 30, 2009 are:

<u>Year Ending</u>	
<u>September 30,</u>	
2010	\$ 20,788
2011	63,131
2012	3,308
2013	1,028
2014	-
	<u>\$ 88,255</u>

CITY OF CRETE, NEBRASKA

Notes to Financial Statements

September 30, 2009

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

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

Purchase Power Contract – On May 29, 1986 the City entered into a contract with Municipal Energy Agency of Nebraska (MEAN) for total power requirement. This agreement states that the City will purchase its power needs in excess of the power supplied by the United States Department of Energy, Western Area Power Administration directly from MEAN. To ensure that MEAN had adequate power to supply their municipal customers, MEAN participated in the building of certain power plants. The City committed to purchase power directly from MEAN for the longer of ten years or when the bonds to build the power plant had been paid in full. The power plant bonds are scheduled to be paid in full in the year 2041. The dollar amount of power purchased from MEAN was \$4,680,201 for the year ended September 30, 2009. 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, 2009. The City has the option to assign its rights and commitments in this contract if the entity to which it is assigning such rights and commitments is acceptable to MEAN.

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

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

CITY OF CRETE, NEBRASKA

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

For the Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
Receipts				
General			2,752,599	
Debt Service			4,889,906	
State Funds			775,343	
Other governmental funds			4,124,801	
Electric			9,313,236	
Water			963,635	
Sewer			<u>1,271,058</u>	
	<u>\$ 30,182,020</u>	<u>30,182,020</u>	<u>24,090,578</u>	<u>(6,091,442)</u>
Disbursements				
General			2,692,593	
Debt Service			4,322,679	
State Funds			775,343	
Other governmental funds			3,974,735	
Electric			10,459,635	
Water			1,077,800	
Sewer			<u>797,146</u>	
	<u>29,706,830</u>	<u>29,706,830</u>	<u>24,099,931</u>	<u>5,606,899</u>
	<u>\$ 475,190</u>	<u>475,190</u>	<u>(9,353)</u>	<u>(484,543)</u>

CITY OF CRETE, NEBRASKA

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

September 30, 2009

Basis of Accounting

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

Budget Law

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

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

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

Reconciliation of Proprietary Funds to Cash Basis for Budget Comparison

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receipts - Accrual	\$ 7,597,016	974,927	1,623,235	10,195,178
Accounts receivable	(180,220)	1,120	(377,221)	(556,321)
Contributions in-kind	-	(25,877)	(91,289)	(117,166)
Sale of investments	1,901,089	-	-	1,901,089
Loans from other funds	(4,649)	13,465	16,989	25,805
Sale of equipment	-	-	99,344	99,344
Receipts - Cash	<u>9,313,236</u>	<u>963,635</u>	<u>1,271,058</u>	<u>11,547,929</u>
Disbursements - Accrual	10,461,589	763,618	753,734	11,978,941
Loans to other funds	(25,589)	(7,607)	(8,084)	(41,280)
Investment purchase	189,237	-	-	189,237
Bond payments	126,900	92,320	68,000	287,220
Property and equipment	100,412	350,764	146,630	597,806
Depreciation and amortization	(402,373)	(150,896)	(176,196)	(729,465)
Inventory	27,244	(1,476)	-	25,768
Prepaid expenses	25,589	17,852	10,889	54,330
Accounts payable	(40,773)	13,497	2,861	(24,415)
Accrued expenses	(2,601)	(272)	(688)	(3,561)
Disbursements - Cash	<u>10,459,635</u>	<u>1,077,800</u>	<u>797,146</u>	<u>12,334,581</u>
Net income - Cash	<u>\$ (1,146,399)</u>	<u>(114,165)</u>	<u>473,912</u>	<u>(786,652)</u>

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

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

The Honorable Mayor and City Council
City of Crete, Nebraska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Crete, Nebraska (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 15, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Authorization or approval of transactions, recording of transactions,

and custody of the assets should normally be segregated activities. Adequate personnel are not available to assign responsibilities in such a way that different employees handle different parts of the same transaction. Authorization or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities.

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

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is 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 the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City in a separate letter dated March 15, 2010.

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

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

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

Lincoln, Nebraska
March 15, 2010