

# **CITY OF SEWARD, NEBRASKA**

**BASIC FINANCIAL STATEMENTS AND  
ACCOMPANYING INDEPENDENT AUDITOR'S  
REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2014**

# CITY OF SEWARD, NEBRASKA

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# GABRIEL, BURGER & ELSE, CPA, PC

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Duane J Gabriel, CPA  
Ryan L Burger, CPA  
Regan L Else, CPA

135 North 5<sup>th</sup> Street  
Seward, Nebraska 68434  
Phone: 402-643-4557  
[www.gbepca.com](http://www.gbepca.com)

## INDEPENDENT AUDITOR'S REPORT

The Mayor and City Council  
City of Seward, Nebraska  
Seward, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seward, Nebraska, as of and for the year ended September 30, 2014, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 auditor's 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Seward, Nebraska, as of September 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying statements of revenues and expenditures – budget and actual – for the general and debt service funds, as listed in the table of contents is presented for purposes of additional analysis according to prescribed guidelines. 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 statement in an appropriate operational, economic, or historical context. We applied 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 the auditor's inquiries, the basic financial statements, and other knowledge we obtained during the 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.

## **Other Matters**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. The auditor's opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2015, on consideration of the City's internal controls over financial reporting and on our test 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

*GBE, CPA, PC*

Seward, Nebraska

February 24, 2015

**CITY OF SEWARD, NEBRASKA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL PRIMARY GOVERNMENT</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,799,380	\$ 4,531,395	\$ 6,330,775
Certificates of deposit	600,934	4,493,437	5,094,371
Receivables, net	64,788	1,571,212	1,636,000
Due from other funds	-	72,947	72,947
Due from other governments	346,938	-	346,938
Notes receivable	300,188	-	300,188
Inventories	57,263	558,879	616,142
Deferred financing costs	77,010	319,689	396,699
Restricted assets			
Cash and cash equivalents	937,355	1,982,118	2,919,473
Certificates of deposit	15,000	1,549,875	1,564,875
Capital assets			
Non-depreciable	3,096,168	466,636	3,562,804
Depreciable, net	16,586,090	23,759,488	40,345,578
 Total assets	 <u>\$ 23,881,114</u>	 <u>\$ 39,305,676</u>	 <u>\$ 63,186,790</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 39,659	\$ 648,151	\$ 687,810
Accrued expenses	138,309	55,745	194,054
Due to other funds	72,947	-	72,947
Interest payable	26,844	64,981	91,825
Compensated absences			
Payable within one year	88,109	65,094	153,203
Payable in more than one year	97,591	71,115	168,706
Deferred revenue	26,267	109,642	135,909
Long-term debt			
Due within one year	522,639	751,550	1,274,189
Due in more than one year	4,267,525	13,570,650	17,838,175
 Total liabilities	 <u>5,279,890</u>	 <u>15,336,928</u>	 <u>20,616,818</u>
<b>NET POSITION</b>			
Net investment in capital assets	14,892,094	9,903,924	24,796,018
Restricted for			
Streets and highways	664,616	-	664,616
Economic development	666,074	-	666,074
Parks and cemetery - nonexpendable	40,000	-	40,000
Bond covenants	-	3,531,993	3,531,993
Unrestricted	2,338,440	10,532,831	12,871,271
 Total net position	 <u>\$ 18,601,224</u>	 <u>\$ 23,968,748</u>	 <u>\$ 42,569,972</u>

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

**CITY OF SEWARD, NEBRASKA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Governmental activities</b>							
General government	\$ 772,181	\$ 251,004	\$ 109,571	\$ 1,338,665	\$ 927,059	\$	\$ 927,059
Public safety	1,342,208	-	-	-	(1,342,208)		(1,342,208)
Streets and highways	666,961	50,774	640,564	-	24,377		24,377
Economic development	165,029	-	255,484	-	90,455		90,455
Cultural and recreational	1,480,068	220,252	222,386	477,131	(560,299)		(560,299)
Interest on long-term debt	100,756	-	-	-	(100,756)		(100,756)
Depreciation and amortization	747,895	-	-	-	(747,895)		(747,895)
<b>Total governmental activities</b>	<u>5,275,098</u>	<u>522,030</u>	<u>1,228,005</u>	<u>1,815,796</u>	<u>(1,709,267)</u>	<u>-</u>	<u>(1,709,267)</u>
<b>Business-type activities</b>							
Utilities	\$ 11,583,430	\$ 11,923,316	\$ -	\$ -	\$ 339,886	\$	\$ 339,886
<b>Total primary government</b>	<u>\$ 16,858,528</u>	<u>\$ 12,445,346</u>	<u>\$ 1,228,005</u>	<u>\$ 1,815,796</u>	<u>\$ (1,709,267)</u>	<u>\$ 339,886</u>	<u>\$ (1,369,381)</u>
<b>General Revenues:</b>							
Property taxes					\$ 1,229,432	\$ -	\$ 1,229,432
Sales and use tax					1,596,793	-	1,596,793
Occupation and franchise tax					980,646	-	980,646
Special assessments					(204)	-	(204)
Miscellaneous general revenue					169,431	-	169,431
Unrestricted investment earnings					16,395	48,167	64,562
Total general revenues					<u>3,992,493</u>	<u>48,167</u>	<u>4,040,660</u>
Change in net position					2,283,226	388,053	2,671,279
Transfers between activities					6,894	74,128	81,022
Net position -- beginning					16,311,104	23,506,567	39,817,671
Net position -- ending					<u>\$ 18,601,224</u>	<u>\$ 23,968,748</u>	<u>\$ 42,569,972</u>

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

**CITY OF SEWARD, NEBRASKA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2014**

	General	Debt Service	Other	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 531,437	\$ 1,137,135	\$ 130,808	\$ 1,799,380
Certificates of deposit	600,934	-	-	600,934
Receivables, net	61,721	2,112	955	64,788
Due from other governments	-	222,692	124,246	346,938
Notes receivable	-	-	43,465	43,465
Inventories	-	-	57,263	57,263
Restricted assets				
Cash and cash equivalents	-	-	937,355	937,355
Certificates of deposit	-	-	15,000	15,000
Total assets	<u>\$ 1,194,092</u>	<u>\$ 1,361,939</u>	<u>\$ 1,309,092</u>	<u>\$ 3,865,123</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 28,059	\$ -	\$ 11,600	\$ 39,659
Accrued expenses	73,540	-	64,769	138,309
Due to other funds	72,947	-	-	72,947
Deferred revenue	-	-	26,267	26,267
Total liabilities	<u>174,546</u>	<u>-</u>	<u>102,636</u>	<u>277,182</u>
<b>Fund Balances</b>				
Nonspendable	-	-	40,000	40,000
Restricted for				
Streets and highways	-	-	626,279	626,279
Economic development	-	-	409,350	409,350
Committed to parks and cemetery	-	-	130,827	130,827
Assigned to				
Parks and cemetery	35,680	-	-	35,680
Debt service	-	1,361,939	-	1,361,939
Public safety	474,028	-	-	474,028
Unemployment compensation	18,894	-	-	18,894
Unassigned	490,944	-	-	490,944
Total fund balances	<u>1,019,546</u>	<u>1,361,939</u>	<u>1,206,456</u>	<u>3,587,941</u>
Total liabilities and fund balances	<u>\$ 1,194,092</u>	<u>\$ 1,361,939</u>	<u>\$ 1,309,092</u>	<u>\$ 3,865,123</u>

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

Amounts reported for governmental activities in the statement of net positions are different due to:

Total fund balances of governmental funds	\$ 3,587,941
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	19,682,258
Certain notes receivable are not available to pay for current-period expenditures and, therefore, are not reported in the funds	256,723
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred or not reported in the funds	77,010
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(5,002,708)
Net position of governmental activities	<u>\$ 18,601,224</u>

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

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	GENERAL	DEBT SERVICE	OTHER GOVERNMENTAL	TOTAL
<b>Revenues collected</b>				
Taxes	\$ 2,451,907	\$ 1,088,577	\$ 266,387	\$ 3,806,871
Permits and fees	310,926	-	56,743	367,669
Special assessments	-	(204)	-	(204)
Intergovernmental	357,070	-	640,564	997,634
Contributions	2,046,167	-	-	2,046,167
Reimbursements for services	154,361	-	-	154,361
Interest	4,960	1,314	10,121	16,395
Miscellaneous	145,454	-	23,977	169,431
<b>Total revenues collected</b>	<u>5,470,845</u>	<u>1,089,687</u>	<u>997,792</u>	<u>7,558,324</u>
<b>Expenditures</b>				
Current				
General government	772,181	-	-	772,181
Public safety	1,342,208	-	-	1,342,208
Highways and streets	-	33,254	633,707	666,961
Cultural and recreational	1,477,119	-	2,949	1,480,068
Economic opportunity	-	-	165,029	165,029
Debt service	136	100,620	-	100,756
Capital outlay	3,618,350	-	-	3,618,350
<b>Total expenditures</b>	<u>7,209,994</u>	<u>133,874</u>	<u>801,685</u>	<u>8,145,553</u>
<b>Excess of revenues over expenditures</b>	(1,739,149)	955,813	196,107	(587,229)
<b>Other financing sources (uses)</b>				
Net proceeds/(uses) from bonds	1,004,000	(444,900)	-	559,100
Net (uses) from other long-term assets	(37,300)	170	(55,198)	(92,328)
Net (uses) from other long-term liabilities	9,698	-	-	9,698
Transfers in	-	-	149,773	149,773
Transfers out	(149,773)	-	-	(149,773)
<b>Total other financing sources and uses</b>	<u>826,625</u>	<u>(444,730)</u>	<u>94,575</u>	<u>476,470</u>
Change in fund balances	(912,524)	511,083	290,682	(110,759)
Fund balances--beginning	1,932,070	850,856	915,774	3,698,700
Fund balances--ending	<u>\$ 1,019,546</u>	<u>\$ 1,361,939</u>	<u>\$ 1,206,456</u>	<u>\$ 3,587,941</u>

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

**CITY OF SEWARD, NEBRASKA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Amounts reported for governmental activities in the statement of activities (page 4) are different due to:

Net change in fund balances - Total governmental funds (page 6)	\$	(110,759)
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statements those outlays are capitalized and depreciated. This is the amount of governmental fund expenditures which were capitalized in the current year.</p>		
		3,618,350
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount recorded as depreciation/amortization in the statement of activities in the current year.</p>		
		(747,895)
<p>Bond proceeds and other financing arrangements provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, proceeds were received from: Other financing arrangements (net)</p>		
		(476,470)
Change in net position of governmental activities (page 4)	<u>\$</u>	<u>2,283,226</u>

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

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2014**

	<b><u>Combined Municipal Utilities Fund</u></b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 4,531,395
Certificates of deposit	4,493,437
Receivables, net	1,571,212
Due from other funds	72,947
Due from other governments	-
Inventories	558,879
Restricted assets	
Cash and cash equivalents	1,982,118
Certificates of deposit	1,549,875
Total current assets	<u>14,759,863</u>
<b>Noncurrent Assets</b>	
Deferred financing costs	319,689
Capital assets, net	24,226,124
Total noncurrent assets	<u>24,545,813</u>
Total assets	<u><u>\$ 39,305,676</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 648,151
Accrued expenses	120,839
Deferred revenue	109,642
Current maturities of long-term debt	751,550
Interest payable	64,981
Total current liabilities	<u>1,695,163</u>
<b>Noncurrent Liabilities</b>	
Compensated absences	71,115
Long-term debt	13,570,650
Total noncurrent liabilities	<u>13,641,765</u>
Total liabilities	<u><u>15,336,928</u></u>
<b>Net Position</b>	
Net investment in capital assets	9,903,924
Restricted	3,531,993
Unrestricted	10,532,831
Total net position	<u>23,968,748</u>
Total liabilities and net position	<u><u>\$ 39,305,676</u></u>

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

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**FUND NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u><b>Combined Municipal Utilities Fund</b></u>
<b>Operating Revenues</b>	
Charges for services	\$ 11,779,083
Other	144,233
Total operating revenue	<u>11,923,316</u>
<b>Operating Expenses</b>	
Purchased power	6,119,846
Maintenance and operation	2,096,612
General and administrative	1,049,907
Franchise tax	595,867
Depreciation	1,279,412
Total operating expenses	<u>11,141,644</u>
<b>Operating Income</b>	<u>781,672</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	48,167
Amortization of deferred financing costs	(61,806)
Interest expense	(379,980)
Net nonoperating revenues (expenses)	<u>(393,619)</u>
Change in net position	388,053
Transfers from governmental activities	74,128
Net position, beginning of year	23,506,567
Net position, end of year	<u>\$ 23,968,748</u>

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

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<b>Combined Municipal Utilities Fund</b>
Cash flows from operating activities:	
Cash received from services	\$ 11,912,754
Payments to suppliers	(7,750,943)
Payments of franchise tax	(595,867)
Payments to employees	(1,533,921)
Net cash provided by operating activities	2,032,023
 Cash flows from noncapital financing activities:	
Transfers from other funds	-
Net cash provided by noncapital financing activities	-
 Cash flows from capital financing activities:	
Proceeds from issuance of debt	1,580,000
Issuance cost	(14,075)
Principal paid on debt	(2,200,100)
Interest paid on debt	(372,115)
Purchase of capital assets	(421,130)
Sale of capital assets	3,361
Net cash used by capital financing activities	(1,424,059)
 Cash flows from investing activities:	
(Invested in)/withdrawn from certificates of deposit	(137,443)
Interest received	48,448
Net cash provided by investing activities	(88,995)
 Net increase (decrease) in cash	518,969
Cash and cash equivalents--beginning of the year	5,994,544
Cash and cash equivalents--end of the year	\$ 6,513,513

The notes to the financial statements are an integral part of this report.

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u><b>Combined Municipal Utilities Fund</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
<i>Operating Income</i>	\$ 781,672
Adjustments to reconcile operating income to net cash provided by operating activities:	
Add: Depreciation	1,279,412
Change in assets and liabilities:	
(Increase)/Decrease in accounts receivable	86,146
(Increase)/Decrease in due from other funds/governments	
(Increase)/Decrease in inventories	(125,459)
Increase/(Decrease) in accounts payable	(9,269)
Increase/(Decrease) in accrued expenses	19,972
Increase/(Decrease) in due to other funds/governments	-
Increase/(Decrease) in deferred revenue	(486)
Total adjustments	<u>1,250,316</u>
Net cash provided by operating activities	<u><u>\$ 2,031,988</u></u>

The notes to the financial statements are an integral part of this report.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Note 1: Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

The City of Seward, Nebraska (City) operates under a Mayor-Council form of government with a Mayor and an elected legislative body, the Council, composed of eight members. The Council members are elected by ward on a nonpartisan basis for a term of four years. The administration of City government is performed under the direction of the Mayor through the City Administrator and administrative departments. Services are provided to residents in many areas, including public safety, highways and streets, health, planning and zoning, parks, recreation, electric system, water and wastewater system and general administrative services.

The City's financial statements present the government and utility departments of the City. Based upon the financial accountability criteria identified in Governmental Accounting Standards Board (GASB) Statement 14 *The Financial Reporting Entity* and Statement 39 *Determining Whether Certain Organizations are Component Units*, none of the City's significant potential component units were required to be included as part of the reporting entity. Regarding related organizations, the City's mayor appoints and the City Council approves all of the board appointments of the Seward Housing Authority and the Seward Volunteer Fire Department. However, the City has no further accountability for either of these organizations. As required by generally accepted accounting principles (GAAP), these financial statements present the City as a whole. No component units were identified.

***Government-Wide and Fund Financial Statements***

The Statement of Net Position and Statement of Activities display information about the activities of the City, and are in the format of government-wide statements as required by GASB Statement Number 34 and Number 63. Fiduciary activities, whose resources are not available to finance the City's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. The City considers sales and use taxes as available when in the hands of the State of Nebraska, the intermediary collecting government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, interdepartmental charges, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

***Major Funds***

The City reports the following major governmental funds:

*General Fund* - The General Fund is the primary operating fund of the City which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services and interest income.

*Debt Service Fund* - The Debt Service Fund accounts for financial resources that are restricted, committed or assigned to expenditure for principal and interest-related costs as well the financial resources being accumulated for future debt service.

The City also reports the Combined Municipal Utilities Fund (Utilities) as a major enterprise fund. The Utilities fund accounts for the activities of the electric, water and wastewater operations.

*Proprietary Funds* - Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. In reporting the financial activity of its proprietary funds, the City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

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Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

***Fund Balance - Governmental Funds***

The fund balances for the City's governmental funds are displayed in five components, if applicable:

*Nonspendable* - Nonspendable fund balances are not in a spendable form or are required to be maintained intact. For example, donated trust funds whose income is committed to the maintenance of the cemetery.

*Restricted* - Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* - Committed fund balances may be used only for the specific purposes determined by resolution of the City Council. Commitments may be changed or lifted only by issuance of a resolution by the City Council.

*Assigned* - Assigned fund balances are intended to be used by the City for specific purposes as determined by management. In governmental funds other than the general fund, an assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. In certain instances, City Council has authorized management to make such assignments as deemed necessary.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. When expenditures are incurred that use funds from more than one classification, the City will determine the order which the funds are used on a case-by-case basis, taking into account application requirements of grant agreements, contracts, business circumstances, or other constraints. If no other constraints exist, the order of spending of resources will be restricted, committed, assigned, and lastly, unassigned.

***Cash, Cash Equivalents, Investments and Interest Income***

Cash and cash equivalents are considered to be cash on hand, deposits and money market accounts held at financial institutions, and amounts due from the County Treasurer at year-end.

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Statutes authorize the City to invest in collateralized bank certificates of deposit, time deposits, and in any securities in which the investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made.

Investment income is assigned to the funds with which the related investment asset is associated, except for investment income on investments related to bond issues which management has assigned to the debt service fund.

***Special Assessments***

Special assessments are recorded as revenues in the year the assessments become current. Special assessments expected to be collected after one year are recorded as deferred revenue on the governmental funds balance sheet. Annual installments not yet due are reflected as special assessments receivables and deferred revenues.

***Unbilled Revenue***

Billings for electric, water and wastewater revenues are rendered on a monthly basis. Unbilled electric water and wastewater revenues, representing estimated consumer usage for the periods between the last billing date and the end of the year, have been recorded.

***Allowances for Uncollectible Accounts***

Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

***Notes Receivable***

Notes receivable represent amounts from an economic development loan program created to assist local businesses and start-ups with financing needs.

***Inventories***

Inventories are valued at cost using the first in, first out method.

***Deferred Financing Costs***

Charges resulting from the issuance of bonds are deferred and amortized over the repayment period of the bonds.

***Prepaid Expenses***

Prepaid balances are for payments made in the current year for goods or services provided in the subsequent fiscal year, when applicable. Prepaid amounts were \$869 for the fiscal year and thus management elected to report amounts as part of the net receivables.

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***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost where original cost is not available, or, in the case of contributed assets, at estimated fair value at the date of the gift.

The costs of normal maintenance and repairs are recorded as expenditures and are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalization value of the assets constructed.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Infrastructure	20-50
Machinery and equipment	5-15
Utility Plant	20-50

***Compensated Absences***

City employees generally earn vacation days at a variable rate based on years of service, and can carry over unused days each year. In the event of termination, an employee is entitled to vacation leave pay prorated to the time worked.

Employees generally earn sick leave at the rate of one day per month with total accumulation up to 900 hours. In the event of retirement, an employee is reimbursed 50% of the accumulated sick leave if the employee meets certain eligibility requirements.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past services and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent that it is probable that the City will compensate the employees for such benefits. Such accruals are based on current salary rates and include salary-related payments associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide and proprietary fund statements. In the governmental funds, compensated absences are not expected to be liquidated with expendable available financial resources and thus are not recorded as a fund liability.

***Net Position Classification***

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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**Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

**Restricted** – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** – This component of net position consists of net positions that do not meet the definition of “restricted” or “net investment in capital assets.”

***Budget and Budgetary Accounting***

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

- A proposed budget is submitted to the City Council for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them on a cash basis.
- A public hearing is held to obtain taxpayer comments.
- The budget is legally enacted through passage of an ordinance.
- The City has elected to use a single, all-purpose levy budget. Any revisions that alter the total expenditures must be approved by the City Council. During the year ended September 30, 2013, no revisions were required. Appropriations lapse at the end of the budget period.

***Property Taxes***

The following is a summary of the tax payment dates for the City’s property tax levies:

- Real estate taxes are levied by September 20 and become due by December 31 of each year, but may be paid in two equal installments. The first and second half of the taxes becomes delinquent on the following May 1, and September 1, respectively.
- Personal property taxes are due November 1 of each year and may be paid in two equal installments. The first and second half of the taxes becomes delinquent on December 1, and July 1, respectively.
- Motor vehicle taxes are due when an application is made for registration of a motor vehicle.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of

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the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2: Deposits and Investments**

*Deposits*

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies, or instruments having an aggregate value at least equal to the amount of the deposits.

The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. The amount is applicable at each financial institution where the City conducts such business.

Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a pledge account.

*Summary of Carrying Values*

The carrying values of deposits are included in the government-wide statement of net position as follows:

Carrying Values:

Cash held at county treasurer or on hand	\$ 129,224
Deposits	<u>15,780,270</u>
	<u>\$ 15,909,494</u>

Included in the following statement of net position captions as follows:

Cash and cash equivalents	\$ 9,250,248
Certificates of deposit	<u>6,659,246</u>
	<u>\$ 15,909,494</u>

*Investment Income*

The City earned interest income of \$64,562 for the fiscal year.

*Custodial Credit Risk*

For purposes of classifying categories of custodial risk, the bank balances of the City's deposits during the fiscal year were either entirely insured by the FDIC or collateralized with securities held by the City's agent in the City's name.

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***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The City invests primarily in certificates of deposit which effectively limits exposure to interest rate risk as certificates of deposit have fixed interest rates. The City's use of money market funds does expose the City to interest rate risk, but the effects of such exposure do not put the City's current operating environment at risk for failure as the City is not dependent on the performance of such funds to maintain its current operations.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. By investing primarily in certificates of deposit and money market accounts the City effectively limits exposure to credit risk. Bond ratings are not applicable to the City's portfolio of cash and investments.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have exposure to concentration of credit risk as it keeps all funds in investment vehicles that are either insured by the FDIC or are collateralized with securities held in the City's name.

The City does not have exposure to foreign currency risk.

**Note 3: Property Taxes**

Property taxes are levied by the City Council, and collected by the County, on or before September 20 of each year. Real estate and personal property taxes are due and attach as an enforceable lien on January 1 following the levy date, and become delinquent in two equal installments on May 1 and September 1.

Cities are permitted by the State Constitution to levy a tax of assessed valuation for general governmental services other than the payment of principal and interest on bonded debt. They may levy taxes in addition to the levy limitation upon a vote of the people.

The levy set in September 2013, for the 2013 taxes to be materially collected in May and September, 2014, was set at \$.3244/\$100 of assessed valuation.

Additionally, there is currently a statutory lid limitation which limits taxation to the prior year's restricted funds authority, with provisions for growth. It may be increased by 1% annually as a result of a three-fourths majority vote by the Council.

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**Note 4: Receivables**

Receivables at the fiscal year end consist of the following:

Fund	Taxes	Accounts Receivable	Special Assessments	Interest	Allowance for Uncollectible	Net Receivables
General	\$ 35,000	\$ 27,117	\$ -	\$ 117	\$ -	\$ 62,234
Debt Service	-	-	2,112	-	-	2,112
Utilities	-	1,570,850	830	3,497	(4,000)	1,571,177
Nonmajor	-	-	-	442	-	442
	<u>\$ 35,000</u>	<u>\$ 1,597,967</u>	<u>\$ 2,942</u>	<u>\$ 4,056</u>	<u>\$ (4,000)</u>	<u>\$ 1,635,965</u>

Accounts receivable of the utilities fund includes unbilled revenue.

**Note 5: Due from Other Governments**

Due from other governments includes the following items:

Fund	Amount	Nature
Debt Service	\$ 222,692	State of Nebraska, Sales and Use Tax
Nonmajor	35,194	State of Nebraska, Sales and Use Tax
	27,452	State of Nebraska, Sales and Use Tax
	49,000	State of Nebraska, Highway Allocation
	12,600	State of Nebraska, Motor Vehicle Fees
Total	<u>\$ 346,938</u>	

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**Note 6: Capital Assets**

The following is a summary of capital asset transactions for the fiscal year end:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities</b>				
Capital assets, not being depreciated				
Land	\$ 200,000	\$ 580,414	\$ -	\$ 780,414
Construction in progress	469,857	1,845,897	-	2,315,754
Total capital assets, not being depreciated	669,857	2,426,311	-	3,096,168
Capital assets, being depreciated				
Buildings	11,043,169	44,872	-	11,088,041
Machinery and Equipment	4,117,389	533,639	420,009	4,231,019
Infrastructure	9,532,695	613,528	-	10,146,223
Total capital assets, being depreciated	24,693,253	1,192,039	420,009	25,465,283
Less accumulated depreciation for				
Buildings	2,134,712	217,669	-	2,352,381
Machinery and equipment	2,601,352	226,684	409,614	2,418,422
Infrastructure	3,842,148	266,242	-	4,108,390
Total accumulated depreciation	8,578,212	710,595	409,614	8,879,193
Total capital assets, being depreciated, net	16,115,041	481,444	10,395	16,586,090
Governmental activities capital assets, net	<u>\$ 16,784,898</u>	<u>\$ 2,907,755</u>	<u>\$ 10,395</u>	<u>\$ 19,682,258</u>

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	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance</b>
<b>Business-type Activities</b>				
Capital assets, not being depreciated				
Land	\$ 264,065	\$ -	\$ -	\$ 264,065
Construction in progress	16,605	185,966	-	202,571
Total capital assets, not being depreciated	<u>280,670</u>	<u>185,966</u>	<u>-</u>	<u>466,636</u>
Capital assets, being depreciated				
Buildings	1,251,539	-	-	1,251,539
Machinery and Equipment	2,461,273	50,713	-	2,511,986
Utility plant	40,136,973	184,451	-	40,321,424
Total capital assets, being depreciated	<u>43,849,785</u>	<u>235,164</u>	<u>-</u>	<u>44,084,949</u>
Less accumulated depreciation for				
Buildings	298,851	34,216	-	333,067
Machinery and equipment	1,564,644	103,953	-	1,668,597
Utility plant	17,182,554	1,141,243	-	18,323,797
Total accumulated depreciation	<u>19,046,049</u>	<u>1,279,412</u>	<u>-</u>	<u>20,325,461</u>
Total capital assets, being depreciated, net	<u>24,803,736</u>	<u>(1,044,248)</u>	<u>-</u>	<u>23,759,488</u>
Business-type activities capital assets, net	<u>\$ 25,084,406</u>	<u>\$ (858,282)</u>	<u>\$ -</u>	<u>\$ 24,226,124</u>

Depreciation expense was charged to functions/programs as follows:

**Governmental Activities**

General government	\$ 215,211
Public safety	138,918
Streets and highways	229,437
Cultural and recreational	127,029
Total depreciation expense - governmental activities	<u>\$ 710,595</u>

**Business-Type Activities**

Combined municipal utilities	<u>\$ 1,279,412</u>
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Depreciation expense of \$710,595 and amortization expense of \$37,300 for governmental activities and depreciation expense of \$1,279,412 and amortization expense of \$61,806 for business-type activities for

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the fiscal year end were recorded in the Statement of Activities. Depreciation includes amounts amortized for capital lease obligations.

Interest costs for governmental activities for the fiscal year were \$100,756 none of which was capitalized. Interest costs for business-type activities for the fiscal year were \$379,980 none of which was capitalized.

**Note 7: Long-Term Debt and Liabilities**

The following is a summary of long-term liability activity of the City for the fiscal year end:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Long-term debt					
General obligation bonds	\$ 4,217,700	\$ 1,004,000	\$ 929,900	\$ 4,291,800	\$ 456,450
Capital lease obligation	180,996	509,340	72,142	618,194	66,189
Deferred for refunding	<u>(146,448)</u>	<u>26,618</u>	<u>-</u>	<u>(119,830)</u>	<u>-</u>
Total long-term debt	4,252,248	1,539,958	1,002,042	4,790,164	522,639
Other liabilities					
Compensated absences	<u>181,478</u>	<u>157,133</u>	<u>152,911</u>	<u>185,700</u>	<u>88,109</u>
Governmental activities long-term liabilities	<u>\$ 4,433,726</u>	<u>\$ 1,697,091</u>	<u>\$ 1,154,953</u>	<u>\$ 4,975,864</u>	<u>\$ 610,748</u>
<b>Business-Type Activities</b>					
Long-term debt					
Revenue and anticipation bonds	\$ 14,545,000	\$ 1,580,000	\$ 2,145,000	\$ 13,980,000	\$ 695,000
General obligation bonds	<u>397,300</u>	<u>-</u>	<u>55,100</u>	<u>342,200</u>	<u>56,550</u>
Total long-term debt	14,942,300	1,580,000	2,200,100	14,322,200	751,550
Other liabilities					
Compensated absences	<u>117,446</u>	<u>110,743</u>	<u>91,980</u>	<u>136,209</u>	<u>65,094</u>
Business-type activities long-term liabilities	<u>\$ 15,059,746</u>	<u>\$ 1,690,743</u>	<u>\$ 2,292,080</u>	<u>\$ 14,458,409</u>	<u>\$ 816,644</u>

Compensated absences are liquidated in both the governmental and business-type funds as applicable.

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Long-term debt is comprised of the following individual issues:

	<b>Original Amount</b>	<b>Interest Rate</b>	<b>Principal Amount Outstanding</b>
General Obligation Bonds			
General Obligation Refunding Bonds, Series 2011, due serially through 2023	1,475,000	0.55% to 3.65%	1,215,000
General Obligation Refunding Bonds, Series 2012, due serially through 2022 (A)	1,482,600	0.30% to 2.15%	1,212,800
Highway Allocation Fund Pledge Bonds, Series 2012, due in 2024	190,000	2.35%	190,000
Highway Allocation Fund Pledge, Series 2013, due serially through 2028	710,000	0.40% to 3.90%	670,000
Highway Allocation Fund Pledge, Series 2013, due serially through 2024	100,000	2.25% to 3.60%	100,000
Public Safety Tax Anticipation Bonds, Series 2014, due serially through 2024	404,000	1.15% to 2.55%	404,000
General Obligation Refunding Bonds, Series 2014, due serially through 2023	500,000	0.20% to 2.25%	500,000
Total long-term general obligation bonds			<u>\$ 4,291,800</u>

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	<b>Original Amount</b>	<b>Interest Rate</b>	<b>Principal Amount Outstanding</b>
<b>Revenue Bonds</b>			
Sanitary Sewer System Revenue Refunding Bonds, Series 2010, due serially through 2018	\$ 765,000	0.85% to 3.00%	\$ 395,000
Water System Revenue Refunding Bonds, Series 2010, due serially through 2023	2,315,000	0.50% to 4.05%	1,495,000
Electric Revenue Refunding Bonds, Series 2011 due serially through 2025	1,750,000	1.30% to 4.10%	1,640,000
Water System Revenue Refunding Bonds, Series 2011, due serially through 2026	1,305,000	1.70% to 4.25%	1,255,000
Sanitary Sewer System Revenue Bonds, Series 2011, due serially through 2031	3,790,000	0.50% to 4.00%	3,520,000
Electric Revenue Bonds, Series 2011B, due in 2025 and 2026	390,000	3.30% to 3.50%	390,000
Electric Revenue Refunding Bonds, Series 2012, due serially through 2025	1,855,000	0.40% to 2.55%	1,450,000
Sanitary Sewer System Revenue Bonds, Series 2011B, due serially through 2031	170,000	4.00%	160,000
Sanitary Sewer System Revenue Bonds, Series 2013, Due in 2032	50,000		50,000
Water System Revenue Bonds, Series 2013, due in 2027	90,000	2.85%	90,000
Electric Revenue Anticipation Note, Series 2012, due in 2014	1,955,000	0.40%	1,955,000
Water Revenue Anticipation Note, Series 2013B, due serially through 2033	1,580,000	1.50% to 4.40%	<u>1,580,000</u>
Total revenue bonds			13,980,000
General Obligation Refunding Bonds, Series 2012, due serially through 2022 (A)	452,400	0.30% to 2.15%	<u>342,200</u>
Total long-term debt - business-type activities			<u><u>\$ 14,322,200</u></u>

(A) General Obligation Refunding Bond issue was for refunding general obligation various purpose bonds and general obligation refunding bonds previously issued for street improvements, a water extension, and sanitary sewer extension. The debt has been split 71% general obligation and 29% municipal utilities debt.

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Maturities of the long-term debt, subject to mandatory redemption are as follows:

Year Ending September 30,	<b>Governmental Activities</b>			
	General Obligation Bonds		Capital Lease	
	Principal	Interest	Principal	Interest
2015	\$ 456,450	\$ 86,517	\$ 66,189	\$ 20,664
2016	382,900	82,882	539,566	18,208
2017	403,900	77,784	12,439	218
2018	407,450	71,553	-	-
2019	381,500	65,814	-	-
2020-2024	2,029,600	181,257	-	-
2024-2028	230,000	21,654	-	-
	<u>\$ 4,291,800</u>	<u>\$ 587,461</u>	<u>\$ 618,194</u>	<u>\$ 39,090</u>

Year Ending September 30,	<b>Business-Type Activities</b>					
	Revenue Bonds		Anticipation Notes		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 695,000	\$ 372,075	\$ 1,955,000	\$ 3,910	\$ 56,550	\$ 5,631
2016	705,000	360,730	-	-	55,100	5,269
2017	805,000	346,661	-	-	55,100	4,828
2018	740,000	329,724	-	-	56,550	4,311
2019	755,000	310,335	-	-	43,500	2,604
2020-2024	4,130,000	1,194,056	-	-	44,950	-
2025-2029	3,040,000	497,989	-	-	30,450	-
2030-2034	1,155,000	99,378	-	-	-	-
	<u>\$ 12,025,000</u>	<u>\$ 3,510,948</u>	<u>\$ 1,955,000</u>	<u>\$ 3,910</u>	<u>\$ 342,200</u>	<u>\$ 22,643</u>

The ordinances authorizing the issuance of the bonds set forth the covenants and obligations of the City with respect to the Proprietary Funds. The revenue bonds are payable solely from the revenues of each proprietary fund. The City has pledged future utility revenues to repay the principal and interest on revenue bonds shown above through the established repayment period. Provisions in the revenue bond ordinances contain limits and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts and minimum amounts to be maintained in various accounts. It is management's opinion they are in compliance with all such significant provisions.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

***Conduit Debt***

The following comprises notes for which the City acted as a conduit for the issuance:

<b>Description</b>	<b>Balance Outstanding</b>
Tax increment revenue notes, Sports Express Project	\$ 28,440
Tax increment revenue notes, Progressive Sheet Metal Project	42,221
Tax increment revenue notes, Seward Hotel Project	199,821
Tax increment revenue notes, B&M Seed Project	55,504
Tax increment revenue notes, Jones National Bank & Trust	612,019
Tax increment revenue notes, Jones Insurance	68,813
Tax increment revenue notes, Peek Properties	28,000
Tax increment revenue notes, Grimes Construction	36,000
	\$ 1,070,818

These notes do not constitute any indebtedness of the City. The City has no responsibility for repayment of this debt, and therefore, it is not included in these financial statements.

**Note 8: Pension Plans**

The City provides pension benefits for all of its full-time employees through two defined contribution plans. Benefits depend solely on amounts contributed to the plan plus investment earnings.

***Police Pension Plan***

The City sponsors a defined contribution pension plan covering all certified police officers. Employees are eligible to participate from the date of employment. Both the employee and employer contribute an amount equal to 6% of the employee's base salary each month. Employees covered by the Plan may also make voluntary contributions. The City made employer contributions of \$35,962 to the plan during the fiscal year.

***City Employee Pension Plan***

The City also sponsors a defined contribution pension plan covering substantially all other City employees. Employees are eligible to participate after a six month introduction period beginning from the date of hire. Both the employee and employer contribute an amount equal to 6% of the employee's base salary each month. Employees covered by the Plan may also make voluntary contributions. The City made employer contributions of \$99,919 to the plan during the fiscal year.

**Note 9: Risk Management**

The City is exposed to various risk of loss including, but not limited to, torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees, renters, and guests; natural disasters.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

The City makes periodic payments to their insurance providers to protect themselves against the various risks listed above. During the year ended September 30, 2014, the City did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

**Note 10: Interfund Balances and Activity Transfers**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those that are related to goods and services type transactions are classified as “due to and from other funds”.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (b) move revenues from restricted funds to funds where the expenditures were incurred related to the restriction, and to (c) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers to/from other funds for the year ended September 30, 2014, consisted of a \$149,773 transfer from the general fund to the nonmajor governmental funds.

Transfers between activities are used to reclassify business-type activity amounts previously classified as governmental activities. The reclassified amounts consist of a combination of long-term debt and noncurrent assets.

**Note 11: Commitments and Contingent Liabilities**

***Power Contract***

On January 1, 1994, the City entered into a contract with the Nebraska Public Power District (NPPD) for the purchase of electric power on a wholesale basis for a term of twenty-five years. The contract stipulates that if the City determines at any time it wishes to obtain power from some other source, it must give written notice to NPPD three years prior to the time it proposes to make the change. Beginning on the date of the changes, the City will be obligated to pay for, each month, an amount of power equal to an average of the maximum amounts of power purchased during the same month in each of the three years prior to the date of change. As of the date of this report, the City plans to continue its contract with NPPD and thus no liability associated with this commitment has been accrued on the financial statements.

***Federal Grants***

The City has received financial assistance from federal and state agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other funds. The City does not believe disallowed claims, if any, would have a materially adverse effect on the City’s financial position at the fiscal year end.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

***Litigation***

The City has claims and litigation pending, which arise in the normal course of business, none of which management expects will result in any material loss to the City.

**Note 12: Capital Lease Obligations and Other Loans**

The City leases certain equipment under lease agreements that are classified as capital leases for accounting purposes in accordance with GAAP. Obligations of these lease agreements are accounted for in the governmental activities of the government-wide statements. At the fiscal year end, the net book value of the assets acquired through capital leases and other loans was \$737,257. The net present value of the future minimum lease payments at the fiscal year end is \$618,194 of which \$66,189 is due within one year as documented in Note 7.

Depreciation expense includes amounts amortized for capital lease obligations. No contingent rentals were incurred for the year and no material sublease rentals are to be received in the future under non-cancelable subleases.

**Note 13: Subsequent Events**

Subsequent events have been evaluated through February 24, 2015, which is the date the financial statements were available to be issued. During the review of subsequent events no issues were noted that were required to be disclosed in the notes to the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF REVENUES AND EXPENDITURES -**  
**BUDGET (NON-GAAP) AND ACTUAL (ON BUDGETARY BASIS) -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<b>Original and Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>			
Taxes	\$ 2,603,074	\$ 2,433,574	\$ (169,500)
Permits and fees	321,200	310,926	(10,274)
Grants and other state receipts	6,315	357,070	350,755
Other local receipts	25,048,120	3,354,942	(21,693,178)
<b>Total revenues</b>	<b>\$ 27,978,709</b>	<b>\$ 6,456,512</b>	<b>\$ (21,522,197)</b>
<b>EXPENDITURES</b>			
Operating expenses	\$ 4,245,803	\$ 3,811,387	\$ 434,416
Capital improvements	24,179,500	3,618,350	20,561,150
Other capital outlay	-	177,375	(177,375)
<b>Total expenditures</b>	<b>\$ 28,425,303</b>	<b>\$ 7,607,112</b>	<b>\$ 20,818,191</b>
<b>Excess (deficiency) of revenues collected over expenditures</b>	<b>\$ (446,594)</b>	<b>\$ (1,150,600)</b>	<b>\$ (704,006)</b>

**RECONCILIATION OF THE BUDGETARY BASIS INFORMATION TO GAAP BASIS**

	<b>Actual on Budgetary Basis</b>	<b>Reconciliation from Budget to GAAP</b>	<b>Actual on GAAP Basis</b>
<b>REVENUES</b>			
Taxes	\$ 2,433,574	\$ 18,333	\$ 2,451,907
Permits and fees	310,926	-	310,926
Grants and other state receipts	357,070	-	357,070
Other local receipts	3,354,942	-	3,354,942
<b>Total revenues</b>	<b>\$ 6,456,512</b>	<b>\$ 18,333</b>	<b>\$ 6,474,845</b>
<b>EXPENDITURES</b>			
Operating expenses	\$ 3,811,387	\$ (219,743)	\$ 3,591,644
Capital improvements	3,618,350	-	3,618,350
Other capital outlay	177,375	-	177,375
<b>Total expenditures</b>	<b>\$ 7,607,112</b>	<b>\$ (219,743)</b>	<b>\$ 7,387,369</b>

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF REVENUES AND EXPENDITURES -**  
**BUDGET (NON-GAAP) AND ACTUAL (ON BUDGETARY BASIS) -**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original and Final Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Taxes	\$ 1,537,917	\$ 865,681	\$ (672,236)
Other local receipts	1,400	(798)	(2,198)
<b>Total revenues</b>	<u>\$ 1,539,317</u>	<u>\$ 864,883</u>	<u>\$ (674,434)</u>
<b>EXPENDITURES</b>			
Debt service	\$ 569,900	\$ 545,350	\$ 24,550
Operating expenses	35,000	33,254	1,746
<b>Total expenditures</b>	<u>\$ 604,900</u>	<u>\$ 578,604</u>	<u>\$ 26,296</u>
<b>Excess (deficiency) of revenues collected over expenditures</b>	<u>\$ 934,417</u>	<u>\$ 286,279</u>	<u>\$ (648,138)</u>

**RECONCILIATION OF THE BUDGETARY BASIS INFORMATION TO GAAP BASIS**

	<u>Actual on Budgetary Basis</u>	<u>Reconciliation from Budget to GAAP</u>	<u>Actual on GAAP Basis</u>
<b>REVENUES</b>			
Taxes	\$ 865,681	\$ 222,692	\$ 1,088,373
Other local receipts	(798)	2,112	1,314
<b>Total revenues</b>	<u>\$ 864,883</u>	<u>\$ 224,804</u>	<u>\$ 1,089,687</u>
<b>EXPENDITURES</b>			
Debt service	\$ 545,350	\$ -	\$ 545,350
Operating expenses	33,254	-	33,254
<b>Total expenditures</b>	<u>\$ 578,604</u>	<u>\$ -</u>	<u>\$ 578,604</u>

## **SUPPLEMENTARY INFORMATION**

**CITY OF SEWARD, NEBRASKA**  
**COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2014**

	<b>ELECTRIC</b>	<b>WATER</b>	<b>WASTEWATER</b>	<b>TOTAL</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,622,713	\$ 2,109,324	\$ 799,358	\$ 4,531,395
Cash and cash equivalents - restricted	-	-	-	-
Certificates of deposit	3,954,162	200,019	339,256	4,493,437
Receivables, net	1,220,455	193,465	157,292	1,571,212
Insurance proceeds receivable	-	-	-	-
Due from other funds	72,947	-	-	72,947
Due from other governments	-	-	-	-
Inventories	474,356	84,523	-	558,879
Restricted assets				
Cash and cash equivalents	116,942	1,796,349	68,827	1,982,118
Certificates of deposit	765,286	461,914	322,675	1,549,875
Total current assets	<u>8,226,861</u>	<u>4,845,594</u>	<u>1,687,408</u>	<u>14,759,863</u>
<b>Noncurrent Assets</b>				
Deferred financing costs	133,478	106,649	79,562	319,689
Capital assets, net	7,098,686	9,701,280	7,426,158	24,226,124
Notes receivable	-	-	-	-
Receivables, noncurrent	-	-	-	-
Total noncurrent assets	<u>7,232,164</u>	<u>9,807,929</u>	<u>7,505,720</u>	<u>24,545,813</u>
Total assets	<u>\$ 15,459,025</u>	<u>\$ 14,653,523</u>	<u>\$ 9,193,128</u>	<u>\$ 39,305,676</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 615,734	\$ 13,258	\$ 19,159	\$ 648,151
Accrued expenses	63,569	28,840	28,430	120,839
Due to other funds	-	-	-	-
Deferred revenue	105,442	4,200	-	109,642
Anticipation notes	-	-	-	-
Current maturities of long-term debt	245,000	301,800	204,750	751,550
Interest payable	13,403	44,608	6,970	64,981
Total current liabilities	<u>1,043,148</u>	<u>392,706</u>	<u>259,309</u>	<u>1,695,163</u>
<b>Noncurrent Liabilities</b>				
Compensated Absences, noncurrent	35,724	22,968	12,423	71,115
Long-term Debt	5,190,000	4,401,400	3,979,250	13,570,650
Total noncurrent liabilities	<u>5,225,724</u>	<u>4,424,368</u>	<u>3,991,673</u>	<u>13,641,765</u>
Total liabilities	<u>6,268,872</u>	<u>4,817,074</u>	<u>4,250,982</u>	<u>15,336,928</u>
<b>Net Position</b>				
Net investment in capital assets	1,663,686	4,998,080	3,242,158	9,903,924
Restricted	882,228	2,258,263	391,502	3,531,993
Unrestricted	6,644,239	2,580,106	1,308,486	10,532,831
Total net position	<u>9,190,153</u>	<u>9,836,449</u>	<u>4,942,146</u>	<u>23,968,748</u>
Total liabilities and net position	<u>\$ 15,459,025</u>	<u>\$ 14,653,523</u>	<u>\$ 9,193,128</u>	<u>\$ 39,305,676</u>

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

**CITY OF SEWARD, NEBRASKA**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER</u>	<u>TOTAL</u>
<b>Operating Revenues</b>				
Charges for services	\$ 8,907,261	\$ 1,604,641	\$ 1,267,181	\$ 11,779,083
Other	52,673	68,096	23,464	144,233
<b>Total operating revenues</b>	<u>8,959,934</u>	<u>1,672,737</u>	<u>1,290,645</u>	<u>11,923,316</u>
<b>Operating Expenses</b>				
Purchased power	6,119,846	-	-	6,119,846
Maintenance and operation	1,045,400	508,208	543,004	2,096,612
General and administrative	468,340	297,868	283,699	1,049,907
Franchise tax	447,148	83,900	64,819	595,867
Depreciation	570,077	311,033	398,302	1,279,412
<b>Total operating expenses</b>	<u>8,650,811</u>	<u>1,201,009</u>	<u>1,289,824</u>	<u>11,141,644</u>
<b>Operating Income</b>	<u>309,123</u>	<u>471,728</u>	<u>821</u>	<u>781,672</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	30,972	7,927	9,268	48,167
Amortization of deferred financing costs	(40,963)	(13,349)	(7,494)	(61,806)
Interest expense	(93,016)	(151,810)	(135,154)	(379,980)
Total other financing sources and uses	<u>(103,007)</u>	<u>(157,232)</u>	<u>(133,380)</u>	<u>(393,619)</u>
Change in fund balances	206,116	314,496	(132,559)	388,053
Transfers from governmental activities	-	-	74,128	74,128
Transfers between proprietary activities	-	-	-	-
Net position--beginning	8,984,037	9,521,953	5,000,577	23,506,567
Net position--ending	<u>\$ 9,190,153</u>	<u>\$ 9,836,449</u>	<u>\$ 4,942,146</u>	<u>\$ 23,968,748</u>

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

## **OTHER INFORMATION**

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULES OF KWH COMPUTATION**  
**YEARS ENDED SEPTEBER 30, 2014 AND 2013**  
**(UNAUDITED)**

	<u>2014</u>	<u>2013</u>
Total KWH purchased	98,071,224	96,567,608
Total KWH consumed (metered) (See Note)	<u>93,845,701</u>	<u>92,517,976</u>
Line loss - KWH	<u>4,225,523</u>	<u>4,049,632</u>
Line loss (as percentage of purchased)	<u>4.31%</u>	<u>4.19%</u>
Operating revenue generated per KWH purchased	\$ 0.0914	\$ 0.0889
Operating expenses per KWH purchased		
Purchased power	0.0624	0.0590
Maintenance and operation	0.0107	0.0106
General and administrative	0.0048	0.0045
Franchise tax	0.0046	0.0044
Depreciation	<u>0.0058</u>	<u>0.0054</u>
	<u>0.0883</u>	<u>0.0839</u>
Operating income per KWH purchased	<u>0.0031</u>	<u>0.0050</u>
Non-operating revenues (expenses) per KWH purchased		
Interest income	0.0003	0.0003
Amortization of deferred issuance costs	<u>(0.0004)</u>	<u>(0.0004)</u>
	<u>(0.0001)</u>	<u>(0.0001)</u>
Net income before interest expense, per KWH purchased	<u>\$ 0.0030</u>	<u>\$ 0.0049</u>

Note: The seasonal usage consumed during comparable annual periods varies. The rate structure differs for a given season, thus revenue may fluctuate based upon that seasonal usage.

# GABRIEL, BURGER & ELSE, CPA, PC

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Duane J Gabriel, CPA  
Ryan L Burger, CPA  
Regan L Else, CPA

135 N 5<sup>th</sup> Street  
Seward, Nebraska 68434  
Phone: 402-643-4557  
[www.gbepca.com](http://www.gbepca.com)

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Mayor and City Council  
City of Seward, Nebraska

We have audited, in accordance with the 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 business-type activities of the City of Seward, Nebraska (City) as of and for the years ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 24, 2015.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned responses we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as Finding 2014-1, 2014-2, 2014-3, 2014-4, 2014-5, and 2014-6 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned responses. The City's response was not subjected to the auditing procedures applied in the audit of the 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.

*GBE, CPA, PC*

Seward, Nebraska  
February 24, 2015

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Finding 2014-1 Segregation of Duties**

**Criteria:** Good internal control includes a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include proper segregation of duties so no one individual is capable of handling all phases of a transaction from beginning to end.

**Condition:** The limited number of administrative employees results in an inadequate internal control structure. We noted the City had a lack of segregation of duties as one person was capable of handling all aspects of processing transactions from beginning to end.

**Effect:** A lack of segregation of duties increases the risk of possible errors or irregularities.

**Recommendation:** We recommend the City review the situation to determine whether the cost of properly segregating duties is worth the benefit. We further recommend the City consider implementing certain compensating controls to reduce risk in this area.

**Response:** The City Council has allocated the funds in the current budget to hire another position within the Administration. The Administration will make a recommendation to the Personnel Committee regarding the duties and responsibilities of this position. The Administration and staff will make adjustments to the duties and responsibilities of current staff to complement the new position. This realignment of positions would likely address the segregation of duties issue, which would decrease the risk of possible errors or irregularities.

**Finding 2014-2 Financial Statement Preparation**

**Criteria:** Good internal control requires entities have personnel in place to produce financial statements, which includes the notes to the financial statements, in accordance with GAAP and other applicable standards.

**Condition:** Though management demonstrates the capability of running a governmental organization, we noted a lack of expertise and knowledge was evident in the area of financial statement preparation in accordance with GAAP and other applicable standards. Additionally, numerous material audit adjustments were brought to management's attention during the audit.

**Effect:** Without proper personnel, there is an increased risk the financial statements may be materially misstated.

**Recommendation:** We recommend the City weigh the cost benefit of providing training to current personnel in the areas of GAAP and financial statement preparation or hiring additional personnel with this expertise.

**Response:** The City Council has allocated the funds in the current budget to hire another position within the Administration. The Administration will make a recommendation to the Personnel Committee regarding the duties and responsibilities of this position. The Administration and staff will make adjustments to the duties and responsibilities of current staff to complement the new position. The Administration and staff will review whether additional cross-training is a viable option.

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Finding 2014-3 Fund Balances**

**Criteria:** The Government Accounting Standards Board has issued standards regarding, and the American Institute of Certified Public Accountants has issued guidance for, the preparation and presentation of fund financial statements.

**Condition:** Management's financial reports, including its year-end trial balance, had a material disregard for fund accounting, including beginning and ending fund balances.

**Effect:** Without proper accounting for individual fund balances, the entity's financial reports are not easily prepared in accordance with government accounting standards and could contain numerous errors or misstatements.

**Recommendation:** We recommend the City weigh the cost benefit of providing training to current personnel in the areas of governmental and proprietary fund accounting and financial statement preparation or hiring additional personnel with this expertise.

**Response:** The City Council has allocated the funds in the current budget to hire another position within the Administration. The Administration will make a recommendation to the Personnel Committee regarding the duties and responsibilities of this position. The Administration and staff will make adjustments to the duties and responsibilities of current staff to complement the new position. The Administration and staff will review whether additional cross-training is a viable option to complement the new position.

**Finding 2014-4 Risk Assessment**

**Criteria:** Good internal control requires those charged with governance be actively involved in evaluating areas of risk for the entity. This risk assessment should be documented and objectives for assessing risk might include:

- Ensure entity and financial reporting objectives (and, if applicable, compliance objectives relative to major programs) are established, documented, and communicated.
- Ensure accounting principles are properly applied in the preparation of the financial statements (and, if applicable, the entity's schedule of expenditures of federal awards).
- Management should established practices for the identification of risks affecting the entity (and, if applicable, its major programs).
- Management should consider the entire organization as well as its extended relationships in its risk assessment process.
- Management should implement mechanisms to anticipate, identify, and react to changes.
- Management should evaluate and mitigate risk appropriately.
- Management should develop an appropriate fraud risk assessment and monitoring process.

**Condition:** Those charged with governance have not established proper risk assessment policies and procedures.

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Effect:** Without risk assessment procedures there is an increased risk of material misstatement and noncompliance.

**Recommendation:** We recommend the City Treasurer establish risk assessment policies and procedures and document its review of certain objectives on a routine basis, no less than annually.

**Response:** While the City has not maintained a documented risk assessment, risks are continually evaluated, discussed and mitigating processes adopted. The Administration and staff will consider implementation of a documented risk assessment.

**Finding 2014-5 Documentation of Grants**

**Criteria:** Sound business practices require adequate recordkeeping and structure to account for grant revenues and to oversee projects. Furthermore, sound accounting practices dictate that revenues and expenditures be tracked independently.

**Condition:** For 3 of 3 grant revenue receipts tested, revenues were incorrectly netted with expenses within an expense account. In general there is a lack of centralized knowledge and recordkeeping regarding what grant funds have been received, what the related projects accomplish, and who is accountable for recordkeeping and oversight of grant projects and funds.

**Effect:** Without appropriate recordkeeping and oversight of grant projects, there is an increased risk of noncompliance with grant stipulations and loss or misuse of City funds

**Recommendation:** We recommend that the City Treasurer implement procedures to maintain adequate oversight and recordkeeping for grant projects. We further recommend that grant revenues be tracked independent of project expenditures.

**Response:** The City Council has allocated the funds in the current budget to hire another position within the Administration. The Administration will make a recommendation to the Personnel Committee regarding the duties and responsibilities of this position. The Administration and staff will make adjustments to the duties and responsibilities of current staff to complement the new position. Once the new position is in place, the Administration will consider whether the auditor's concern has been addressed or whether the City Treasurer should be the one to implement procedures to maintain adequate oversight and record keeping for grant projects and track grant revenues independent of project expenditures.

CITY OF SEWARD, NEBRASKA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

**Finding 2014-6 Insurance Coverage**

**Criteria:** Sound business practices require proper risk management of City assets.

**Condition:** During the testing of fixed assets we noted an asset was not properly insured for property replacement coverage. The Independence Landing Project was donated to the City from a non-profit organization. The project was valued at approximately \$378,000. After discussion with management it was determined the project was not insured for property damages or loss.

**Effect:** Without appropriate insurance coverage the City is subject to increased risk of loss on damaged or destructed assets.

**Recommendation:** We recommend that the City Treasurer implement procedures to maintain adequate oversight and recordkeeping for risk management purposes.

**Response:** Management will consider revising procedures for maintaining adequate oversight and recordkeeping of all newly acquired assets.