

CITY OF AUBURN
AUBURN, NEBRASKA

COMBINED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

CITY OF AUBURN, NEBRASKA
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements:	
<i>Government-wide Financial Statements:</i>	
Combined Statement of Net Assets - Modified Cash Basis	2
Statement of Activities - Modified Cash Basis	3
<i>Governmental Funds Financial Statements:</i>	
Combined Statement of Assets, Liabilities and Fund Equity - Primary Governmental Funds - Modified Cash Basis	4
Reconciliation of Combined Statement of Assets, Liabilities and Fund Equity - Governmental Funds - Modified Cash Basis - to Statement of Net Assets	5
Combined Statement of Receipts, Disbursements and Changes in Fund Balances - General and Debt Service Funds - Primary Government - Modified Cash Basis	6
Reconciliation of Statement of Receipts, Disbursements, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis	7
Notes to Combined Financial Statements	8-20
Required Supplementary Information:	
Combined Statements of Receipts and Disbursements - Budget and Actual - General and Debt Service Funds - Primary Government - Budgetary Basis	22
Note to Required Supplementary Information - Budgetary Comparison Schedule.....	23
Other Supplementary Information:	
Summary of Revenues Received – Modified Cash Basis - General and Debt Service Funds.....	25
Summary of Expenditures Paid – Modified Cash Basis - General Fund	26
Summary of Expenditures Paid – Modified Cash Basis - General Government Fund	27
Summary of Expenditures Paid – Modified Cash Basis - Cultural and Recreational - Part of General Fund	28
Schedule of Federal Financial Assistance	29
Notes to Schedule of Expenditures of Federal Awards.....	30
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	31
Schedule of Findings and Responses	32

MASSMAN NELSON REINIG PC

Certified Public Accountants

13310 I Street Omaha, Nebraska 68137

402 330 7099 Fax 402 330 0809

Michael L Massman CPA
George E Nelson CPA
James A Reinig CPA

Keli D Palfini CPA
Jason T McGill CPA

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, 2011, 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 of Auburn, Nebraska'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.

Management has not included the enterprise funds of the Auburn Board of Public Works in the City of Auburn, Nebraska's financial statements. Accounting principles generally accepted in the United States of America require the Auburn Board of Public Works to be presented as a major enterprise fund and financial information about the Auburn Board of Public Works to be part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the business-type activities and the omitted major fund is not reasonably determinable.

As discussed in Note 1, the City of Auburn, Nebraska, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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. As a result, the government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Auburn, Nebraska as of September 30, 2011 and the changes in its financial position for the year then ended in conformity with the modified cash basis of accounting.

In our opinion, except for the effects of not including financial information for the Auburn Board of Public Works as part of the business-type activities, as described above, the financial statements referred to above 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 Auburn, Nebraska, as of September 30, 2011, and the respective changes in financial position - modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2011 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 assessing the results of our audit.

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 on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 information is fairly stated in all material respects in relation to the financial statements as a whole.

The City's management has elected to omit management's discussion and analysis from the basic financial statements. The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

Massman Nelson Reinig PC
Certified Public Accountants

Omaha, Nebraska
October 28, 2011

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
SEPTEMBER 30, 2011

ASSETS

Current assets:	
Cash in bank	\$ 1,159,036
Certificates of deposit	350,000
Cash in custody of County Treasurer	56,416
Special assessments receivable	350,980
Payflex receivable	<u>716</u>
Total current assets	<u>1,917,148</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable	407,023
Depreciable, net	<u>5,564,228</u>
Total noncurrent assets	<u>5,971,251</u>
Total assets	<u>7,888,399</u>

LIABILITIES

Current liabilities:	
Current portion long-term debt	270,929
Deferred revenue - special assessments	<u>350,980</u>
Total current liabilities	621,909
Noncurrent liabilities:	
Long-term debt, net	<u>1,786,652</u>
Total liabilities	<u>2,408,561</u>

NET ASSETS

Invested in capital assets, net of related debt	3,913,670
Fund Balance:	
Restricted for debt service	105,358
Unrestricted	<u>1,460,810</u>
Net assets	<u>\$ 5,479,838</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, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ (722,216)	-	\$ 18,693	\$ (703,523)
Public health and safety	(43,388)	-	-	(43,388)
Public works	(281,585)	-	-	(281,585)
Culture - recreation	(431,110)	190,748	-	(240,362)
Debt service	(73,281)	-	-	(73,281)
Keno expenditures	(9,677)	-	-	(9,677)
CDBG program	(310,812)	-	-	(310,812)
Depreciation	(295,837)	-	-	(295,837)
Total governmental activities	(2,167,906)	190,748	18,693	(1,958,465)
	General revenue:			
	Taxes			637,327
	Intergovernmental			674,393
	Special assessments			115,255
	Interest income			4,660
	Keno proceeds			5,231
	Local option sales tax			414,755
	Licenses and permits			17,011
	CDBG program			278,152
	Community Redevelopment Authority - net			(140,028)
	Miscellaneous			32,566
	Total general revenue and transfers			2,039,322
	Change in net assets			80,857
	Net assets - beginning of year			5,398,981
	Net assets - end of year			\$ 5,479,838

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, 2011

ASSETS

	Governmental Fund Types		
	General	Debt Service	Total
Cash in bank	\$ 1,053,678	\$ 105,358	\$ 1,159,036
Certificates of deposit	350,000	-	350,000
Cash in custody of County Treasurer	56,416	-	56,416
Special assessments receivable	-	350,980	350,980
Payflex receivable	716	-	716
	<u>\$ 1,460,810</u>	<u>\$ 456,338</u>	<u>\$ 1,917,148</u>
Total assets	<u>\$ 1,460,810</u>	<u>\$ 456,338</u>	<u>\$ 1,917,148</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Deferred revenue - special assessments	\$ -	\$ 350,980	\$ 350,980
Total liabilities	-	350,980	350,980

Fund equity:

Investment in general fixed assets	-	-	-
Fund Balance:			
Restricted for debt service	-	105,358	105,358
Unassigned	1,460,810	-	1,460,810
Total fund equity	1,460,810	105,358	1,566,168
Total liabilities and fund equity	<u>\$ 1,460,810</u>	<u>\$ 456,338</u>	<u>\$ 1,917,148</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, 2011

Total fund balance - all governmental funds		\$ 1,566,168
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	8,992,316	
Accumulated depreciation	<u>(3,021,065)</u>	5,971,251
Long-term liabilities are not due and payable in this current period and therefore, are not reported in the funds:		
Capitalized lease payable	(42,581)	
Bonds payable	<u>(2,015,000)</u>	<u>(2,057,581)</u>
Net assets of governmental activities		<u><u>\$ 5,479,838</u></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, 2011

	Governmental Fund Types		
	General	Debt Service	Total
Receipts:			
Taxes - personal property	\$ 594,649	\$ 42,678	\$ 637,327
Taxes - sales	-	414,755	414,755
Special assessments	-	115,255	115,255
Licenses and permits	17,011	-	17,011
Intergovernmental	693,086	-	693,086
Charges for services	190,748	-	190,748
Miscellaneous	37,226	-	37,226
Total receipts	<u>1,532,720</u>	<u>572,688</u>	<u>2,105,408</u>
Disbursements:			
Current:			
General government	722,216	-	722,216
Public works	281,585	-	281,585
Public health and safety	43,388	-	43,388
Cultural and recreational	431,110	-	431,110
Debt service:			
Principal retirement	545,000	160,144	705,144
Interest	11,761	55,895	67,656
Bond handling fee	375	150	525
Bond issuance fees	5,100	-	5,100
Total disbursements	<u>2,040,535</u>	<u>216,189</u>	<u>2,256,724</u>
Excess of receipts over (under) disbursements	<u>(507,815)</u>	<u>356,499</u>	<u>(151,316)</u>
Other financing sources:			
CDBG programs	278,152	-	278,152
Gross keno proceeds	5,231	-	5,231
Warrants issued	-	-	-
GOST refunding bond issue	425,000	-	425,000
Note payable proceeds	-	-	-
Transfer from other fund	419,720	-	419,720
Total other financing sources	<u>1,128,103</u>	<u>-</u>	<u>1,128,103</u>
Other financing uses:			
CDBG programs	310,812	-	310,812
Community Redevelopment Authority - net	140,028	-	140,028
Keno expenditures	9,677	-	9,677
Warrants paid	-	-	-
Warrant interest paid	-	-	-
Capitalized outlays - net	53,287	-	53,287
Transfer to other fund	-	419,720	419,720
Total other financing uses	<u>513,804</u>	<u>419,720</u>	<u>933,524</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	106,484	(63,221)	43,263
Fund balance, beginning of year	1,354,326	168,579	1,522,905
Fund balance, end of year	<u>\$ 1,460,810</u>	<u>\$ 105,358</u>	<u>\$ 1,566,168</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, 2011

Net change in fund balances - total governmental funds \$ 43,263

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	53,287	
Depreciation	<u>(295,837)</u>	(242,550)

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.

280,144

Change in net assets of governmental activities \$ 80,857

See the accompanying notes to the financial statements.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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, 2011 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, 2011

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, 2011

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 District'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, 2011

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.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

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 Assets/Fund Equity

The government-wide fund financial statements utilize a net assets presentation. Net assets are 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 assets. 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 assets – 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 assets – This category represents net assets of the District 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 District through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same action it employed to commit those amounts.
- Assigned – Amounts the District intends to use for specific purposes.
- Unassigned – All amounts not included in other classifications.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

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 District 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 District.
- 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

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

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, 2011.

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, 2011, the City's deposits were fully insured or collateralized.

As of September 30, 2011, the carrying amount of the City's pooled cash accounts was \$1,219,298. In addition, the City has investments in the form of certificates of deposit worth \$350,000 at September 30, 2011 at one bank. Of the total City deposits, \$375,000 was covered by federal depository insurance, \$1,060,000 was covered by various County and school district bond certificates and \$400,000 was covered by Freddie Mac Medium notes held in the pledging bank's trust department in the City's name in the form of joint safekeeping receipt.

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, 2010	\$ -	\$ 41,530	\$ 2,893	\$ 44,423
Receipts:				
Tax collections				
(net of collection fee)	179,052	480,556	38,806	698,414
Interest on tax collection	-	3,010	239	3,249
Homestead exemption (net of collection fee)	-	24,933	2,005	26,938
Car line tax allocation	-	109	9	118
Motor vehicle	-	65,830	-	65,830
Pro-rate	-	1,705	137	1,842
Property tax relief	-	18,506	1,482	19,988
Total receipts	<u>179,052</u>	<u>594,649</u>	<u>42,678</u>	<u>816,379</u>
Disbursements Remitted to City	<u>179,052</u>	<u>583,673</u>	<u>41,661</u>	<u>804,386</u>
Balance, September 30, 2011	<u>\$ -</u>	<u>\$ 52,506</u>	<u>\$ 3,910</u>	<u>\$ 56,416</u>

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

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 \$90,831 of principal and \$26,179 of interest less net county treasurer fees of \$1,755 on special assessments during the year. They issued \$0 in new assessments and as of September 30, 2011, the balance remaining to collect was \$350,980.

5. Capital Assets

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

	Balance September 30, 2010	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2011
Land	\$ 407,023	\$ -	\$ -	407,023
Building and improvements	4,067,825	-	-	4,067,825
Equipment	737,056	25,612	17,295	745,373
Vehicles	774,918	29,837	-	804,755
Street	<u>2,967,341</u>	<u>-</u>	<u>-</u>	<u>2,967,341</u>
	8,954,163	55,449	17,295	8,992,317
Less accumulated depreciation	<u>2,740,362</u>	<u>295,837</u>	<u>15,133</u>	<u>3,021,066</u>
Capital assets, net of accumulated depreciation	<u>\$ 6,213,801</u>	<u>\$ (240,388)</u>	<u>\$ 2,162</u>	<u>\$ 5,971,251</u>

The City recorded depreciation expense of \$295,837 for the year ended September 30, 2011.

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 2010-2011 fiscal year was \$573,377 or \$.4754 per \$100 of assessed valuation. The total assessed valuation was \$120,615,144 for the 2010-2011 fiscal year.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

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, 2011 was \$633,576 and \$434,059, respectively. The City's share of the contribution was \$26,044 and employees contributed \$21,570 for the year ended September 30, 2011.

8. Outstanding Warrants Payable

There were no warrants issued during the fiscal year ended September 30, 2011.

9. Bonds Payable

The Series 2004 sales tax revenue refunding bonds were redeemed in November, 2010 by issuing a 2010 refunding bond series. The 2010 refunding bonds are secured by the proceeds received by the City of Auburn from the imposition of a sales and use tax of one percent upon the transactions within the City of Auburn. The bonds bear interest at .8% - 1.20% per annum and are repayable in installments of \$135,000 - \$150,000 per year through November 1, 2013.

The 2000 general obligation various purpose bonds for \$165,000 were issued to refinance the warrants payable at September 30, 2000. The final bond payment of \$20,000 was paid on October 12, 2010.

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 1.70% - 3.75% per annum and are repayable in installments of \$40,000 - \$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 1.95% - 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 1.40% - 3.95% per annum and are repayable in installments of \$15,000 - \$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 1.40% - 3.75% per annum and are repayable in installments of \$10,000 - \$25,000 per year through May 15, 2020.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

9. Bonds Payable - Continued

The details of bonds payable are as follows:

	Balance September 30, 2010	Issue	Payments	Balance September 30, 2011
2004 Refunding Bonds	\$ 545,000	\$ -	\$ 545,000	\$ -
2000 G.O.V.P. Bonds	20,000	-	20,000	-
2009 Reissue Bonds	435,000	-	45,000	390,000
2009 G.O.V.P. Bonds	830,000	-	50,000	780,000
2010 G.O.P. Bonds	255,000	-	15,000	240,000
2010 H.A.F.P. Bonds	190,000	-	10,000	180,000
2010 Refunding Bonds	-	425,000	-	425,000
	<u>\$ 2,275,000</u>	<u>\$ 425,000</u>	<u>\$ 685,000</u>	<u>\$ 2,015,000</u>

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

<u>Maturities</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	.80 – 1.95	250,000	\$ 55,373	\$ 305,373
2013	1.00 – 2.25	270,000	52,127	322,127
2014	1.20 – 2.65	285,000	47,846	332,846
2015	2.45 – 2.90	140,000	43,632	183,632
2016	2.80 – 3.15	145,000	39,803	184,803
2017 - 2021	3.20 – 4.10	680,000	123,795	803,795
2022 - 2024	3.95 – 4.50	245,000	20,687	265,687
Total		<u>\$ 2,015,000</u>	<u>\$ 383,263</u>	<u>\$ 2,398,263</u>

For the year ending September 30, 2011, the interest paid was \$67,656, the agent fee was \$425 and the new bond issue fees were \$5,100.

10. Capitalized Lease Payable

In April, 2010, the City of Auburn entered into a capital lease with Trinity, a division of Bank of the West, to fund the purchase of a 2010 Hyundai wheel loader for \$62,725. The capitalized lease is due in three equal payments of \$22,590 through May 15, 2013. The internal interest rate is approximately 3.90% per annum.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

10. Capitalized Lease Payable - Continued

The total debt service of the note payable to maturity is as follows:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 20,929	\$ 1,661	\$ 22,590
2013	21,652	938	22,590
	<u>\$ 42,581</u>	<u>\$ 2,599</u>	<u>\$ 45,180</u>

11. 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 \$4,172 during the year ended September 30, 2011 and paid the county \$54,155. A new three-year lease was signed in August, 2009. The annual minimum rent is as follows:

2012	<u>\$ 56,322</u>
------	------------------

12. Keno Operation

The City has contracted with Nick and Lisa Schmitz 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 quarterly 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, 2011 is as follows.

Balance - beginning of period	<u>\$ 124,245</u>
Receipts:	
Interest	303
Proceeds from operator	<u>4,928</u>
Total receipts	<u>5,231</u>
Disbursements:	
Audit fee	2,250
Community betterment - Fire Hall	5,000
Nebraska sales tax	<u>2,427</u>
Total disbursements	<u>9,677</u>
Balance - end of period	<u>\$ 119,799</u>

13. 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.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

14. 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 \$27,080 at September 30, 2011.

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 \$36,373 at September 30, 2011.

Other

The City has received a demand letter from a citizen seeking relief from drainage problems caused by street and sewer construction on Whitlow Avenue. The City is presently engaged in negotiations to resolve the matter; however, no estimate as to the possible outcome and cost of this action can be made at this time. In management's opinion, the outcome of any such litigation will not materially affect the City's financial condition.

In 2009/10 the City completed and levied a special assessment on two street improvement projects. One property owner protested the special assessments process and sought for the City to pay for the entire paving project. The outcome of the litigation was a reduction of the special assessment from \$20,773 to \$6,500. As of the date of this report, the property owner has not signed the agreement. This has no material effect on the City's financial position or results of operations.

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, 2011, 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.

15. 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, \$7,131 of principal was paid back and \$30,000 was reloaned out to another business and \$5,142 was expended for fees and other expenses. At September 30, 2011, the City had \$4,769 in its C.D.B.G. reuse account. In 2005, the City loaned \$49,583 of the reuse funds to the Auburn Development Committee, Inc. The note, which was due in 2011, has been extended to 2012 at the October 25, 2011 council meeting.

CITY OF AUBURN, NEBRASKA
NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2011

16. Community Redevelopment Authority

The City has entered into several Tax Incremental Financing projects through its Community Redevelopment Authority. The City has one redevelopment plan for a blighted area known as Auburn #1. 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 \$120,979 and interest of \$431. Total expenditures were \$268,933, consisting of \$262,774 for project cost, \$6,110 for legal fees and \$49 for publishing costs. The balance in the project is \$185,176 at September 30, 2011. The City has a second redevelopment plan to acquire necessary easements and construct and install a sanitary sewer main through the Northwest corridor area, together with related and ancillary improvements. The City has collected no tax receipts and earned interest of \$280. Total expenditures for project cost were \$13,300. The balance in the project is \$112,245 at September 30, 2011. The City amended its redevelopment plan to include the West corridor area for implementation of redevelopment plans. The City has borrowed \$25,000 and earned interest of \$5 during the current year. Total expenditures of \$11,503 for legal and professional fees were paid out. The balance in the project is \$13,502 at September 30, 2011.

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 five TIF Redevelopment Projects in process with four entities. Each TIF Redevelopment Project is approved by the City Council on a separate resolution. To date the City has borrowed \$454,706 and reloaned \$390,816 of these funds. During the year \$58,073 was collected through TIF taxes and earned \$176 in interest. Total expenditures of \$50,342 were paid on loans to the bank. The balance in these projects is \$85,058 at September 30, 2011.

17. Commitments

The City, in the normal course of business, has one potential claim. The outcome of such litigation is not expected to have a material effect on the City's financial position or results of operations.

18. Subsequent Events

The City evaluated subsequent events after the balance sheet date of September 30, 2011 through October 28, 2011, which was the date the financial statements were issued. The City has concluded there are no subsequent events, which have occurred from September 30, 2011 through October 28, 2011, which require additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AUBURN, NEBRASKA
COMBINED STATEMENTS OF RECEIPTS AND DISBURSEMENTS
- BUDGET AND ACTUAL -
GENERAL AND DEBT SERVICE FUNDS - PRIMARY GOVERNMENT
BUDGETARY BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Variance with Budget Favorable/ (Unfavorable)</u>
Receipts:			
Taxes - personal property	\$ 648,474	\$ 637,327	\$ (11,147)
Taxes - sales	390,000	414,755	24,755
Special assessments collected	90,000	115,255	25,255
Licenses and permits	18,000	17,011	(989)
Intergovernmental	675,394	693,086	17,692
Charges for services	123,600	190,748	67,148
Miscellaneous	106,900	37,226	(69,674)
Total receipts	2,052,368	2,105,408	53,040
Disbursements:			
Current:			
General government	1,646,516	722,216	924,300
Public works	331,525	281,585	49,940
Public health and safety	38,760	43,388	(4,628)
Cultural and recreational	429,960	431,110	(1,150)
Debt service:			
Principal retirement	882,600	705,144	177,456
Interest	83,214	67,656	15,558
Bond handling and issuance fee	222,550	5,625	216,925
Total disbursements	3,635,125	2,256,724	1,378,401
Excess of receipts over (under) disbursements	(1,582,757)	(151,316)	1,431,441
Other financing sources:			
CDBG programs	920,070	278,152	(641,918)
Gross keno proceeds	30,600	5,231	(25,369)
Warrants issued	-	-	-
GOST refunding bond issue	1,382,000	425,000	(957,000)
Note payable proceeds	-	-	-
Total other financing sources (uses)	2,332,670	708,383	(1,624,287)
Other financing uses:			
CDBG programs	920,000	310,812	609,188
Community Redevelopment Authority - net	-	140,028	(140,028)
Fire grants	62,913	-	62,913
Keno expenditures	150,500	9,677	140,823
Warrants paid	-	-	-
Warrant interest paid	-	-	-
Capitalized outlays	-	53,287	(53,287)
Total other financing uses	1,133,413	513,804	619,609
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (383,500)	\$ 43,263	\$ 426,763

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. This 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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF AUBURN, NEBRASKA
SUMMARY OF REVENUES RECEIVED - MODIFIED CASH BASIS
GENERAL AND DEBT SERVICE FUNDS
SEPTEMBER 30, 2011
(SUPPLEMENTARY DATA)

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Debt Service</u>	
Taxes:			
General property and other taxes	\$ 564,892	\$ 40,288	\$ 605,180
Interest on tax collections	3,010	239	3,249
Sales tax	-	414,755	414,755
Homestead exemption allocation	24,933	2,005	26,938
Car line tax	109	9	118
Motor vehicle pro-rate tax allocation	1,705	137	1,842
Property tax relief	-	-	-
Total taxes	<u>594,649</u>	<u>457,433</u>	<u>1,052,082</u>
Special assessments collected	<u>-</u>	<u>115,255</u>	<u>115,255</u>
Licenses and permits	<u>17,011</u>	<u>-</u>	<u>17,011</u>
Intergovernmental:			
Auburn Board of Public Works	130,224	-	130,224
Highway incentive payments	4,000	-	4,000
State revenue sharing:			
Highway allocation	278,957	-	278,957
Motor vehicle fee	26,577	-	26,577
Equalization	192,550	-	192,550
State aid	28,301	-	28,301
Nemaha Cty MFO	10,644	-	10,644
Federal and state grants	18,693	-	18,693
State license and fines	3,140	-	3,140
Total intergovernmental	<u>693,086</u>	<u>-</u>	<u>693,086</u>
Charges for services:			
Recreation Committee	68,705	-	68,705
Pool receipts	41,517	-	41,517
Mini-Inn concessions	600	-	600
Lessons	7,040	-	7,040
Franchise fees	72,886	-	72,886
Total charges for services	<u>190,748</u>	<u>-</u>	<u>190,748</u>
Miscellaneous:			
Investment income	4,660	-	4,660
Other	32,566	-	32,566
Total miscellaneous	<u>37,226</u>	<u>-</u>	<u>37,226</u>
Total	<u>\$ 1,532,720</u>	<u>\$ 572,688</u>	<u>\$ 2,105,408</u>

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID - MODIFIED CASH BASIS -
GENERAL FUND
SEPTEMBER 30, 2011
(SUPPLEMENTARY DATA)

	<u>General Government</u>	<u>Cultural and Recreational</u>	<u>Public Health and Safety</u>	<u>Public Works</u>	<u>Total</u>
Salaries/Personal services	\$ 349,887	\$ 154,218	\$ 5,723	\$ 123,748	\$ 633,576
Employee benefits	129,284	31,313	3,694	53,450	217,741
Utilities	12,491	50,118	8,296	9,091	79,996
Repairs and maintenance	22,897	56,941	13,149	18,202	111,189
Meeting expense	3,571	202	860	-	4,633
Insurance	10,284	11,556	7,524	7,725	37,089
Recreation expenses	-	59,154	-	-	59,154
Audit and consultation	64,467	-	-	-	64,467
Memberships and schools	7,570	215	1,364	-	9,149
Office supplies and services	7,799	-	-	-	7,799
Licenses and taxes	3,210	-	-	-	3,210
Custodial services	-	12,810	364	4,117	17,291
Miscellaneous	510	3,904	57	135	4,606
Gas, oil and tires	-	-	-	21,943	21,943
Supplies	18,764	31,249	1,307	22,814	74,134
Books	-	17,036	-	-	17,036
Radio dispatchers	54,155	-	-	-	54,155
Grant expenditures	30,772	-	-	-	30,772
Economic development	2,000	-	-	-	2,000
Trees and care	2,661	-	-	-	2,661
Land rent	-	-	-	6,000	6,000
Sales tax remitted	-	2,394	-	-	2,394
Fire chief expenses	-	-	1,050	-	1,050
Capital outlay - noncapitalized	1,894	-	-	14,360	16,254
Totals	<u>\$ 722,216</u>	<u>\$ 431,110</u>	<u>\$ 43,388</u>	<u>\$ 281,585</u>	<u>\$ 1,478,299</u>

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID - MODIFIED CASH BASIS -
GENERAL GOVERNMENT FUND
SEPTEMBER 30, 2011
(SUPPLEMENTARY DATA)

	General Fund	Police	Total
Salaries/Personal services	\$ 122,320	\$ 227,567	\$ 349,887
Employee benefits	39,681	89,603	129,284
Utilities	9,482	3,009	12,491
Repairs and maintenance	12,934	9,963	22,897
Meeting expense	2,201	1,370	3,571
Insurance	8,212	2,072	10,284
Audit and consultation	59,558	4,909	64,467
Memberships and schools	7,414	156	7,570
Office supplies and services	7,799	-	7,799
Licenses and taxes	3,210	-	3,210
Miscellaneous	186	324	510
Tree program expense	2,661	-	2,661
Supplies	-	18,764	18,764
Radio dispatchers	-	54,155	54,155
Grant expenditures	28,726	2,046	30,772
Economic development	2,000	-	2,000
Capital outlay - noncapitalized	-	1,894	1,894
	<u>\$ 306,384</u>	<u>\$ 415,832</u>	<u>\$ 722,216</u>
Totals	<u>\$ 306,384</u>	<u>\$ 415,832</u>	<u>\$ 722,216</u>

CITY OF AUBURN, NEBRASKA
SUMMARY OF EXPENDITURES PAID - MODIFIED CASH BASIS -
CULTURAL AND RECREATIONAL - PART OF GENERAL FUND
SEPTEMBER 30, 2011
(SUPPLEMENTARY DATA)

	Amusement and <u>Recreation</u>	<u>Parks</u>	<u>Recreation Committee</u>
Salaries/Personal services	\$ -	\$ 39,772	\$ -
Employee benefits	-	6,873	-
Utilities	-	19,540	-
Repairs and maintenance	-	28,126	-
Meeting expenses	-	-	-
Insurance	-	3,153	-
Recreation expenses	-	-	59,154
Custodial services	-	-	-
Memberships and schools	-	-	-
Miscellaneous	-	3,105	-
Supplies	430	10,507	-
Books	-	-	-
Sales tax remitted	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 430</u>	<u>\$ 111,076</u>	<u>\$ 59,154</u>

Swimming Pool	Library	Senior Citizen	Football Program	Total
\$ 47,109	\$ 67,337	\$ -	\$ -	\$ 154,218
6,358	18,082	-	-	31,313
11,964	9,241	9,373	-	50,118
14,767	5,266	8,782	-	56,941
-	202	-	-	202
2,119	2,596	3,688	-	11,556
-	-	-	-	59,154
1,022	9,181	2,607	-	12,810
-	215	-	-	215
211	497	91	-	3,904
8,582	4,730	7,000	-	31,249
-	17,036	-	-	17,036
2,394	-	-	-	2,394
<u>\$ 94,526</u>	<u>\$ 134,383</u>	<u>\$ 31,541</u>	<u>\$ -</u>	<u>\$ 431,110</u>

CITY OF AUBURN, NEBRASKA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(SUPPLEMENTARY DATA)

<u>Program</u>	<u>Federal CFDA #</u>	<u>Program</u>	
		<u>Receipts</u>	<u>Expenditures</u>
Department of Housing and Economic Development: Community Development Block Grants:			
	#91-ED-006: Reuse	\$ 7,119	\$ -
	#91-HD-006: Reuse	8,857	-
	#10-DTR-005	28,509	-
	#095-ND-3800	51,350	-
	#09-HO-6047	182,317	-
		<u>278,152</u>	<u>-</u>
Administration		-	7,219
Project expenses		-	250,649
Reuse miscellaneous expense		-	52,944
		<u>\$ 278,152</u>	<u>\$ 310,812</u>

CITY OF AUBURN, NEBRASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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.

MASSMAN NELSON REINIG PC

Certified Public Accountants

13310 I Street | Omaha, Nebraska 68137

402 330 7099 Fax 402 330 0809

Michael L Massman CPA
George E Nelson CPA
James A Reinig CPA

Keli D Palfini CPA
Jason T McGill CPA

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 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, 2011, which collectively comprise the City of Auburn, Nebraska's basic financial statements and have issued our report thereon dated October 28, 2011. 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. Except as discussed in the preceding sentence, 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 of Auburn, Nebraska'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 of Auburn, Nebraska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Auburn, Nebraska's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any

deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, items 2011-1 and 2011-2. 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 with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Auburn, Nebraska'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 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 2011-1 and 2011-2.

We noted certain matters that we reported to management of the City of Auburn, Nebraska in a separate letter dated October 28, 2011.

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

This report is intended solely for the information and use of management, the Mayor and the City Council and the Nebraska Auditor of Public Accounts and is not intended to be and should not be used by anyone other than these specified parties.

Massman Nelson Reing PC

Certified Public Accountants

Omaha, Nebraska
October 28, 2011

CITY OF AUBURN, NEBRASKA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2011

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

2011-1

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.

2011-2

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.