CITY OF AUBURN
AUBURN, NEBRASKA

COMBINED FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

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, 2014, 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 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 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 on the Enterprise Fund on Business-Type Activities

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. Management has not included 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 financial statements. 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 described in the "Basis for Adverse Opinion on Enterprise Fund and Qualified Opinion on Business-Type Activity" paragraph, the financial statements referred to above do not present fairly the financial position of the Auburn Board of Public Works, Auburn, Nebraska, as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with basis of accounting described in Note 1.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Adverse Opinion on Enterprise Fund and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above, present fairly, in all material respects, the financial position – modified cash basis of the City of Auburn, Nebraska, as of September 30, 2014 and the changes in financial position – modified cash basis thereof for the year then ended in accordance with the basis of accounting described in Note 1.

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, other than the Enterprise Fund, each major fund, and the aggregate remaining fund information for the primary government of the City of Auburn, Nebraska, as of September 30, 2014, 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.

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.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF NET POSITION – MODIFIED CASH BASIS
SEPTEMBER 30, 2014

ASSETS

Cash in bank	$ 1,955,694
Certificates of deposit	425,566
Cash in custody of County Treasurer	84,933
Special assessments receivable	213,902
Prepaid expenses	10,000
Other assets	265
Capital assets:	
Non-depreciable	407,023
Depreciable, net	5,332,469
Total assets	8,429,852

LIABILITIES

Deferred revenue - special assessments	213,902
Bonds payable:	
Due within one year	140,000
Due in more than one year	1,070,000
Total liabilities	1,423,902

NET POSITION

Invested in capital assets, net of related debt	4,529,492
Restricted for:	
Debt service	8,986
Community betterment	79,434
Unrestricted	2,388,038
Net position	$ 7,005,950

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
General government	$ 610,707	$ -	$ -	$ -	$ 610,707
Public health and safety	68,491	-	-	-	68,491
Public works	242,747	-	-	-	242,747
Culture – recreation	384,506	181,694	-	-	202,812
Debt service	47,980	-	-	-	47,980
Keno expenditures	16,608	-	-	-	16,608
CDBG program	170,430	-	-	-	170,430
Depreciation	262,119	-	-	-	262,119
Total governmental activities	1,803,588	181,694	-	-	1,621,894
General revenue:					
Taxes					655,013
Intergovernmental					716,778
Special assessments					23,711
Interest income					3,433
Keno proceeds					21,913
Local option sales tax					427,307
Licenses and permits					14,868
CDBG program					188,750
Community Redevelopment Authority – net					102,490
Miscellaneous					104,974
Total general revenue and transfers					2,259,237
Change in net position					637,343
Net position – beginning of year					6,368,607
Net position – end of year					$ 7,005,950

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, 2014

ASSETS

	Governmental Fund Types			
	General	Debt Service	Special Revenue Keno	Total
Assets:				
Cash in bank	$ 1,867,274	$ 8,986	$ 79,434	$ 1,955,694
Certificates of deposit	425,566	-	-	425,566
Cash in custody of County Treasurer	84,933	-	-	84,933
Special assessments receivable	-	213,902	-	213,902
Prepaid expenses	10,000	-	-	10,000
Other assets	265	-	-	265
Total assets	$ 2,388,038	$ 222,888	$ 79,434	$ 2,690,360

LIABILITIES AND FUND EQUITY

Liabilities:				
Deferred revenue – special assessments	$ -	$ 213,902	$ -	$ 213,902
Total liabilities	-	213,902	-	213,902
Fund equity:				
Restricted for:				
Debt service	-	8,986	-	8,986
Community betterment	-	-	79,434	79,434
Unassigned	2,388,038	-	-	2,388,038
Total fund equity	2,388,038	8,986	79,434	2,476,458
Total liabilities and fund equity	$ 2,388,038	$ 222,888	$ 79,434	$ 2,690,360

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 POSITION
SEPTEMBER 30, 2014

Total fund balance – all governmental funds		$ 2,476,458
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the fund financial statement:		
Capital assets	9,454,058	
Accumulated depreciation	(3,714,566)	5,739,492
Long-term liabilities are not due and payable in this current period and therefore, are not reported in the funds:		
Bonds payable		(1,210,000)
Net position of governmental activities		$ 7,005,950

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENS AND CHANGES IN FUND BALANCES – GENERAL AND DEBT SERVICE FUNDS – PRIMARY GOVERNMENT – MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Fund Types			
	General	Debt Service	Special Revenue Keno	Total
Receipts:				
Taxes – personal property	$ 611,324	$ 43,689	$ -	$ 655,013
Taxes – sales	-	427,307	-	427,307
Special assessments	-	23,711	-	23,711
Licenses and permits	14,868	-	-	14,868
Intergovernmental	716,778	-	-	716,778
Charges for services	181,694	-	-	181,694
Miscellaneous	108,407	-	-	108,407
Total receipts	1,633,071	494,707	-	2,127,778
Disbursements:				
Current:				
General government	610,707	-	-	610,707
Public works	242,747	-	-	242,747
Public health and safety	68,491	-	-	68,491
Cultural and recreational	384,506	-	-	384,506
Debt service:				
Principal retirement	150,000	135,000	-	285,000
Interest	900	46,945	-	47,845
Bond handling fee	-	135	-	135
Total disbursements	1,457,351	182,080	-	1,639,431
Excess of receipts over (under) disbursements	175,720	312,627	-	488,347
Other financing sources:				
CDBG programs	188,750	-	-	188,750
Gross keno proceeds	-	-	21,913	21,913
Community Redevelopment Authority – net	102,490	-	-	102,490
Transfer from other fund	307,471	-	-	307,471
Total other financing sources	598,711	-	21,913	620,624
Other financing uses:				
CDBG programs	170,430	-	-	170,430
Keno expenditures	-	-	16,608	16,608
Capitalized outlays – net	74,524	-	-	74,524
Transfer to other fund	-	307,471	-	307,471
Total other financing uses	244,954	307,471	16,608	569,033
Excess of receipts and other financing sources over disbursements and other financing uses	529,477	5,156	5,305	539,938
Fund balance, beginning of year	1,858,561	3,830	74,129	1,936,520
Fund balance, end of year	$ 2,388,038	$ 8,986	$ 79,434	$ 2,476,458

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, 2014

Net change in fund balances – total governmental funds		$ 539,938
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	74,524	
Depreciation	(262,119)	(187,595)
Warrant and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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 position. This is the amount by which repayment exceeded proceeds.		285,000
Change in net position of governmental activities		$ 637,343

See the accompanying notes to the financial statements.

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, 2014 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 Position, 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 position is reported in three parts – invested in capital assets, net of related debt; restricted for debt services; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

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.

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 measureable 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 measureable 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.

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.

1. Summary of Significant Accounting Policies - Continued

Financial Statement Accounts - Continued

Long-Term Debt

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Net Position/Fund Equity

The government-wide fund financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This category represents net position of the City not restricted for any project or other purpose.

Fund equity – In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantor or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.
- Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the City through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same action it employed to commit those amounts.
- Assigned – Amounts the City intends to use for specific purposes.
- Unassigned – All amounts not included in other classifications.

1. Summary of Significant Accounting Policies - Continued

Property Tax Revenues

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1, and are payable in two installments on the following May 1 and September 1. All taxes are delinquent the September 1 following the year levied. The County bills and collects property taxes and remits them to the City monthly.

Budgets

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

1. Prior to September 10, the Mayor submits to the City Council, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to September 20, the budget is legally enacted through the passage of an ordinance.

Total expenditures may not legally exceed total budget appropriations. Appropriations lapse at year-end and any revisions require Board approval.

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; accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

All taxes, which are collected through the Nemaha County Treasurer, are from property owners within the City. Consequently, the City's ability to collect the taxes may be affected by economic fluctuations near the City of Auburn, Nebraska. To date, such concentrations of credit risk have not had a material effect on the financial statements.

2. Cash and Certificates of Deposit

Deposit risks include:

- Custodial Credit Risk – for deposits, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the City will not be able to recover the value of its deposits or collateral securities in the possession of a third party.

- Credit Risk – for deposits, credit risk is the risk that a bank or other counterparty defaults on its own principal and/or interest payments owed to the City

- Interest Rate Risk – for deposits, interest rate risk is the risk that the value of deposits will decrease as a result of a rise in interest rates

2. Cash and Certificates of Deposit - Continued

State statutes authorize the City to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the City Council. The City currently invests in only certificates of deposit, which as defined by Governmental Accounting Standards Board Statement No. 3, the City has no investments as of September 30, 2014.

State law requires all funds in depositories to be fully insured or collateralized, and the City's policy is to require depositories to provide pledged securities to cover deposits in excess of FDIC limits. At September 30, 2014, the City's deposits were fully insured or collateralized.

As of September 30, 2014, the carrying amount of the City's pooled cash accounts at one bank was $1,958,321. In addition, the City has investments in the form of certificates of deposit worth $425,566at another bank at September 30, 2014 at one bank. Of the total City deposits, $500,000 was covered by federal depository insurance, $1,272,162 was covered by various County, City and school district bond certificates and $392,400 and $194,894 was covered by Federal National Mortgage Association notes and Federal Home Loan Mortgage Corporation notes, respectively, held in the pledging bank's trust department in the City's name in the form of joint safekeeping receipt. The bank holding the $1,958,321 of pooled cash accounts was short $241,265 on September 30, 2014. An additional $1,276,628 was pledged by the bank by October, 2014.

3. Cash in Custody of County Treasurer

The City of Auburn, Nebraska has additional cash held for its account by the Nemaha County Treasurer. The changes in the funds held are as follows:

	Fund			
	TIF	General	Debt Service	Total
Balance, September 30, 2013	$ -	$ 53,353	$ 3,876	$ 57,229
Receipts:				
Tax collections				
(net of collection fee)	228,390	498,464	40,078	766,932
Interest on tax collection	-	2,350	189	2,539
Homestead exemption (net of collection fee)	-	24,873	2,000	26,873
Car line tax allocation	-	98	8	106
Motor vehicle	-	67,865	-	67,865
Pro-rate	-	1,606	129	1,735
Property tax relief	-	16,067	1,285	17,352
Total receipts	228,390	611,323	43,689	883,402
Disbursements Remitted to City	(228,390)	(585,654)	(41,654)	(855,698)
Balance, September 30, 2014	$ -	$ 79,022	$ 5,911	$ 84,933

4. Special Assessments Receivable

Revenue from special assessments has been deferred and is being amortized to revenue as payments are collected in the governmental activities financial statements.

Special assessments were against certain properties within the district in connection with the construction of street improvements. Special assessments bear interest at 7.00% - 8.00% per annum until delinquent and at the rate specified by law thereafter until paid. The City received $16,623 of principal and $7,466 of interest less net county treasurer fees of $378 and wrote off $0 on special assessments during the year. They issued $0 in new assessments and as of September 30, 2014, the balance remaining to collect was $213,902.

5. Capital Assets

All capital assets are carried at their original cost. A summary is presented below:

	Balance September 30, 2013	Additions	Deletions	Balance September 30, 2014
Land	$ 407,023	$ -	$ -	$ 407,023
Building and improvements	4,067,825	-	-	4,067,825
Equipment	747,520	35,240	25,612	757,148
Vehicles	671,591	-	-	671,591
Street	3,494,722	55,749	-	3,550,471
	9,388,681	90,989	25,612	9,454,058
Less accumulated depreciation	3,461,594	262,119	9,147	3,714,566
Capital assets, net of accumulated depreciation	$ 5,927,087	$ (171,130)	$ 16,465	$ 5,739,492

The City recorded depreciation expense of $262,119 for the year ended September 30, 2014.

6. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on December 31, and are payable in two installments on May 1 and September 1. The County bills and collects property taxes and remits to the City monthly. Property taxes are recognized as revenues when they are received by the County Treasurer.

The tax levy for the 2013-2014 fiscal year was $587,965 or $.4754 per $100 of assessed valuation. The total assessed valuation was $123,683,886 for the 2013-2014 fiscal year.

7. Retirement Commitments

The City provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one anniversary year of service and after reaching age 21. Employees must also work 1,000 hours per year to be eligible to participate. Enrollment in the plan is voluntary. Participation in the plan requires that the employee contribute 4% of the employee's monthly salary. The City is required to contribute 6% of participating employee salaries. The City's contributions for each employee (and interest allocated to the employee's account) are partially vested after each year of service and fully vested after 5 years of service. The City's contribution and related interest forfeited by employees is used to reduce the City's current period contribution requirement.

The total payroll and eligible payroll for the City for the year ended September 30, 2014 was $359,120 and $201,613, respectively. The City's share of the contribution was $12,097 and employees contributed $15,872 for the year ended September 30, 2014.

8. Outstanding Warrants Payable

There were no warrants issued during the fiscal year ended September 30, 2014.

9. Bonds Payable

The 2004 general obligation various purpose bonds for $645,000 were issued to refinance the warrants payable at September 30, 2003. The bonds were refinanced on September 1, 2009. The 2009 refunding purpose bond reissue was for $480,000. The bonds bear interest at 2.10% - 3.75% per annum and are repayable in installments of $45,000 - $55,000 per year through August 1, 2019.

The 2009 general obligation various purpose bonds for $875,000 were issued to refinance the warrants payable at June 1, 2009. The bonds bear interest at 2.25% - 4.50% per annum and are repayable in installments of $50,000 - $75,000 per year through June 15, 2024.

The 2010 general obligation paving bonds for $255,000 were issued to refinance certain warrants payable at April 26, 2010. The bonds bear interest at 1.75% - 3.95% per annum and are repayable in installments of $20,000 - $25,000 per year through May 15, 2022.

The 2010 highway allocation fund pledge bonds for $190,000 were issued to refinance certain warrants payable at April 26, 2010. The bonds bear interest at 1.75% - 3.75% per annum and are repayable in installments of $15,000 - $25,000 per year through May 15, 2020.

The 2010 sales tax refunding bonds for $425,000 were issued to refinance the 2004 refunding bond issue. The bonds bear interest at .80% - 1.20% per annum and are repayable in installments of $135,000 - $150,000 per year through November 1, 2013.

9. Bonds Payable - Continued

The details of bonds payable are as follows:

	Balance September 30, 2013	Issue	Payments	Balance September 30, 2014
2009 Reissue Bonds	$ 305,000	$ -	$ 45,000	$ 260,000
2009 G.O.V.P. Bonds	680,000	-	50,000	630,000
2010 G.O.P. Bonds	205,000	-	20,000	185,000
2010 H.A.F.P. Bonds	155,000	-	20,000	135,000
2010 Refunding Bonds	150,000	-	150,000	-
	$ 1,495,000	$ -	$ 285,000	$ 1,210,000

Total debt service of bonds payable to maturity is as follows:

Maturities	Interest Rate	Principal	Interest	Total
2015	2.45 – 2.90	$ 140,000	$ 43,632	$ 183,632
2016	2.80 – 3.15	145,000	39,803	184,803
2017	3.20 – 3.35	145,000	35,399	180,399
2018	3.40 – 3.55	165,000	30,604	195,604
2019	3.60 – 3.75	165,000	24,818	189,818
2020 - 2024	3.75 – 4.50	450,000	53,661	503,661
Total		$ 1,210,000	$ 227,917	$ 1,437,917

For the year ending September 30, 2014, the interest paid was $47,845, the agent fee was $135.

10. Lease Commitments

In August, 2007, the City entered into an annual lease agreement with Nemaha County for the rent of the police headquarters and for dispatching services, teletype fees, photo copies, supplies and other services. The City was liable to Nemaha County for minimum monthly lease payments of $4,167 for three months ended December 31, 2012 and paid the county $12,500. A new three-year lease was signed in August, 2012. On November 28, 2012, the City entered into a new interlocal agreement with Nemaha County to provide complete law enforcement services and duties provided by the Nemaha County Sheriff's Office. Starting January 1, 2013, the City was liable to Nemaha County for minimum monthly payments of $23,583 for nine months ended September 30, 2013 and paid the county $212,247. The agreement continues for another 27 months through December 31, 2015. Under the new agreement, the City is also required to give the county $10,000 per year for replacement vehicle costs. The City gave the county three of its patrol vehicles in January 2013 (net book value of $56,073) to satisfy this requirement for 2013 – 2015. The costs for 2014 and 2015 have been set up as a prepaid expense. The annual minimum commitment is as follows:

2015	$ 293,000
2016	70,750
	$ 363,750

11. Keno Operation

In March, 2012, the City contracted with Zelinger Keno, Inc. to operate the keno activity in Auburn, Nebraska. The operator maintains a separate self-balancing set of accounts for the keno activity in a trust-type manner. On a monthly basis, the net proceeds are transferred to the City and deposited in the City of Auburn keno account. This account has been combined with other general fund activities in the foregoing financial statements. A summary of the keno account activity for the twelve months ended September 30, 2014 is as follows.

Balance - beginning of period	$ 74,129
Receipts:	
Interest	123
Proceeds from operator	20,762
Total receipts	20,885
Disbursements:	
Legal and audit	100
Community betterment -	
Fire audio equipment	3,048
Green project	10,000
Nebraska sales tax	2,432
Total disbursements	15,580
Balance - end of period	$ 79,434

12. Risk Management

The City is exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage or settlement amounts exceeding insurance coverage for the current year or in the past three fiscal years.

13. Contingencies:

Compensated Absences

The City allows its employees to accumulate vacation hours for future use or for payment upon termination, retirement or death. This accumulation is not recognized as an expenditure by the City until used or paid. The City's approximate liability for unrecognized employee vacation pay was $20,537 at September 30, 2014.

Sick pay can only be used if the employee is sick and is not payable upon termination, retirement or death. This accumulation is not recognized as an expenditure by the City until used or paid. The City's approximate liability for unrecognized employee sick pay was $25,235 at September 30, 2014.

Community Development Block Grant

The City participates in a number of federally assisted programs, principal of which is the Community Development Block Grant. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for, or including the twelve months ended September 30, 2014, have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

14. Loan Agreement with Nebraska Department of Economic Development

On August 23, 1993, the City signed a promissory note with the Nebraska Department of Economic Development for a $400,000 Community Development Block Grant. The City then loaned these funds to a business located in Auburn. The City's liability for repayment of this note is limited to the principal amounts the City receives as repayment from the local business, if the repayments are not reinvested in a like grant project. During the current year, $2,000 of principal was paid back and $38 of interest earned and $0 was reloaned out to another business and $740 was expended for fees. At September 30, 2014, the City had $19,782 in its C.D.B.G. reuse account.

16. Community Redevelopment Authority

The City has entered into several Tax Incremental Financing projects through its Community Redevelopment Authority. The City combined its redevelopment plan for a blighted area known as Auburn #1 and SE Property Area into the Bucket TIF. Within this area the City is collecting incremental taxes that can be used on façade restorations, street improvements, alley resurfacing, parking areas and other exterior infrastructure improvements. During the year, the City collected tax receipts of $212,359, interest of $884 and loan repayment of $1,064. Total expenditures were $48,106, consisting of $290 for legal fees, $98 for publishing costs and $47,718 for loan payments. The balance in the project is $665,971 at September 30, 2014. The City has a second redevelopment plan known as NW Sewer Area, which has been expanded to cover the same area as the Bucket TIF. Initially, the plan was to be used to acquire necessary easements and construct and install a sanitary sewer main through the development area, together with related and ancillary improvements. The City has collected no tax receipts and earned interest of $8. Total expenditures were $62,731, consisting of $31 for legal fees and $62,700 for project payments. The balance in the project is $1,061 at September 30, 2014.

The other type is a Tax Allocation Borrower/ Lender Plan used to finance commercial ventures whereby the City borrows funds from a bank and then reloans these funds to the entity. The loan repayments are set on a 15-year term with a fixed interest rate. The County Treasurer collects the TIF taxes, remits the same to the City, and the City in turn makes the loan payment directly to the bank for the entity. The City currently has six TIF Redevelopment Projects in process with five entities. Each TIF Redevelopment Project is approved by the City Council on a separate resolution. To date the City has borrowed $854,706 and reloaned $790,816 of these funds. During the year $16,031 was collected through TIF taxes and earned $5 in interest. Total expenditures were $16,127 consisting of $4 for legal fees and $16,123 for loan repayments. The balance in these projects is $7,754 at September 30, 2014.

17. Subsequent Events

The City evaluated subsequent events after the balance sheet date of September 30, 2014 through November 12, 2014, which was the date the financial statements were issued. The City has concluded there are no subsequent events, which have occurred from September 30, 2014 through November 12, 2014, which require additional disclosure.

18. Loan Agreement with Nebraska Department of Environmental Quality

On April 13, 2009, the City adopted a loan resolution authorizing and providing for the incurrence of indebtedness for the purpose of providing portions of the cost of repairing and improving the Board of Public Works' Water Supply System. A loan, dated July 13, 2009, between the City and the Nebraska Department of Environmental Quality (NDEQ) was designated as Project No. D311499. The City further resolved that the Board of Public Works be authorized and directed to sign all necessary documents to furnish such assurances to the State of Nebraska as may be required by law or regulations and to receive all payments. As the asset is shown as being part of the Board of Public Works, all debt activity is also shown as being part of the Board of Public Works. The outstanding NDEQ loan was $5,742,153 at December 31, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENTS OF RECEIPTS AND DISBURSEMENTS
- BUDGET AND ACTUAL -
GENERAL, DEBT SERVICE AND SPECIAL REVENUE FUNDS – PRIMARY GOVERNMENT
BUDGETARY BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Original Final Budget	Actual	Variance with Budget Favorable/ (Unfavorable)
Receipts:			
Taxes – personal property	$ 650,350	$ 655,012	$ 4,662
Taxes – sales	400,000	427,307	27,307
Special assessments levied	42,740	23,711	(19,029)
Licenses and permits	14,000	14,867	867
Intergovernmental	705,168	716,779	11,611
Charges for services	132,250	181,695	49,445
Miscellaneous	27,835	108,407	80,572
Total receipts	1,972,343	2,127,778	155,435
Disbursements:			
Current:			
General government	633,990	600,707	33,283
Public works	264,920	242,747	22,173
Public health and safety	72,180	48,491	23,689
Cultural and recreational	361,785	384,504	(22,719)
Debt service:			
Principal retirement	445,000	285,000	160,000
Interest	47,850	47,845	5
Bond handling fee	300	135	165
Total disbursements	1,826,025	1,609,429	216,596
Excess of receipts over (under) disbursements	146,318	518,349	372,031
Other financing sources:			
CDBG programs	225,000	188,750	(36,250)
Gross keno proceeds	16,000	21,913	5,913
Community Redevelopment Authority – net	-	102,490	102,490
Miscellaneous	310	-	(310)
Transfer from other funds	-	-	-
Total other financing sources (uses)	241,310	313,153	71,843
Other financing uses:			
CDBG programs	393,000	170,431	222,569
Keno expenditures	111,500	16,608	94,892
Capitalized outlays	1,048,713	187,117	861,596
Total other financing uses	1,553,213	374,156	1,179,057
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	$ (1,165,585)	$ 457,346	$ 1,622,931

CITY OF AUBURN, NEBRASKA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

1. BUDGETARY ACCOUNTING

The City prepares its budgets on the cash basis of accounting. Accordingly, revenues are recognized when cash is received by the City and expenditures are recognized when cash is disbursed. The basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this method of accounting, all unexpended appropriations lapse at the end of the budget year.

CITY OF AUBURN, NEBRASKA
SUMMARY OF REVENUES RECEIVED – MODIFIED CASH BASIS
GENERAL AND DEBT SERVICE FUNDS
SEPTEMBER 30, 2014
(SUPPLEMENTARY DATA)

	Governmental Fund Types		
	General	Debt Service	Totals
Taxes:			
General property and other taxes	$ 582,397	$ 41,363	$ 623,760
Interest on tax collections	2,350	189	2,539
Sales tax	-	427,307	427,307
Homestead exemption allocation	24,873	2,000	26,873
Car line tax	98	8	106
Motor vehicle pro-rate tax allocation	1,606	129	1,735
Total taxes	611,324	470,996	1,082,320
Special assessments collected	-	23,711	23,711
Licenses and permits	14,868	-	14,868
Intergovernmental:			
Auburn Board of Public Works	118,016	-	118,016
Highway incentive payments	4,000	-	4,000
State revenue sharing:			
Highway allocation	340,046	-	340,046
Motor vehicle fee	27,927	-	27,927
Equalization	204,240	-	204,240
State aid	1,111	-	1,111
Nemaha Cty MFO	17,696	-	17,696
State license and fines	3,742	-	3,742
Total intergovernmental	716,778	-	716,778
Charges for services:			
Recreation Committee	44,516	-	44,516
Pool receipts	58,218	-	58,218
Lessons	6,270	-	6,270
Franchise fees	72,690	-	72,690
Total charges for services	181,694	-	181,694
Miscellaneous:			
Investment income	3,433	-	3,433
Other	104,974	-	104,974
Total miscellaneous	108,407	-	108,407
Total	$ 1,633,071	$ 494,707	$ 2,127,778

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID – MODIFIED CASH BASIS
GENERAL FUND
SEPTEMBER 30, 2014
(SUPPLEMENTARY DATA)

	General Government	Cultural and Recreational	Public Health and Safety	Public Works	Total
Salaries/Personal services	$ 119,893	$ 127,772	$ 5,723	$ 105,733	$ 359,121
Employee benefits	32,411	22,837	3,597	33,390	92,235
Utilities	8,950	41,930	9,238	8,416	68,534
Repairs and maintenance	47,428	56,688	19,027	24,774	147,917
Meeting expense	2,847	314	1,734	-	4,895
Insurance	11,464	12,232	4,204	9,063	36,963
Recreation expenses	-	39,627	-	-	39,627
Audit and consultation	55,047	-	-	-	55,047
Memberships and schools	7,769	459	2,459	-	10,687
Office supplies and services	5,559	-	-	91	5,650
Licenses and taxes	3,163	-	-	-	3,163
Custodial services	-	13,280	580	5,014	18,874
Miscellaneous	1,008	3,578	-	34	4,620
Gas, oil and tires	-	-	-	19,611	19,611
Supplies	-	33,618	879	30,621	65,118
Books	-	16,420	-	-	16,420
Interlocal costs of law enforcement	283,000	-	-	-	283,000
Grant expenditures	22,890	-	-	-	22,890
Economic development	7,000	-	-	-	7,000
Trees and care	2,278	-	-	-	2,278
Land rent	-	-	-	6,000	6,000
Sales tax remitted	-	3,541	-	-	3,541
Fire chief expenses	-	-	1,050	-	1,050
Capital outlay – noncapitalized	-	12,210	20,000	-	32,210
Totals	$ 610,707	$ 384,506	$ 68,491	$ 242,747	$ 1,306,451

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID – MODIFIED CASH BASIS
GENERAL GOVERNMENT FUND
SEPTEMBER 30, 2014
(SUPPLEMENTARY DATA)

	General Fund	Police	Total
Salaries/Personal services	$ 119,893	$ -	$ 119,893
Employee benefits	32,411	-	32,411
Utilities	8,950	-	8,950
Repairs and maintenance	37,428	10,000	47,428
Meeting expense	2,847	-	2,847
Insurance	11,464	-	11,464
Audit and consultation	55,047	-	55,047
Memberships and schools	7,769	-	7,769
Office supplies and services	5,559	-	5,559
Licenses and taxes	3,163	-	3,163
Miscellaneous	1,008	-	1,008
Tree program expense	2,278	-	2,278
Interlocal costs of law enforcement	-	283,000	283,000
Grant expenditures	22,890	-	22,890
Economic development	7,000	-	7,000
Totals	$ 317,707	$ 293,000	$ 610,707

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID – MODIFIED CASH BASIS
CULTURAL AND RECREATIONAL – PART OF GENERAL FUND
SEPTEMBER 30, 2014
(SUPPLEMENTARY DATA)

	Parks	Recreation Committee	Swimming Pool	Library	Senior Citizen	Total
Salaries/Personal services	$ 11,547	$ -	$ 51,785	$ 64,440	$ -	$ 127,772
Employee benefits	2,080	-	6,988	13,769	-	22,837
Utilities	14,400	-	11,614	8,113	7,803	41,930
Repairs and maintenance	31,842	-	4,467	8,721	11,658	56,688
Meeting expenses	-	-	-	314	-	314
Insurance	3,182	-	2,204	3,494	3,352	12,232
Recreation expenses	-	39,627	-	-	-	39,627
Custodial services	-	-	2,037	8,958	2,285	13,280
Membership and schools	-	-	-	459	-	459
Miscellaneous	2,751	-	116	507	204	3,578
Supplies	9,013	-	15,345	4,260	5,000	33,618
Books	-	-	-	16,420	-	16,420
Sales tax remitted	-	-	3,541	-	-	3,541
Capital outlay – noncapitalized	12,210	-	-	-	-	12,210
Totals	$ 87,025	$ 39,627	$ 98,097	$ 129,455	$ 30,302	$ 384,506

CITY OF AUBURN, NEBRASKA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2014
(SUPPLEMENTARY DATA)

Program	Federal CFDA #	Program Receipts	Program Expenditures
Department of Housing and Economic Development:			
Community Development Block Grants:			
	#91-ED-006: Reuse	$ 2,000	$ -
	#10-DTR-005	14,311	33,312
	#09-HO-6044	172,439	130,976
		188,750	164,288
Administration		-	6,142
Project expenses		-	-
Reuse miscellaneous expense		-	-
		$ 188,750	$ 170,430

CITY OF AUBURN, NEBRASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these Schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Reporting Entity

The City of Auburn, for purposes of the Schedule of Expenditures of Federal Awards, includes all funds for which the City is financially accountable.

3. Pass Through Awards

The City receives certain federal awards in the form of pass-through awards from the State of Nebraska and other various agencies. Such amounts received as pass-through awards are specifically identified on the Schedule of Expenditures of Federal Awards.

4. Contingencies

The City receives funds under various federal grant programs, and such assistance is to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies, which may impose sanctions in the event of noncompliance. Management believes that they have complied with all material aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impacts.

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INDEPENDENT AUDITORS' 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

Honorable Mayor and City Council
City of Auburn
Auburn, Nebraska

We have audited, 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the City of Auburn, Nebraska's basic financial statements and have issued our report thereon dated November 12, 2014. Our report contains an adverse and qualified opinion because of the omission of an enterprise fund and an explanatory paragraph regarding use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Auburn, Nebraska's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Auburn, Nebraska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Auburn, Nebraska's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Auburn, Nebraska's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-1 and 2014-2.

We noted certain matters that we reported to management of the City of Auburn, Nebraska in a separate letter dated November 12, 2014.

City of Auburn's Response to Findings

The City of Auburn, Nebraska's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Auburn, Nebraska's response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Certified Public Accountants

Omaha, Nebraska
November 12 , 2014

CITY OF AUBURN, NEBRASKA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2014

As noted in our independent auditor's 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*, we identified two findings that we consider to be significant deficiencies.

Significant Deficiencies

2014-1

The City Clerk has access to or responsibility for certain duties that compromise the segregation of duties. The City Clerk has access to cash, prepares bank deposits, reconciles bank accounts and can prepare and post journal entries.

Council Response

The City acknowledges the compromises to its segregation of duties based on current staffing levels. The City has assigned the City Treasurer to oversee the City Clerk. He reviews and approves all payment vouchers prior to each City Council meeting and reviews all journal entries. Other than the latter, the City does not believe the benefits of eliminating this significant deficiency outweigh the cost of adding more accounting personnel to the City's current staff.

2014-2

The City Clerk lacks the expertise to detect and correct a potential misstatement in the presentation of its financial statements or notes in accordance with accounting principles generally accepted in the United States of America and *Government Accounting Standards*.

Council Response

The City acknowledges its lack of financial reporting expertise to prepare its financial statements or notes in accordance with accounting principles generally accepted in the United States of America and *Government Accounting Standards*. However, the City does not believe the benefits of eliminating this material weakness outweigh the cost of adding more accounting personnel to the City's current staff. Therefore, the City will continue to outsource this function.