

# **CITY OF SEWARD, NEBRASKA**

BASIC FINANCIAL STATEMENTS AND  
ACCOMPANYING INDEPENDENT AUDITOR'S  
REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2016

# CITY OF SEWARD, NEBRASKA

## TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Balance Sheet – Proprietary Funds	8
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Notes to the Financial Statements	12
<b>Required Supplementary Information</b>	
Statement of Revenues and Expenditures – Budget (non-GAAP) and Actual (on budgetary basis) – General Fund	31
Statement of Revenues and Expenditures – Budget (non-GAAP) and Actual (on budgetary basis) – Debt Service Fund	32
<b>Supplementary Information</b>	
Combining Balance Sheets – Proprietary Funds	34
Combining Statements of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	35
<b>Other Information</b>	
Schedules of KWH Computation	37
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	38
<b>Schedule of Findings and Responses</b>	40

# GABRIEL, BURGER & ELSE, CPA, PC

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## 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, 2016, 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, 2016, 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 1, 2017, 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 1, 2017

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL PRIMARY GOVERNMENT</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,374,140	\$ 8,090,828	\$ 11,464,968
Certificates of deposit	427,054	4,533,063	4,960,117
Receivables, net	71,138	1,587,610	1,658,748
Due from other governments	476,489	-	476,489
Notes receivable	204,285	-	204,285
Inventories	72,449	605,520	677,969
Restricted assets			
Cash and cash equivalents	892,937	363,376	1,256,313
Certificates of deposit	15,000	1,555,362	1,570,362
Capital assets			
Non-depreciable	1,428,997	905,136	2,334,133
Depreciable, net	18,877,401	24,051,662	42,929,063
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Bond financing costs	152,719	301,101	453,820
 Total assets and deferred outflows	 <u>\$ 25,992,609</u>	 <u>\$ 41,993,658</u>	 <u>\$ 67,986,267</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 87,292	\$ 943,297	\$ 1,030,589
Accrued expenses	177,045	68,120	245,165
Due to other funds	(1,156)	-	(1,156)
Interest payable	49,406	49,763	99,169
Compensated absences			
Payable within one year	88,373	58,456	146,829
Payable in more than one year	128,435	102,177	230,612
Unearned revenue	106,225	110,618	216,843
Long-term debt			
Due within one year	617,421	1,023,720	1,641,141
Due in more than one year	5,004,694	12,781,606	17,786,300
 Total liabilities	 <u>6,257,735</u>	 <u>15,137,757</u>	 <u>21,395,492</u>
<b>NET POSITION</b>			
Net investment in capital assets	14,684,283	11,151,472	25,835,755
Restricted for			
Streets and highways	690,694	-	690,694
Economic development	823,381	-	823,381
Parks and cemetery - nonexpendable	40,000	-	40,000
Bond covenants	-	1,918,738	1,918,738
Unrestricted	3,496,516	13,785,691	17,282,207
 Total net position	 <u>\$ 19,734,874</u>	 <u>\$ 26,855,901</u>	 <u>\$ 46,590,775</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, 2016**

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	\$ 465,925	\$ 261,881	\$ 98,096	\$ 228	\$ (105,720)	\$	\$ (105,720)
Public safety	1,433,679	-	-	7,000	(1,426,679)		(1,426,679)
Streets and highways	1,287,655	53,496	6,000	911,440	(316,719)		(316,719)
Economic development	87,905	-	6,666	-	(81,239)		(81,239)
Cultural and recreational	1,842,017	613,423	214,121	-	(1,014,473)		(1,014,473)
Interest on long-term debt	119,641	-	-	-	(119,641)		(119,641)
Depreciation and amortization	972,503	-	-	-	(972,503)		(972,503)
<b>Total governmental activities</b>	<b>6,209,325</b>	<b>928,800</b>	<b>324,883</b>	<b>918,668</b>	<b>(4,036,974)</b>	<b>-</b>	<b>(4,036,974)</b>
<b>Business-type activities</b>							
Utilities	\$ 11,380,526	\$ 12,773,991	\$ -	\$ 19,254	\$ -	\$ 1,412,719	\$ 1,412,719
<b>Total primary government</b>	<b>\$ 17,589,851</b>	<b>\$ 13,702,791</b>	<b>\$ 324,883</b>	<b>\$ 937,922</b>	<b>\$ (4,036,974)</b>	<b>\$ 1,412,719</b>	<b>\$ (2,624,255)</b>
<b>General Revenues:</b>							
Property taxes		\$ 1,352,567	\$ -	\$ -	\$ 1,352,567		\$ 1,352,567
Sales and use tax		1,669,223	-	-	1,669,223		1,669,223
Occupation and franchise tax		969,980	-	-	969,980		969,980
Miscellaneous general revenue		646,302	-	-	646,302		646,302
Unrestricted investment earnings		15,306	-	-	15,306	50,652	65,958
Total general revenues		4,653,378	-	-	4,653,378	50,652	4,704,030
Change in net position		616,404	-	-	616,404	1,463,371	2,079,775
Transfers between activities		-	-	-	-	-	-
Net position -- beginning		19,118,470	-	-	19,118,470	25,392,530	44,511,000
Net position -- ending		\$ 19,734,874	\$ -	\$ -	\$ 19,734,874	\$ 26,855,901	\$ 46,590,775

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

**CITY OF SEWARD, NEBRASKA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2016**

	General	Debt Service	Other	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,282,822	\$ 765,272	\$ 1,326,046	\$ 3,374,140
Certificates of deposit	427,054	-	-	427,054
Receivables, net	70,970	-	168	71,138
Due from other governments	244,604	-	231,885	476,489
Notes receivable	-	-	46,805	46,805
Inventories	-	-	72,449	72,449
Restricted assets				
Cash and cash equivalents	-	-	892,937	892,937
Certificates of deposit	-	-	15,000	15,000
Total assets	<u>\$ 2,025,450</u>	<u>\$ 765,272</u>	<u>\$ 2,585,290</u>	<u>\$ 5,376,012</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 67,805	\$ -	\$ 19,487	\$ 87,292
Accrued expenses	95,808	-	81,237	177,045
Due to other funds	(1,156)	-	-	(1,156)
Unearned revenue	44,344	-	61,881	106,225
Total liabilities	<u>206,801</u>	<u>-</u>	<u>162,605</u>	<u>369,406</u>
<b>Fund Balances</b>				
Nonspendable	-	-	40,000	40,000
Restricted for				
Streets and highways	-	-	1,493,210	1,493,210
Economic development	-	-	665,901	665,901
Committed to parks and cemetery	-	-	223,574	223,574
Assigned to				
Parks and cemetery	39,515	-	-	39,515
Debt service	-	765,272	-	765,272
Public safety	311,421	-	-	311,421
Unemployment compensation	22,041	-	-	22,041
Unassigned	1,445,672	-	-	1,445,672
Total fund balances	<u>1,818,649</u>	<u>765,272</u>	<u>2,422,685</u>	<u>5,006,606</u>
Total liabilities and fund balances	<u>\$ 2,025,450</u>	<u>\$ 765,272</u>	<u>\$ 2,585,290</u>	<u>\$ 5,376,012</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	\$ 5,006,606
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,306,398
Certain notes receivable are not available to pay for current-period expenditures and, therefore, are not reported in the funds	157,480
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred or not reported in the funds	152,719
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(5,888,329)
Net position of governmental activities	<u>\$ 19,734,874</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, 2016**

	GENERAL	DEBT SERVICE	OTHER GOVERNMENTAL	TOTAL
<b>Revenues collected</b>				
Taxes	\$ 3,390,413	\$ 264,601	\$ 336,756	\$ 3,991,770
Permits and fees	564,326	-	137,757	702,083
Intergovernmental	50,703	-	12,666	63,369
Contributions	268,742	-	911,440	1,180,182
Reimbursements for services	226,717	-	-	226,717
Interest	5,717	1,947	7,642	15,306
Miscellaneous	630,535	-	15,767	646,302
<b>Total revenues collected</b>	<u>5,137,153</u>	<u>266,548</u>	<u>1,422,028</u>	<u>6,825,729</u>
<b>Expenditures</b>				
Current				
General government	465,925	-	-	465,925
Public safety	1,433,679	-	-	1,433,679
Highways and streets	-	605,500	682,155	1,287,655
Cultural and recreational	1,835,390	-	6,627	1,842,017
Economic opportunity	62,500	-	25,405	87,905
Debt service	11,411	89,087	19,143	119,641
Capital outlay	541,571	-	-	541,571
<b>Total expenditures</b>	<u>4,350,476</u>	<u>694,587</u>	<u>733,330</u>	<u>5,778,393</u>
<b>Excess of revenues over expenditures</b>	786,677	(428,039)	688,698	1,047,336
<b>Other financing sources (uses)</b>				
Net proceeds/(uses) from bonds	359,469	(382,900)	825,000	801,569
Net proceeds/(uses) from capital leases	23,382	-	181,701	205,083
Net (uses) from other long-term assets	(20,110)	-	(671,494)	(691,604)
Net proceeds/(uses) from other long-term liabilities	29,100	-	(32,531)	(3,431)
Transfers in	7,040	119,764	-	126,804
Transfers out	-	-	(126,804)	(126,804)
<b>Total other financing sources and uses</b>	<u>398,881</u>	<u>(263,136)</u>	<u>175,872</u>	<u>311,617</u>
Change in fund balances	1,185,558	(691,175)	864,570	1,358,953
Fund balances--beginning	633,091	1,456,447	1,558,115	3,647,653
Fund balances--ending	<u>\$ 1,818,649</u>	<u>\$ 765,272</u>	<u>\$ 2,422,685</u>	<u>\$ 5,006,606</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, 2016**

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)	\$	1,358,953
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.		541,571
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.		(972,503)
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)		(311,617)
Change in net position of governmental activities (page 4)	<u>\$</u>	<u>616,404</u>

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

**CITY OF SEWARD, NEBRASKA**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2016**

	<b><u>Combined Municipal Utilities Fund</u></b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 8,090,828
Certificates of deposit	4,533,063
Receivables, net	1,587,610
Inventories	605,520
<b>Restricted assets</b>	
Cash and cash equivalents	363,376
Certificates of deposit	1,555,362
Total current assets	<u>16,735,759</u>
<b>Noncurrent Assets</b>	
Capital assets, net	24,956,798
Total noncurrent assets	<u>24,956,798</u>
<b>Deferred Outflows of Resources</b>	
Bond financing costs	301,101
Total assets and deferred outflows	<u><u>\$ 41,993,658</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 943,297
Accrued expenses	126,577
Unearned revenue	110,618
Current maturities of long-term debt	1,023,720
Interest payable	49,762
Total current liabilities	<u>2,253,974</u>
<b>Noncurrent Liabilities</b>	
Compensated absences	102,177
Long-term debt	12,781,606
Total noncurrent liabilities	<u>12,883,783</u>
Total liabilities	<u>15,137,757</u>
<b>Net Position</b>	
Net investment in capital assets	11,151,472
Restricted	1,918,738
Unrestricted	13,785,691
Total net position	<u>26,855,901</u>
Total liabilities and net position	<u><u>\$ 41,993,658</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, 2016**

	<b>Combined Municipal Utilities Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 12,569,458
Other	204,533
Total operating revenue	12,773,991
<b>Operating Expenses</b>	
Purchased power	6,061,486
Maintenance and operation	1,953,782
General and administrative	930,221
Franchise tax	636,652
Depreciation	1,375,299
Total operating expenses	10,957,440
<b>Operating Income</b>	<b>1,816,551</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	50,652
Amortization of deferred financing costs	(55,940)
Interest expense	(367,146)
Net nonoperating revenues (expenses)	(372,434)
<b>Capital Grants and Contributions</b>	<b>19,254</b>
Change in net position	1,463,371
Net position, beginning of year	25,392,530
Net position, end of year	\$ 26,855,901

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, 2016**

	<u><b>Combined Municipal Utilities Fund</b></u>
Cash flows from operating activities:	
Cash received from customers	\$ 13,002,509
Payments to suppliers	(7,438,882)
Payments of franchise tax	(636,652)
Payments to employees	(1,257,775)
Net cash provided by operating activities	<u>3,669,200</u>
 Cash flows from noncapital financing activities:	
Transfers from other funds	<u>-</u>
Net cash provided by noncapital financing activities	-
 Cash flows from capital and related financing activities:	
Proceeds from issuance of debt	9,820,439
Issuance cost (less issuance refunding cost)	(72,194)
Principal paid on debt	(758,750)
Debt refunded	(8,785,000)
Interest paid on debt	(376,239)
Purchase of capital assets	(1,709,344)
Sale of assets	26,348
Capital grants and contributions	19,254
Net cash used by capital financing activities	<u>(1,835,486)</u>
 Cash flows from investing activities:	
(Invested in)/withdrawn from certificates of deposit	(24,132)
Interest received	50,652
Net cash provided by investing activities	<u>26,520</u>
 Net increase (decrease) in cash	1,860,234
Cash and cash equivalents--beginning of the year	<u>6,593,970</u>
Cash and cash equivalents--end of the year	<u><u>\$ 8,454,204</u></u>

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, 2016**

	<u>Combined Municipal Utilities Fund</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
<i>Operating Income</i>	\$ 1,816,551
Adjustments to reconcile operating income to net cash provided by operating activities:	
Add: Depreciation	1,375,299
Change in assets and liabilities:	
(Increase)/Decrease in accounts receivable	48,745
(Increase)/Decrease in due from other funds/governments	72,947
(Increase)/Decrease in inventories	99,877
Increase/(Decrease) in accounts payable	239,652
Increase/(Decrease) in accrued expenses	9,180
Increase/(Decrease) in deferred revenue	6,949
Total adjustments	<u>1,852,649</u>
Net cash provided by operating activities	<u><u>\$ 3,669,200</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, 2016

**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, 2016

***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 unearned 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.

**CITY OF SEWARD, NEBRASKA**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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 unearned revenue on the governmental funds balance sheet. Annual installments not yet due are reflected as special assessments receivables and unearned 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.

***Bond 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 \$2,653 for the fiscal year and thus management elected to report amounts as part of the net receivables.

**CITY OF SEWARD, NEBRASKA**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

***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:

**CITY OF SEWARD, NEBRASKA**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

**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, 2016, 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

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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	\$ 91,682
Deposits	<u>19,160,078</u>
	<u>\$ 19,251,760</u>

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

Cash and cash equivalents	\$ 12,721,281
Certificates of deposit	<u>6,530,479</u>
	<u>\$ 19,251,760</u>

***Investment Income***

The City earned interest income of \$65,958 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.

**CITY OF SEWARD, NEBRASKA**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

***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 2015, for the 2015 taxes to be materially collected in May and September, 2016, was set at \$.3180/\$100 of assessed valuation.

Additionally, there is currently a statutory lid imitation 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.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Note 4: Receivables**

Receivables at the fiscal year end consist of the following:

Fund	Taxes	Accounts Receivable	Interest	Allowance for Uncollectible	Net Receivables
General	\$ 37,079	\$ 33,807	\$ 84	\$ -	\$ 70,970
Utilities	-	1,588,639	4,071	(5,100)	1,587,610
Nonmajor	-	-	168	-	168
	<u>\$ 37,079</u>	<u>\$ 1,622,446</u>	<u>\$ 4,323</u>	<u>\$ (5,100)</u>	<u>\$ 1,658,748</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
General	\$ 244,604	State of Nebraska, Sales and Use Tax
Street	129,825	State of Nebraska, Surface Transportation
	53,000	State of Nebraska, Highway Allocation
	36,060	State of Nebraska, Sales and Use Tax
	13,000	State of Nebraska, Motor Vehicle Fees
Total	<u>\$ 476,489</u>	

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**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	\$ 780,414	\$ 56,400	\$ -	\$ 836,814
Construction in progress	963,930	62,969	434,716	592,183
Total capital assets, not being depreciated	<u>1,744,344</u>	<u>119,369</u>	<u>434,716</u>	<u>1,428,997</u>
Capital assets, being depreciated				
Buildings	11,115,836	246,931	-	11,362,767
Machinery and Equipment	4,669,630	893,823	10,200	5,553,253
Infrastructure	12,024,223	444,059	-	12,468,282
Total capital assets, being depreciated	<u>27,809,689</u>	<u>1,584,813</u>	<u>10,200</u>	<u>29,384,302</u>
Less accumulated depreciation for				
Buildings	2,565,667	216,962	-	2,782,629
Machinery and equipment	2,614,033	386,017	10,200	2,989,850
Infrastructure	4,403,983	330,439	-	4,734,422
Total accumulated depreciation	<u>9,583,683</u>	<u>933,418</u>	<u>10,200</u>	<u>10,506,901</u>
Total capital assets, being depreciated, net	<u>18,226,006</u>	<u>651,395</u>	<u>-</u>	<u>18,877,401</u>
Governmental activities capital assets, net	<u>\$ 19,970,350</u>	<u>\$ 770,764</u>	<u>\$ 434,716</u>	<u>\$ 20,306,398</u>

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type Activities</b>				
Capital assets, not being depreciated				
Land	\$ 264,065	\$ -	\$ -	\$ 264,065
Construction in progress	1,096,490	890,765	1,346,184	641,071
Total capital assets, not being depreciated	1,360,555	890,765	1,346,184	905,136
Capital assets, being depreciated				
Buildings	1,251,539	-	-	1,251,539
Machinery and Equipment	2,823,227	274,745	-	3,097,972
Utility plant	40,824,053	1,890,018	-	42,714,071
Total capital assets, being depreciated	44,898,819	2,164,763	-	47,063,582
Less accumulated depreciation for				
Buildings	366,811	31,231	-	398,042
Machinery and equipment	1,804,929	171,153	-	1,976,082
Utility plant	19,464,881	1,172,915	-	20,637,796
Total accumulated depreciation	21,636,621	1,375,299	-	23,011,920
Total capital assets, being depreciated, net	23,262,198	789,464	-	24,051,662
Business-type activities capital assets, net	<u>\$ 24,622,753</u>	<u>\$ 1,680,229</u>	<u>\$ 1,346,184</u>	<u>\$ 24,956,798</u>

Depreciation expense was charged to functions/programs as follows:

**Governmental Activities**

General government	\$ 265,456
Public safety	179,374
Streets and highways	340,309
Cultural and recreational	148,279
Total depreciation expense - governmental activities	<u>\$ 933,418</u>

**Business-Type Activities**

Combined municipal utilities	<u>\$ 1,375,299</u>
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Depreciation expense of \$933,418 and amortization expense of \$39,085 for governmental activities and depreciation expense of \$1,375,299 and amortization expense of \$55,940 for business-type activities for the fiscal year end were recorded in the Statement of Activities. Depreciation includes amounts amortized for capital lease obligations.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Interest costs for governmental activities for the fiscal year were \$119,641 none of which was capitalized. Interest costs for business-type activities for the fiscal year were \$367,146 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	\$ 3,835,350	\$ 1,910,000	\$ 1,432,900	\$ 4,312,450	\$ 463,900
Notes payable	-	350,000	25,531	324,469	46,249
Capital lease obligation	780,111	837,864	632,779	985,196	107,273
Total long-term debt	<u>4,615,461</u>	<u>3,097,864</u>	<u>2,091,210</u>	<u>5,622,115</u>	<u>617,422</u>
Other liabilities					
Compensated absences	<u>204,430</u>	<u>169,529</u>	<u>157,151</u>	<u>216,808</u>	<u>88,373</u>
Governmental activities long-term liabilities	<u>\$ 4,819,891</u>	<u>\$ 3,267,393</u>	<u>\$ 2,248,361</u>	<u>\$ 5,838,923</u>	<u>\$ 705,795</u>
<b>Business-Type Activities</b>					
Long-term debt					
Revenue and anticipation bonds	\$ 13,145,000	\$ 9,820,000	\$ 9,480,000	\$ 13,485,000	\$ 960,000
General obligation bonds	285,650	-	55,100	230,550	55,100
Capital lease obligation	97,986	440	8,650	89,776	8,620
Total long-term debt	<u>13,528,636</u>	<u>9,820,440</u>	<u>9,543,750</u>	<u>13,805,326</u>	<u>1,023,720</u>
Other liabilities					
Compensated absences	<u>133,095</u>	<u>125,954</u>	<u>98,416</u>	<u>160,633</u>	<u>58,456</u>
Business-type activities long-term liabilities	<u>\$ 13,661,731</u>	<u>\$ 9,946,394</u>	<u>\$ 9,642,166</u>	<u>\$ 13,965,959</u>	<u>\$ 1,082,176</u>

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

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

	<b>Original Amount</b>	<b>Interest Rate</b>	<b>Principal Amount Outstanding</b>
<b>General Obligation Bonds</b>			
General Obligation Refunding Bonds, Series 2012, due serially through 2022 (A)	1,482,600	0.30% to 2.15%	939,450
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%	590,000
Highway Allocation Fund Pledge, Series 2013, due serially through 2024	100,000	2.25% to 3.60%	90,000
Public Safety Tax Anticipation Bonds, Series 2014, due serially through 2024	404,000	1.15% to 2.55%	328,000
General Obligation Refunding Bonds, Series 2014, due serially through 2023	500,000	0.20% to 2.25%	265,000
General Obligation Refunding Bonds, Series 2016, due serially through 2022	1,085,000	0.60% to 1.50%	1,085,000
Highway Allocation Fund Pledge, Series 2016, due serially through 2032	825,000	2.00% to 4.00%	825,000
Total general obligation bonds			<u>4,312,450</u>
Golf Course Note, 2016, due serially through 2022	350,000	2.75%	324,469
Total bonded debt and notes payable governmental			<u><u>\$ 4,636,919</u></u>

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<b>Original Amount</b>	<b>Interest Rate</b>	<b>Principal Amount Outstanding</b>
<b>Revenue Bonds</b>			
Electric Revenue Refunding Bonds, Series 2012, due serially through 2025	1,855,000	0.40% to 2.55%	1,040,000
Sewer System Revenue Bonds, Series 2013, due in 2032	50,000	3.20%	50,000
Water System Revenue Bonds, Series 2013, due in 2027	90,000	2.85%	90,000
Water Revenue Anticipation Note, Series 2013B, due serially through 2033	1,580,000	1.50% to 4.40%	1,455,000
Water System Revenue Refunding Bonds, series 2015 due in 2023	1,305,000	2.0% to 2.35%	1,030,000
Electric Revenue Refunding Bonds, Series 2016, due serially through 2036	4,755,000	0.85% to 3.20%	4,755,000
Water System Revenue Refunding Bonds, series 2016 due serially through 2026	1,205,000	0.95% to 1.80%	1,205,000
Sewer Revenue Refunding Bonds, series 2016 due serially through 2031	3,860,000	2.00% to 2.90%	3,860,000
Total revenue bonds			<u>13,485,000</u>
General Obligation Refunding Bonds, Series 2012, due serially through 2022 (A)	452,400	0.30% to 2.15%	230,550
Total bonded debt business-type activities			<u><u>\$ 13,715,550</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.

**CITY OF SEWARD, NEBRASKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

Year Ending September 30,	<b>Governmental Activities</b>					
	General Obligation Bonds		Notes Payable		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	463,900	82,073	46,249	8,610	107,273	21,511
2018	457,450	79,350	47,530	7,330	602,754	18,182
2019	436,500	75,087	48,846	6,014	57,008	11,235
2020	440,050	70,451	50,186	4,673	28,073	9,346
2021	460,550	61,823	51,588	3,271	149,188	8,252
2022-2026	1,579,000	170,601	80,070	2,218	40,900	699
2027-2031	410,000	50,153	-	-	-	-
2032-2036	65,000	1,300	-	-	-	-
	<u>\$ 4,312,450</u>	<u>\$ 590,838</u>	<u>\$ 324,469</u>	<u>\$ 32,116</u>	<u>\$ 985,196</u>	<u>\$ 69,225</u>
Year Ending September 30,	<b>Business-Type Activities</b>					
	Revenue Bonds		General Obligation Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	960,000	213,694	55,100	4,828	8,620	3,847
2018	895,000	206,766	56,550	4,311	21,831	4,769
2019	885,000	195,200	43,500	2,604	9,995	2,929
2020	910,000	182,953	44,950	1	49,330	2,435
2021	930,000	169,846	30,450	-	-	-
2022-2026	4,920,000	628,547	-	-	-	-
2027-2031	2,720,000	325,482	-	-	-	-
2032-2036	1,265,000	96,909	-	-	-	-
	<u>\$ 13,485,000</u>	<u>\$ 2,019,397</u>	<u>\$ 230,550</u>	<u>\$ 11,744</u>	<u>\$ 89,776</u>	<u>\$ 13,980</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, 2016**

***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	\$ 25,314
Tax increment revenue notes, Progressive Sheet Metal Project	37,582
Tax increment revenue notes, Seward Hotel Project	179,997
Tax increment revenue notes, B&M Seed Project	49,998
Tax increment revenue notes, Jones National Bank & Trust	596,380
Tax increment revenue notes, Jones Insurance	63,992
Tax increment revenue notes, Peek Properties	25,880
Tax increment revenue notes, Grimes Construction	35,177
Tax increment revenue notes, CNG Inc	910,000
Tax increment revenue notes, Lindner	74,303
Tax increment revenue notes, Two Creeks Holdings	56,720
Tax increment revenue notes, Bottle Rocket Brewing	134,500
Tax increment revenue notes, KACH 510/Bradford Center	47,000
	<u>\$ 2,236,843</u>

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. The tax increment financing (TIF) fund is a nonmajor governmental fund where certain administrative expenses and initial interest payments are amortized or paid back over the life of the financing agreement. This creates a deficit in the individual TIF fund balance.

**Note 8: Retirement Plans**

The City provides retirement 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 Retirement Plan***

The City sponsors a defined contribution 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 7% of the employee's base salary each month. Employees covered by the Plan may also make voluntary contributions. The City made employer contributions of \$42,296 to the plan during the fiscal year.

***City Employee Retirement Plan***

The City also sponsors a defined contribution plan covering substantially all other full-time City employees. Employees are eligible to participate after a six month introduction period beginning from the

**CITY OF SEWARD, NEBRASKA**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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 \$113,020 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.

The City makes periodic payments to their insurance providers to protect themselves against the various risks listed above. During the year ended September 30, 2016, 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. During the fiscal year, the City received a distribution on claim of \$31,026 for damage caused to the Library roof.

**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, 2016, consisted of a \$126,804 transfer from the nonmajor other governmental funds to the general and debt service 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***

In December of 2015, 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 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 five 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 five 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.

**CITY OF SEWARD, NEBRASKA**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

***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.

***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 \$1,359,963. The net present value of the future minimum lease payments at the fiscal year end is \$1,074,972 of which \$115,893 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: Government Acquisition**

On February 1, 2016, the City acquired the Seward Community Golf Course from Seward Country Club Inc in exchange for \$353,481. This purchase included the clubhouse, maintenance equipment, land where the clubhouse resides, and land immediately surrounding the clubhouse. The City will operate and maintain the golf course as a municipal golf course for public use and account for its operations in the general fund. In addition, the City assumed rights to lease payments from the tenant managing food operations inside the clubhouse restaurant. Concurrently the City assumed obligation payments as tenant of the golf course and driving range for which it will pay annual rent. The lease agreement specifies a termination date of December 31, 2022, with provisions for automatic renewal on an annual basis.

**Note 14: Subsequent Events**

Subsequent events have been evaluated through February 1, 2017, 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**  
**6FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<b>Original and Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>			
Taxes	\$ 3,682,794	\$ 3,379,700	\$ (303,094)
Permits and fees	754,688	564,326	(190,362)
Grants and other state receipts	7,099,222	24,924	(7,074,298)
Other local receipts	419,038	1,453,876	1,034,838
<b>Total revenues</b>	<b>\$ 11,955,742</b>	<b>\$ 5,422,826</b>	<b>\$ (6,532,916)</b>
<b>EXPENDITURES</b>			
Operating expenses	\$ 4,826,689	\$ 3,834,607	\$ 992,082
Capital improvements	6,984,613	541,571	6,443,042
Other capital outlay	250,000	(32,372)	282,372
<b>Total expenditures</b>	<b>\$ 12,061,302</b>	<b>\$ 4,343,806</b>	<b>\$ 7,717,496</b>
<b>Excess (deficiency) of revenues collected over expenditures</b>	<b>\$ (105,560)</b>	<b>\$ 1,079,020</b>	<b>\$ 1,184,580</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	\$ 3,379,700	\$ 10,713	\$ 3,390,413
Permits and fees	564,326	-	564,326
Grants and other state receipts	24,924	25,779	50,703
Other local receipts	1,453,876	44,344	1,498,220
<b>Total revenues</b>	<b>\$ 5,422,826</b>	<b>\$ 80,836</b>	<b>\$ 5,503,662</b>
<b>EXPENDITURES</b>			
Operating expenses	\$ 3,834,607	\$ (25,702)	\$ 3,808,905
Capital improvements	541,571	-	541,571
Other capital outlay	(32,372)	-	(32,372)
<b>Total expenditures</b>	<b>\$ 4,343,806</b>	<b>\$ (25,702)</b>	<b>\$ 4,318,104</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, 2016**

	<b>Original and Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>			
Taxes	\$ 264,601	\$ 264,601	\$ -
Other local receipts	1,400	121,711	120,311
<b>Total revenues</b>	<b>\$ 266,001</b>	<b>\$ 386,312</b>	<b>\$ 120,311</b>
<b>EXPENDITURES</b>			
Debt service	\$ 516,001	\$ 471,987	\$ 44,014
Operating expenses	605,500	605,500	-
<b>Total expenditures</b>	<b>\$ 1,121,501</b>	<b>\$ 1,077,487</b>	<b>\$ 44,014</b>
<b>Excess (deficiency) of revenues collected over expenditures</b>	<b>\$ (855,500)</b>	<b>\$ (691,175)</b>	<b>\$ 164,325</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	\$ 264,601	\$ -	\$ 264,601
Other local receipts	121,711	-	121,711
<b>Total revenues</b>	<b>\$ 386,312</b>	<b>\$ -</b>	<b>\$ 386,312</b>
<b>EXPENDITURES</b>			
Debt service	\$ 471,987	\$ -	\$ 471,987
Operating expenses	605,500	-	605,500
<b>Total expenditures</b>	<b>\$ 1,077,487</b>	<b>\$ -</b>	<b>\$ 1,077,487</b>

## **OTHER INFORMATION**

**CITY OF SEWARD, NEBRASKA**  
**COMBINING STATEMENTS OF NET POSITION - PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2016**

	ELECTRIC	WATER	WASTEWATER	TOTAL
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 4,666,447	\$ 2,457,407	\$ 966,974	\$ 8,090,828
Certificates of deposit	3,990,092	201,141	341,830	4,533,063
Receivables, net	1,223,169	201,093	163,348	1,587,610
Inventories	532,636	72,884	-	605,520
<b>Restricted assets</b>				
Cash and cash equivalents	176,365	126,832	60,179	363,376
Certificates of deposit	769,202	463,485	322,675	1,555,362
Total current assets	<u>11,357,911</u>	<u>3,522,842</u>	<u>1,855,006</u>	<u>16,735,759</u>
<b>Noncurrent Assets</b>				
Capital assets, net	8,632,524	9,241,087	7,083,187	24,956,798
Total noncurrent assets	<u>8,632,524</u>	<u>9,241,087</u>	<u>7,083,187</u>	<u>24,956,798</u>
<b>Deferred Outflows of Resources</b>				
Bond financing costs	101,819	113,289	85,993	301,101
Total assets and deferred outflows	<u>\$ 20,092,254</u>	<u>\$ 12,877,218</u>	<u>\$ 9,024,186</u>	<u>\$ 41,993,658</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 924,137	\$ 12,002	\$ 7,158	\$ 943,297
Accrued expenses	61,329	37,461	27,787	126,577
Unearned revenue	109,038	1,580	-	110,618
Current maturities of long-term debt	459,544	320,138	244,038	1,023,720
Interest payable	16,192	27,934	5,636	49,762
Total current liabilities	<u>1,570,240</u>	<u>399,115</u>	<u>284,619</u>	<u>2,253,974</u>
<b>Noncurrent Liabilities</b>				
Compensated Absences, noncurrent	51,442	32,429	18,306	102,177
Long-term Debt	5,347,306	3,689,625	3,744,675	12,781,606
Total noncurrent liabilities	<u>5,398,748</u>	<u>3,722,054</u>	<u>3,762,981</u>	<u>12,883,783</u>
Total liabilities	<u>6,968,988</u>	<u>4,121,169</u>	<u>4,047,600</u>	<u>15,137,757</u>
<b>Net Position</b>				
Net investment in capital assets	2,825,674	5,231,324	3,094,474	11,151,472
Restricted	945,567	590,317	382,854	1,918,738
Unrestricted	9,352,025	2,934,408	1,499,258	13,785,691
Total net position	<u>13,123,266</u>	<u>8,756,049</u>	<u>4,976,586</u>	<u>26,855,901</u>
Total liabilities and net position	<u>\$ 20,092,254</u>	<u>\$ 12,877,218</u>	<u>\$ 9,024,186</u>	<u>\$ 41,993,658</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, 2016**

	<u>ELECTRIC</u>	<u>WATER</u>	<u>WASTEWATER</u>	<u>TOTAL</u>
<b>Operating Revenues</b>				
Charges for services	\$ 9,532,391	\$ 1,716,018	\$ 1,321,049	\$ 12,569,458
Other	77,824	114,978	11,731	204,533
<b>Total operating revenues</b>	<u>9,610,215</u>	<u>1,830,996</u>	<u>1,332,780</u>	<u>12,773,991</u>
<b>Operating Expenses</b>				
Purchased power	6,061,486	-	-	6,061,486
Maintenance and operation	949,381	561,903	442,498	1,953,782
General and administrative	439,000	258,398	232,823	930,221
Franchise tax	478,193	91,919	66,540	636,652
Depreciation	631,374	322,964	420,961	1,375,299
<b>Total operating expenses</b>	<u>8,559,434</u>	<u>1,235,184</u>	<u>1,162,822</u>	<u>10,957,440</u>
<b>Operating Income</b>	<u>1,050,781</u>	<u>595,812</u>	<u>169,958</u>	<u>1,816,551</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	32,877	8,985	8,790	50,652
Capital grants and contributions	9,254	5,000	5,000	19,254
Amortization of deferred financing costs	(36,325)	(11,941)	(7,674)	(55,940)
Interest expense	(110,697)	(127,022)	(129,427)	(367,146)
Total other financing sources and uses	<u>(104,891)</u>	<u>(124,978)</u>	<u>(123,311)</u>	<u>(353,180)</u>
Change in fund balances	945,890	470,834	46,647	1,463,371
Transfers between proprietary activities	1,932,518	(1,932,518)	-	-
Net position--beginning	<u>10,244,858</u>	<u>10,217,733</u>	<u>4,929,939</u>	<u>25,392,530</u>
Net position--ending	<u>\$ 13,123,266</u>	<u>\$ 8,756,049</u>	<u>\$ 4,976,586</u>	<u>\$ 26,855,901</u>

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

## **SUPPLEMENTARY INFORMATION**

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULES OF KWH COMPUTATION**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**  
**(UNAUDITED)**

	<u>2016</u>	<u>2015</u>
Total KWH purchased	97,390,134	97,994,543
Total KWH consumed (metered) (See Note)	<u>92,531,468</u>	<u>93,714,160</u>
Line loss - KWH	<u>4,858,666</u>	<u>4,280,383</u>
Line loss (as percentage of purchased)	<u>4.99%</u>	<u>4.37%</u>
Operating revenue generated per KWH purchased	\$ 0.0987	\$ 0.0988
Operating expenses per KWH purchased		
Purchased power	0.0622	0.0620
Maintenance and operation	0.0097	0.0098
General and administrative	0.0045	0.0041
Franchise tax	0.0049	0.0049
Depreciation	<u>0.0065</u>	<u>0.0060</u>
	<u>0.0878</u>	<u>0.0868</u>
Operating income per KWH purchased	<u>0.0109</u>	<u>0.0120</u>
Non-operating revenues (expenses) per KWH purchased		
Interest income	0.0003	0.0003
Amortization of deferred issuance costs	<u>(0.0004)</u>	<u>(0.0005)</u>
	<u>(0.0001)</u>	<u>(0.0002)</u>
Net income before interest expense, per KWH purchased	<u>\$ 0.0108</u>	<u>\$ 0.0118</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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## 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, 2016, 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 1, 2017.

### 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 2016-1, 2016-2, 2016-3, 2016-4, and 2016-5 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2016-6 to be a significant deficiency.

## **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 responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 1, 2017

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Finding 2016-1 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 an accountant position within the Administration. The Administration conducted a meeting with the Personnel/Finance/Audit Committee regarding the duties and responsibilities of this position and the Committee supports hiring an accountant position. Upon hire, 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 2016-2 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 an accountant position within the Administration. The Administration conducted a meeting with the Personnel Committee regarding the duties and responsibilities of this position and the Committee supports hiring an accountant position. Upon hire, the Administration and staff will make adjustments to the duties and responsibilities

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

of current staff to complement the new position. Cross training with current staff is on-going to assist in the preparation of financial documents.

**Finding 2016-3 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 an accountant position within the Administration. The Administration conducted a meeting with the Personnel Committee regarding the duties and responsibilities of this position and the Committee supports hiring an accountant position. Upon hire, the Administration and staff will make adjustments to the duties and responsibilities of current staff to complement the new position. Cross training with current staff is on-going to assist in the preparation of financial documents.

**Finding 2016-4 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.

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

**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 2016-5 Capital Assets Listing**

**Criteria:** Entity tracks capital assets on the cash basis and then identifies which ones would need to be capitalized and added to the capital asset listing for accrual basis reporting. Material adjustments are made each year to the capital assets listings. Management should develop a process to ensure all capital additions are listed as such.

**Condition:** Good internal control requires management to maintain their capital asset listing or to supervise and approve the maintenance of the capital asset listing. Generally accepted accounting principles require capital assets be reported on the statement of net position and depreciated over their useful life.

**Information:** The City added \$3,805,975 of capital assets during the fiscal year. Included in this amount was detailed work by the auditors to identify:

- 1) Fifteen transactions totaling \$462,801 of capital assets not previously identified
- 2) Two new capital leases totaling \$159,816 of capital assets and related debt
- 3) Three construction in progress transactions from accounts payable totaling \$242,648

**Effect:** Without proper maintenance of the capital asset listing there is an increased risk of material misstatement.

**Recommendation:** We recommend the City implement procedures to document all capital asset additions during the year, including certain non-cash transactions.

**Response:** The City Council has allocated the funds in the current budget to hire an accountant position within the Administration. The Administration conducted a meeting with the Personnel Committee regarding the duties and responsibilities of this position and the Committee supports hiring an accountant position. Upon hire, the Administration and staff will make adjustments to the duties and responsibilities of current staff to complement the new position. Cross training with current staff is on-going to assist in the preparation of financial documents.

**CITY OF SEWARD, NEBRASKA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Finding 2016-6 Compensated Absences**

**Criteria:** During payroll testing we discovered the City was not properly accruing unpaid sick leave hours for those aged 55 or older.

**Condition:** Generally accepted accounting principles require accrued expenses be measured accurately. The employee handbook Section 4.2 (A)(1)(a) states, “Effective January 1, 2007 – An employee who retires in good standing after reaching the age of 55 years or older; an employee who resigns in good standing with twenty years of continuous service to the City; or an employee who dies while in service to the City, shall be paid fifty percent of their accumulated sick leave balance.”

**Information:** Auditors discovered 12 employees age 55 years or older did not have sick leave accrued for calculation purposes. This accounted for a \$43,112 understatement of accrued compensated absences liability.

**Effect:** The error is a misstatement of financial statements in accordance with generally accepted accounting principles and is a violation of the employee handbook and City code.

**Recommendation:** We recommend that the City implement procedures to maintain adequate oversight and recordkeeping for all accrued balances and calculations.

**Response:** On November 15, 3016, the City Council amended the language in the employee handbook, Section 4.2 (A)(1)(iii) to clarify the intent, “Effective January 1, 2007 – An employee who retires in good standing after reaching the age of 55 years or older; or an employee who resigns in good standing with twenty (20) years of continuous service to the City; or an employee who dies while in service to the City, shall be paid fifty percent (50%) of their accumulated sick leave balance.”

In addition, the City has noted the calculation error and will correct on next year’s liability accrual.