

CITY OF AUBURN
AUBURN, NEBRASKA

COMBINED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

CITY OF AUBURN, NEBRASKA
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Auburn
Auburn, Nebraska

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Auburn, Nebraska as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion

The financial statements referred to above include only the government of the City of Auburn, Nebraska, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the enterprise fund of the Auburn Board of Public Works, which the modified cash basis of accounting requires to be reported with the financial data of the City's government. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the government-wide financial statements has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the reporting entity of the City of Auburn, Nebraska, as of September 30, 2013, or the changes in financial position thereof for the year then ended. In accordance with accounting principles generally accepted in the United States of America, City of Auburn, Nebraska, has issued a separate reporting entity financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Auburn, Nebraska, as of September 30, 2013, and the respective changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2013 on our consideration of the City of Auburn, 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 conjunction with this report in considering the results of our audit.

Basis of Accounting

We draw attention to the Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance.

The City has not presented 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn, Nebraska's financial statements as a whole. The other supplementary information on pages 25 through 30 is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Certified Public Accountants

Omaha, Nebraska
October 29, 2013

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF NET ASSETS – MODIFIED CASH BASIS
SEPTEMBER 30, 2013

ASSETS

Cash in bank	\$ 1,586,037
Certificates of deposit	425,452
Cash in custody of County Treasurer	57,229
Special assessments receivable	231,667
Prepaid expenses	21,700
Capital assets:	
Non-depreciable	407,023
Depreciable, net	<u>5,520,064</u>
Total assets	<u>8,249,172</u>

LIABILITIES

Accounts payable	1,142
Payflex payable	163
Deferred revenue - special assessments	231,667
Due on infrastructure improvements	152,593
Bonds payable:	
Due within one year	285,000
Due in more than one year	<u>1,210,000</u>
Total liabilities	<u>1,880,565</u>

NET ASSETS

Invested in capital assets, net of related debt	4,432,087
Restricted for:	
Debt service	3,830
Community betterment	74,129
Unrestricted	<u>1,858,561</u>
Net assets	<u>\$ 6,368,607</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 657,601	\$ -	\$ 5,228	\$ -
Public health and safety	46,009	-	-	-
Public works	257,139	-	-	-
Culture – recreation	399,979	184,188	-	-
Debt service	53,186	-	-	-
Keno expenditures	51,946	-	-	-
CDBG program	182,445	-	-	-
Depreciation	280,966	-	-	-
Total governmental activities	1,929,271	184,188	5,228	1,739,855
General revenue:				
Taxes				853,187
Intergovernmental				668,556
Special assessments				80,918
Interest income				2,611
Keno proceeds				29,866
Local option sales tax				431,618
Licenses and permits				13,390
CDBG program				199,899
Community Redevelopment Authority – net				119,091
Miscellaneous				24,259
Total general revenue and transfers				2,223,395
Change in net assets				483,540
Net assets – beginning of year				5,885,067
Net assets – end of year				\$ 6,368,607

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY
PRIMARY GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
SEPTEMBER 30, 2013

ASSETS

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue Keno</u>	<u>Total</u>
Assets:				
Cash in bank	\$ 1,508,078	\$ 3,830	\$ 74,129	\$ 1,586,037
Certificates of deposit	425,452	-	-	425,452
Cash in custody of County Treasurer	57,229	-	-	57,229
Special assessments receivable	-	231,667	-	231,667
Prepaid expenses	21,700	-	-	21,700
	<u>\$ 2,012,459</u>	<u>\$ 235,497</u>	<u>\$ 74,129</u>	<u>\$ 2,322,085</u>
Total assets				

LIABILITIES AND FUND EQUITY

Liabilities:				
Accounts payable	\$ 1,142	\$ -	\$ -	\$ 1,142
Payflex payable	163	-	-	163
Deferred revenue – special assessments	-	231,667	-	231,667
Due on infrastructure improvements	152,593	-	-	152,593
	<u>153,898</u>	<u>231,667</u>	<u>-</u>	<u>385,565</u>
Total liabilities				
Fund equity:				
Restricted for:				
Debt service	-	3,830	-	3,830
Community betterment	-	-	74,129	74,129
Unassigned	1,858,561	-	-	1,858,561
	<u>1,858,561</u>	<u>3,830</u>	<u>74,129</u>	<u>1,936,520</u>
Total fund equity				
Total liabilities and fund equity	<u>\$ 2,012,459</u>	<u>\$ 235,497</u>	<u>\$ 74,129</u>	<u>\$ 2,322,085</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
RECONCILIATION OF COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS – TO STATEMENT OF NET ASSETS
SEPTEMBER 30, 2013

Total fund balance – all governmental funds		\$ 1,936,520
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund financial statement:		
Capital assets	9,388,681	
Accumulated depreciation	<u>(3,461,594)</u>	5,927,087
Long-term liabilities are not due and payable in this current period and therefore, are not reported in the funds:		
Bonds payable		<u>(1,495,000)</u>
Net assets of governmental activities		<u>\$ 6,368,607</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES – GENERAL AND DEBT SERVICE FUNDS –
PRIMARY GOVERNMENT – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Governmental Fund Types			
	General	Debt Service	Special Revenue Keno	Total
Receipts:				
Taxes – personal property	\$ 609,575	\$ 43,612	\$ -	\$ 653,187
Taxes – sales	-	431,618	-	431,618
Special assessments	-	80,918	-	80,918
Licenses and permits	13,390	-	-	13,390
Intergovernmental	673,784	-	-	673,784
Charges for services	184,188	-	-	184,188
Miscellaneous	26,864	-	-	26,864
Total receipts	<u>1,507,801</u>	<u>556,148</u>	<u>-</u>	<u>2,063,949</u>
Disbursements:				
Current:				
General government	657,909	-	-	657,909
Public works	257,139	-	-	257,139
Public health and safety	46,009	-	-	46,009
Cultural and recreational	399,978	-	-	399,978
Debt service:				
Principal retirement	140,000	151,651	-	291,651
Interest	2,500	50,566	-	53,066
Bond handling fee	-	120	-	120
Total disbursements	<u>1,503,535</u>	<u>202,337</u>	<u>-</u>	<u>1,705,872</u>
Excess of receipts over (under) disbursements	<u>4,266</u>	<u>353,811</u>	<u>-</u>	<u>358,077</u>
Other financing sources:				
CDBG programs	199,899	-	-	199,899
Gross keno proceeds	-	-	29,866	29,866
Community Redevelopment Authority – net	119,091	-	-	119,091
Miscellaneous	313	-	-	313
Transfer from other fund	359,201	-	-	359,201
Total other financing sources	<u>678,504</u>	<u>-</u>	<u>29,866</u>	<u>708,370</u>
Other financing uses:				
CDBG programs	182,445	-	-	182,445
Keno expenditures	-	-	51,946	51,946
Capitalized outlays – net	153,219	-	-	153,219
Transfer to other fund	-	359,201	-	359,201
Total other financing uses	<u>335,664</u>	<u>359,201</u>	<u>51,946</u>	<u>746,811</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>347,106</u>	<u>(5,390)</u>	<u>(22,080)</u>	<u>319,636</u>
Fund balance, beginning of year	<u>1,511,455</u>	<u>9,220</u>	<u>96,209</u>	<u>1,616,884</u>
Fund balance, end of year	<u>\$ 1,858,561</u>	<u>\$ 3,830</u>	<u>\$ 74,129</u>	<u>\$ 1,936,520</u>

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
RECONCILIATION OF STATEMENT OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances – total governmental funds \$ 319,636

Amounts reported for governmental activities in the statement of net activities are different because:

Governmental funds report capital outlays as expenditures while government activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital outlays - net	153,219	
Depreciation	(280,966)	(127,747)

Warrant and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of warrants and bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayment exceeded proceeds.

291,651

Change in net assets of governmental activities \$ 483,540

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies

The City of Auburn is a political subdivision of the State of Nebraska located in Nemaha County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Nebraska. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

This summary of significant accounting policies of the City of Auburn, Nebraska is presented to assist in understanding the City's financial statements. The combined financial statements and notes are representations of the City's management, which is responsible for their integrity and objectivity.

Reporting Entity

The financial statements include all funds of the City, except for the Board of Public Works. Other than for this exception, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those agencies, offices, organizations, commissions, and public authorities over which the City's elected officials exercise oversight responsibility are included in the financial statements. Manifestations of oversight responsibility are included in the financial statements. Manifestations of oversight responsibility over an entity include: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters.

Related Organizations

The Auburn Board of Public Works is a related organization but is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. An audit of the Auburn Board of Public Works will be completed for the year ending December 31, 2013 and will be filed under separate cover.

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The general services that the City performs for its citizens are classified as governmental activities. The City's utilities including electric, water and sewer are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column. The governmental and fiduciary activities are reported on a cash basis, and the business-type activity is reported on a full accrual, economic resource basis. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt services; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies - Continued

Government-Wide Financial Statements - Continued

The government-wide Statement of Activities reports both the gross and net cost of each of the City's governmental functions and business-type activities. The net costs of each governmental function are also supported by general government revenues (property taxes, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the governmental function or business-type activity. Operating grants include operation-specific and discretionary grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its asset, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by classification within the financial statements.

The following fund types are used by the City:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income. The following is a description of the governmental funds of the City:

General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

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.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

In the government-wide financial statements, the activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. On an accrual basis, revenues are recognized when earned. Expenditures are recorded when liabilities are incurred, regardless of the timing of related cash flows.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting - Continued

In the fund financial statements, both funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when they become both measurable and available. Available means collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recognized in the period the liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt are reported as other financing sources in governmental funds.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is to pay the expenditure from restricted fund balance and then from less restrictive classifications – committed, assigned and then unassigned fund balances.

Property tax revenues are recognized when susceptible to accrual. Revenues on special assessments and miscellaneous revenues are recognized as the amounts are collected. Investment earnings are recorded as earned since they are measurable and available.

Financial Statement Accounts

Cash and Certificates of Deposit

The City considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments in debt securities are carried at fair value and cash deposits at financial institutions are carried at cost, which reasonably estimate fair value. Income from investments held by the individual funds is recorded in the respected funds as it is earned.

Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the government-wide statements. Capital assets are defined as assets that have initial lives that extend beyond a single reporting period. Capital assets are stated at cost or estimated historical cost if actual is unavailable, except for donated assets, which are recorded at their fair values when donated.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

1. Summary of Significant Accounting Policies - Continued

Financial Statement Accounts - Continued

Capital Assets - Continued

The City maintains the following minimum capitalization thresholds for capital assets:

Building and improvements	\$	50,000
Land improvements	\$	20,000
Machinery, equipment and vehicles	\$	15,000
Infrastructure	\$	40,000

The City has elected to capitalize governmental fund type infrastructure, consisting primarily of street improvements, on a prospective basis. Consequently, the financial statements do not include infrastructure prior to October 1, 2003 with the exception of significant street projects.

Major expenditures for property and those which substantially increase useful lives, are capitalized. Maintenance, repairs and minor renewals, and capital assets purchased under the capitalization threshold, are expensed when incurred. When capital assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Net interest cost relating to construction is capitalized.

Depreciation has been provided using the straight-line method over estimated useful lives as follows:

Buildings	15 - 50 years
Improvements	7 - 30 years
Equipment	7 - 30 years
Vehicles	7 - 15 years
Street	30 - 40 years

Fund Financial Statements

In the fund financial statements, capital assets (arising from cash transactions) acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and certificates of deposit that are restricted as to their use. The primary restricted assets are related to revenue bonds payable and outstanding warrants payable.