CITY OF WAYNE, NEBRASKA

FINANCIAL STATEMENTS

September 30, 2004

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INDEPENDENT AUDITORS' REPORT

To the City Council
Wayne, 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 Wayne, Nebraska, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wayne, Nebraska, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*, as of October 1, 2003.

The City has not presented the management's discussion and analysis that the Government Accounting Standards Board has determined is necessary to supplement, but is not required to be a part of the basic financial statements.

The budgetary comparison schedule, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December17, 2004, on our consideration of the City of Wayne, Nebraska's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Wayne, Nebraska's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements of the City of Wayne, Nebraska. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Contryman Associates P.C.

Certified Public Accountants
Grand Island, Nebraska

December 17, 2004

CITY OF WAYNE, NEBRASKA

STATEMENT OF NET ASSETS

September 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS:			
Cash	368,877	606,848	975,725
Investments	1,357,959	6,029,812	7,387,771
Cash with county treasurer	42,087	0	42,087
Restricted assets:			
Block grant loans	666,084	0	666,084
Receivables:			
Property taxes	52,161	0	52,161
Special assessments	88,038	0	88,038
Accounts and interest	110,300	907,377	1,017,677
Internal balances	(70,000)	70,000	0
Inventory	0	174,973	174,973
TOTAL CURRENT ASSETS	2,615,506	7,789,010	10,404,516
NONCURRENT ASSETS:			
Restricted cash and investments	636,306	708,840	1,345,146
Deferred charges	0	18,684	18,684
Capital assets:			
Non-depreciable	1,685,552	351,783	2,037,335
Depreciable (net)	12,327,906	8,490,631	20,818,537
Unamortized bond issue costs (net)	0	36,360	36,360
TOTAL NONCURRENT ASSETS	14,649,764	9,606,298	24,256,062
TOTAL ASSETS	17,265,270	17,395,308	34,660,578

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CITY OF WAYNE, NEBRASKA

STATEMENT OF NET ASSETS (CONTINUED)

September 30, 2004

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	47,165	341,888	389,053
Accrued liabilities	87,099	40,544	127,643
Compensated absences	60,331	58,874	119,205
Current portion of long-term debt	346,480	415,000	761,480
TOTAL CURRENT LIABILITIES	541,075	856,306	1,397,381
NONCURRENT LIABILITIES:			
Compensated absences	19,878	0	19,878
Customer deposits	0	55,280	55,280
Long-term debt-net	4,371,187	3,230,000	7,601,187
TOTAL NONCURRENT LIABILITIES	4,391,065	3,285,280	7,676,345
TOTAL LIABILITIES	4,932,140	4,141,586	9,073,726
NET ASSETS:			
Invested in capital assets, net of related debt	9,295,791	4,988,488	14,284,279
Restricted for:			
Debt service	612,544	708,840	1,321,384
Block grant loans	666,084	0	666,084
Park	23,762	0	23,762
Unrestricted	1,734,949	7,556,394	9,291,343
TOTAL NET ASSETS	12,333,130	13,253,722	25,586,852

See accompanying notes

CITY OF WAYNE, NEBRASKA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES:				
General government	281,379	466,395	9,000	0
Public safety	823,123	102,851	33,061	0
Public works	639,261	3,735	321,318	39,647
Public buildings	140,036	10,755	0	0
Recreation	257,829	67,058	0	280,698
Community Activity Center	368,130	77,835	0	0
Library	128,412	9,336	0	0
Public welfare and social services	156,758	57,308	72,989	0
TOTAL GOVERNMENTAL ACTIVITIES	2,794,928	795,273	436,368	320,345
BUSINESS-TYPE ACTIVITIES:				
Electric	4,460,792	4,592,904	0	0
Water	455,148	464,458	0	0
Sewer	373,405	305,462	0	0
Transfer station	181,521	197,426	0	0
TOTAL BUSINESS-TYPE ACTIVITIES	5,470,866	5,560,250	0	0
TOTAL	8,265,794	6,355,523	436,368	320,345

GENERAL REVENUE:
- Taxes
- Sales tax
- Special assessment
- Intergovernmental
- Interest income
- Unrealized/realized (loss) on investments
- Miscellaneous
- Transfers
- TOTAL GENERAL REVENUE AND TRANSFERS

CHANGE IN NET ASSETS

Net assets - beginning of year, as restated

NET ASSETS - END OF YEAR

See accompanying notes

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
194,016	0	194,016
(687,211)	0	(687,211)
(274,561)	0	(274,561)
(129,281)	0	(129,281)
89,927	0	89,927
(290,295)	0	(290,295)
(119,076)	0	(119,076)
(26,461)	0	(26,461)
(1,242,942)	0	(1,242,942)
0	132,112	132,112
0	9,310	9,310
0	(67,943)	(67,943)
0	15,905	15,905
0	89,384	89,384
(1,242,942)	89,384	(1,153,558)
672,549	0	672,549
444,531	0	444,531
34,071	0	34,071
411,486	0	411,486
95,357	307,300	402,657
(722)	(73,913)	(74,635)
19,772	77,730	97,502
97,830	(97,830)	0
1,774,874	213,287	1,988,161
531,932	302,671	834,603
11,801,198	12,951,051	24,752,249
12,333,130	13,253,722	25,586,852

CITY OF WAYNE, NEBRASKA

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2004

	General Fund	Sales Tax Fund	Capital Projects Fund
ASSETS:			
Cash	369,268	0	(18,315)
Cash at County Treasurer	36,757	0	0
Investments	537,597	368,964	258,927
Receivables:			
Property taxes	46,080	0	0
Special assessments	963	0	0
Accounts and interest	12,203	91,319	356
Restricted Assets:			
Cash	0	2,424	0
Investments	23,762	610,120	0
Block grant loans	0	0	0
TOTAL ASSETS	1,026,630	1,072,827	240,968
LIABILITIES:			
Accounts payable	32,339	0	14,769
Due to other funds	70,000	0	0
Accrued compensated absences	60,331	0	0
Deferred revenues	0	0	0
TOTAL LIABILITIES	162,670	0	14,769
FUND BALANCES:			
Reserved for:			
Park	23,762	0	0
Debt service	0	612,544	0
Block grant loans	0	0	0
Unreserved for:			
General fund	840,198	0	0
Debt service funds	0	460,283	0
Capital project fund	0	0	226,199
Special revenue funds	0	0	0
TOTAL FUND BALANCES	863,960	1,072,827	226,199
TOTAL LIABILITIES AND FUND BALANCES	1,026,630	1,072,827	240,968

See accompanying notes.

Nonmajor Governmental Funds	Total Governmental Funds
17,924	368,877
5,330	42,087
192,471	1,357,959
6,081	52,161
87,075	88,038
6,422	110,300
0	2,424
0	633,882
666,084	666,084
981,387	3,321,812
57	47,165
0	70,000
0	60,331
68,195	68,195
68,252	245,691
0	23,762
0	612,544
666,084	666,084
0	840,198
157,981	618,264
0	226,199
89,070	89,070
913,135	3,076,121
981,387	3,321,812

CITY OF WAYNE, NEBRASKA

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS

September 30, 2004

Total fund balance - all governmental funds	3,076,121
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	14,013,458
Other long-term assets are not available to pay current-period expenditures and, therefore, are deferred in the funds.	(38,782)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Long-term debt	(4,717,667)
Net assets of governmental activities	12,333,130

See accompanying notes.

CITY OF WAYNE, NEBRASKA

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended September 30, 2004

	General Fund	Sales Tax Fund	Capital Projects Fund
REVENUES:			
Property taxes	574,272	0	0
City sales tax	0	444,531	0
Special assessment taxes	614	0	12,944
In lieu of taxes	423,213	0	0
Intergovernmental	1,110,557	0	39,647
Licenses and permits	34,838	0	0
Rental income	69,091	0	0
Charges for sales and services	181,397	0	0
Interest on investments	30,678	15,664	10,793
Miscellaneous	65,930	0	5,000
Net realized/unrealized gain (loss) on fair market value	(3,592)	7,604	(1,925)
TOTAL REVENUES	2,486,998	467,799	66,459
EXPENDITURES:			
Current:			
General government	140,435	0	0
Public safety	696,685	0	0
Public works	298,231	0	0
Public buildings	140,036	0	0
Recreation	237,857	0	0
Community Activity Center	126,411	0	4,324
Library	107,397	0	0
Public Welfare and Social Services	164,024	0	0
Capital outlay	407,217	0	795,004
Debt service (principal and interest)	79,035	467,911	12,605
TOTAL EXPENDITURES	2,397,328	467,911	811,933
REVENUES OVER (UNDER) EXPENDITURES	89,670	(112)	(745,474)
OTHER FINANCING SOURCES (USES):			
Transfers - in	99,565	37,000	0
Transfers - out	0	(50,047)	(87,000)
Bond proceeds	0	0	640,000
TOTAL OTHER FINANCING SOURCES (USES)	99,565	(13,047)	553,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	189,235	(13,159)	(192,474)
Fund balance-beginning of year	674,725	1,085,986	418,673
FUND BALANCE - END OF YEAR	863,960	1,072,827	226,199

See accompanying notes.

Nonmajor Governmental Funds	Total Governmental Funds
98,277	672,549
0	444,531
20,513	34,071
0	423,213
17,993	1,168,197
0	34,838
0	69,091
0	181,397
38,223	95,358
37,858	108,788
(2,809)	(722)
210,055	3,231,311
9,803	150,238
46,816	743,501
0	298,231
0	140,036
0	237,857
0	130,735
0	107,397
0	164,024
0	1,202,221
195,983	755,534
252,602	3,929,774
(42,547)	(698,463)
108,313	244,878
(10,000)	(147,047)
0	640,000
98,313	737,831
55,766	39,368
857,369	3,036,753
913,135	3,076,121

CITY OF WAYNE, NEBRASKA

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Net change in fund balances - total governmental funds	39,368
Amounts reported for governmental activities in the statement of net activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	586,915
Bond proceeds provide current financial resources to governmenal funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayment.	(105,106)
Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	10,755
Change in net assets of governmental activities	531,932

See accompanying notes.

CITY OF WAYNE, NEBRASKA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

September 30, 2004

	Electric Fund	Water Fund	Sewer Fund
ASSETS:			
CURRENT ASSETS:			
Cash	342,440	39,152	24,877
Investments	4,413,942	893,679	622,256
Accounts and interest receivables, net	732,845	89,888	52,870
Inventory	161,249	13,724	0
Due from other funds	170,000	0	0
TOTAL CURRENT ASSETS	5,820,476	1,036,443	700,003
NONCURRENT ASSETS:			
Restricted assets:			
Cash	129,553	46,025	66,004
Investments	316,459	96,600	54,199
Deferred charges	0	8,801	9,883
Capital assets (net)	5,664,641	1,683,690	1,198,351
Bond issue costs	36,360	0	0
TOTAL NONCURRENT ASSETS	6,147,013	1,835,116	1,328,437
TOTAL ASSETS	11,967,489	2,871,559	2,028,440
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	323,950	4,964	2,986
Accrued interest payable	33,568	5,863	1,113
Compensated absences	42,757	7,089	4,134
Due to other funds	0	0	0
Current portion of long-term debt	230,000	155,000	30,000
TOTAL CURRENT LIABILITIES	630,275	172,916	38,233
NONCURRENT LIABILITIES:			
Customer deposit	55,280	0	0
Long-term debt	2,625,000	509,000	96,000
TOTAL NONCURRENT LIABILITIES	2,680,280	509,000	96,000
TOTAL LIABILITIES	3,310,555	681,916	134,233
NET ASSETS:			
Investment in capital assets, net of related debt	2,809,641	938,690	944,425
Restricted for debt service	446,012	142,625	120,203
Unrestricted	5,401,281	1,108,328	829,579
TOTAL NET ASSETS	8,656,934	2,189,643	1,894,207

See accompanying notes.

Transfer Station Fund	Total Enterprise Funds	Internal Service Funds
159,477	565,946	40,902
0	5,929,877	99,935
13,214	888,817	18,560
0	174,973	0
0	170,000	0
172,691	7,729,613	159,397
0	241,582	0
0	467,258	0
0	18,684	0
295,732	8,842,414	0
0	36,360	0
295,732	9,606,298	0
468,423	17,335,911	159,397
9,988	341,888	0
0	40,544	0
4,894	58,874	0
100,000	100,000	0
0	415,000	0
114,882	956,306	0
0	55,280	0
0	3,230,000	0
0	3,285,280	0
114,882	4,241,586	0
295,732	4,988,488	0
0	708,840	0
57,809	7,396,997	159,397
353,541	13,094,325	159,397

CITY OF WAYNE, NEBRASKA

RECONCILIATION OF STATEMENT OF NET ASSETS OF PROPRIETARY FUNDS TO STATEMENT OF NET ASSETS

September 30, 2004

Total net assets - all proprietary funds	13,094,325
Amounts reported for business-type activities in the statement of net assets are different because:	
Internal service funds are used by management to charge the costs of certain health costs to individual funds. The assets and liabilities of the internal service funds are included in business-type activities	159,397
Net assets of business-type activities	13,253,722

See accompanying notes.

CITY OF WAYNE, NEBRASKA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

Year Ended September 30, 2004

	Electric Fund	Water Fund	Sewer Fund
OPERATING REVENUES:			
User charges	4,592,904	464,458	305,462
Miscellaneous	60,545	14,990	2,194
TOTAL OPERATING REVENUES	4,653,449	479,448	307,656
OPERATING EXPENSES:			
Personnel	758,748	154,318	126,849
Contract services	18,851	42,393	39,212
Commodities	3,140,761	79,988	82,204
Depreciation	394,199	151,107	119,947
Amortization	4,040	0	0
TOTAL OPERATING EXPENSES	4,316,599	427,806	368,212
OPERATING INCOME (LOSS)	336,850	51,642	(60,556)
NON-OPERATING REVENUES (EXPENSE):			
Interest income	229,857	45,558	28,496
Interest expense	(120,897)	(27,342)	(5,193)
Net increase (decrease) in fair value of investments	(51,289)	(10,905)	(11,461)
TOTAL OTHER NON-OPERATING REVENUES (EXPENSE)	57,671	7,311	11,842
NET INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS	394,521	58,953	(48,714)
Transfers - in	56,000	0	0
Transfers - out	(97,830)	(28,000)	(28,000)
NET INCOME	352,691	30,953	(76,714)
Net assets - beginning of year - as originally stated	8,571,818	2,104,859	1,807,632
Prior period adjustment	(267,575)	53,831	163,289
Net assets - beginning of year - as restated	8,304,243	2,158,690	1,970,921
NET ASSETS - END OF YEAR	8,656,934	2,189,643	1,894,207

Transfer Station Fund	Total Enterprise Funds	Internal Service Funds
197,426	5,560,250	226,698
0	77,729	0
197,426	5,637,979	226,698
29,768	1,069,683	249,995
117,284	217,740	0
12,605	3,315,558	0
21,864	687,117	0
0	4,040	0
181,521	5,294,138	249,995
15,905	343,841	(23,297)
741	304,652	2,649
0	(153,432)	0
0	(73,655)	(257)
741	77,565	2,392
16,646	421,406	(20,905)
0	56,000	0
0	(153,830)	0
16,646	323,576	(20,905)
329,045	12,813,354	180,302
7,850	(42,605)	0
336,895	12,770,749	180,302
353,541	13,094,325	159,397

CITY OF WAYNE, NEBRASKA

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Net change in fund balances - total proprietary funds	323,576
Amounts reported for business-type activities in the statement of net activities are different because:	
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities	20,905
Change in net assets of business-type activities	302,671

See accompanying notes.

CITY OF WAYNE, NEBRASKA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

Year Ended September 30, 2004

	Electric Fund	Water Fund	Sewer Fund	Transfer Station Fund	Total Enterprise Funds	Internal Service Fund
OPERATING ACTIVITIES:						
Receipts from customers	4,677,938	478,054	307,593	197,426	5,661,011	231,128
Receipts from other funds	17,500	0	0	0	17,500	0
Payments to other funds	0	0	0	(9,000)	(9,000)	0
Payment to suppliers	(3,096,426)	(124,129)	(127,356)	(129,530)	(3,477,441)	(249,995)
Payment to employees	(767,046)	(155,156)	(128,596)	(26,169)	(1,076,967)	0
NET OPERATING ACTIVITIES	831,966	198,769	51,641	32,727	1,115,103	(18,867)
NON-CAPITAL FINANCING ACTIVITIES:						
Transfers (net)	(41,830)	(28,000)	(28,000)	0	(97,830)	0
Change in customer deposits	(2,615)	0	0	0	(2,615)	0
NET NON-CAPITAL FINANCING ACTIVITIES	(44,445)	(28,000)	(28,000)	0	(100,445)	0
CAPITAL AND RELATED FINANCING ACTIVITIES:						
Payments for capital assets	(219,762)	(18,094)	(82,632)	0	(320,488)	0
Payment for bond fees	(40,400)	0	0	0	(40,400)	0
Proceeds from bonds	2,980,000	0	0	0	2,980,000	0
Debt repayments	(3,215,000)	(151,000)	(29,000)		(3,395,000)	0
Interest payments	(135,974)	(27,342)	(5,193)	0	(168,509)	0
NET CAPITAL AND RELATED FINANCING ACTIVITIES	(631,136)	(196,436)	(116,825)	0	(944,397)	0
INVESTING ACTIVITIES:						
Interest income	244,785	50,762	35,399	741	331,687	2,649
(Increase) decrease in investments	(180,952)	26,352	89,167	0	(65,433)	(2,117)
NET INVESTING ACTIVITIES	63,833	77,114	124,566	741	266,254	532
NET INCREASE (DECREASE) IN CASH	220,218	51,447	31,382	33,468	336,515	(18,335)
Cash - beginning of year	251,775	33,730	59,499	126,009	471,013	59,237
CASH - END OF YEAR	471,993	85,177	90,881	159,477	807,528	40,902

See accompanying notes.

	Electric Fund	Water Fund	Sewer Fund	Transfer Station Fund	Total Enterprise Funds	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET OPERATING ACTIVITIES:						
Operating income	336,850	51,642	(60,556)	15,905	343,841	(23,297)
Items not requiring cash:						
Depreciation and amortization	398,239	151,107	119,947	21,864	691,157	0
(Increase) decrease in assets:						
Rreceivable	39,989	3,809	(6,965)	0	36,833	4,430
Inventory	(3,880)		0	0	(3,880)	0
Due from other funds	27,500	0	0	0	27,500	0
Increase (decrease) in liabilities:						
Accounts payable	30,228	(7,789)	(1,144)	359	21,654	0
Compensated absences	3,040		359	3,599	6,998	0
Due to other funds	0	0	0	(9,000)	(9,000)	0
NET OPERATING ACTIVITIES	831,966	198,769	51,641	32,727	1,115,103	(18,867)
CASH - END OF YEAR CONSIST OF:						
Cash	342,440	39,152	24,877	159,477	565,946	40,902
Restricted cash	129,553	46,025	66,004	0	241,582	0
TOTAL	471,993	85,177	90,881	159,477	807,528	40,902

CITY OF WAYNE, NEBRASKA

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS

September 30, 2004

	Agency Fund
ASSETS:	
Restricted Assets:	
Cash	18,334
Investments	23,497
Sales tax receivable	21,958
TOTAL ASSETS	63,789
LIABILITIES:	
Sales tax payable	19,793
Amounts held for others	43,996
TOTAL LIABILITIES	63,789

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the City of Wayne, Nebraska's (City) significant accounting principles and practices are presented below to assist the reader in evaluating the financial statements and accompanying notes.

Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Government

The City of Wayne, Nebraska operates as a Council-Mayor form of government. The City Council is composed of eight council members and a mayor elected at-large by the citizens.

Reporting Entity

The basic financial statements report on the government as a whole. There were no component units required to be included in the financial statements.

Financial Reporting Requirements

Government Accounting Standards Board (GASB) No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* was issued in June, 1999 and adopted by the City effective October 1, 2003. This statement established new financial reporting requirements for state and local governments.

The adoption of these statements required the City to make several changes to the presentation of its basic financial statements, which include the following significant items:

-Management's Discussion and Analysis, which management has elected to omit.
-Government-wide financial statements are presented, prepared using accrual accounting for all of the City's activities.
-Expanded disclosures for long-term debt and capital assets have been presented.
-Retained earnings and contributed capital have been reclassified into Invested in Capital Assets, net of related debt, Restricted, and Unrestricted net assets.
-Cash flow statements have been presented using the direct method.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

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

Fund Financial Statements

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

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any is recognized when due.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements Continued

The following fund types are used by the City:

Governmental Fund Types

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

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or designated by management to expenditures for specific purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Fund Type

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds are required to be used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements Continued

Proprietary Fund Type Continued

Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The following funds are considered major funds:

Governmental Funds

General Fund as previously described.

Sales Tax Fund is a debt service fund and accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs for the Community Activity Center.

Capital Projects Funds as previously described.

Proprietary Funds

Electric Fund accounts for activities of the City's electric operations.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements Continued

Proprietary Funds

Water Fund accounts for activities of the City's water operations.

Sewer Fund accounts for activities of the City's sewer operations.

Transfer Station Fund accounts for activities of the City's transfer station operations.

The City's internal service fund is presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's enterprise activities, the financial statement of the internal service funds has been allocated based on usage to the business-type activities columns when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

Financial Statement Amounts

Cash

The City has defined cash to include cash on hand, cash in banks and certificates of deposit (valued at cost plus accrued interest to September 30, 2004).

Investments

Investments are valued at quoted market prices.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, grants, and interest.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued

Receivables Continued

Business-type activities report utilities, unbilled utilities, and interest as their major receivables

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes, grants and other similar intergovernmental revenues since they are usually measurable and available in 60 days. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Inventory Valuation

Proprietary Fund inventories are recorded at the lower of cost or market on a first-in, first-out method basis.

Capital Assets

Capital assets that are purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost in the government-wide financial statements. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Actual historical cost was used to value the majority of the assets acquired prior to September 30, 2003.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Improvements	5 – 50 years
Electric, water and sewer plants	27 – 40 years
Machinery and equipment	3 – 30 years
Infrastructure	10 – 90 years

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued

Capital Assets Continued

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash, certificates of deposit, and accounts receivable that are restricted as to their use. The primary restricted assets are related to bonds payable and community development projects.

Deferred Debt Expense

In the fund financial statements, bond issuance costs are recognized in the current period by governmental fund types. In proprietary fund types, bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method which approximates the effective interest method. In the government-wide financial statements, both government and business-type activities capitalize and amortize bond issuance costs over the terms of the respective bonds using a method which approximates the effective interest method.

Long-Term Debt

Long-term debt is reported as liabilities in the government-wide statements and the proprietary fund statements. The long-term debt consists of capital leases, revenue bonds and general obligation bonds.

Long-term debt for governmental funds is not reported in the fund financial statements. The debt proceeds are reported as other financial sources and payment of principal and interest reported as expenditures.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued

Compensated Absences

The liability for compensated absences is recorded as either current portion and/or long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Equity

In the government-wide statements, equity is classified as net assets and displayed in three components:

1) Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and 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.

2) Restricted net assets – Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3) Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if any. Proprietary fund equity is classified the same as in the government-wide statements.

Revenues

Substantially all governmental fund revenues are accrued in the government-wide financial statements. Wayne County bills and collects property taxes and remits to the City monthly.

(Continued on next page)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Amounts Continued

Revenues Continued

These taxes are deemed to be received by the City when collected by the County treasurer. Property taxes expected to be collected with sixty days after year end are recorded as a receivable in the fund statements.

Operating revenues and expenses for proprietary funds are those that result from providing goods and services. Subsidies and grants, which finance either capital or current operations and other revenues, are reported as nonoperating revenue.

Expenditures

Expenditures are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures are classified by character (current, capital outlay, and debt service) in the governmental funds and as operating and nonoperating in the proprietary funds. Proprietary fund inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Interfund Activity

Interfund activities are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2: CUSTODIAL CREDIT RISK

The City maintains a cash pool that is available for use by all funds except those required to maintain separate accounts. Each fund type's portion of these pools is displayed on the balance sheet as "Cash".

Investment pools are under the custody of the City Treasurer. Investing is performed in accordance with investment policies that comply with State Statutes and the City Charter. Funds may be invested in certificates of deposits, time certificates, and in any securities in which the state 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 currently effective. Investments during the year were substantially the same as those at year-end.

Investments consist of certificate of deposits and pooled mortgage backed securities of FNMA, FHLM, and FHLB.

Custodial credit risk is the risk that in the event of a broker-dealer or financial institution failure, the government's deposits may not be fully returned. State law requires that all funds held in depositories (financial institutions) be fully insured or collateralized.

For financial reporting, cash and certificates of deposits of $2,838,703 are considered uninsured and collateralized by the pledging financial institution and investments in the pooled mortgage backed securities of $3,313,583 are considered uninsured and unregistered held by the broker-dealer by not in the City's name.

NOTE 3: RESTRICTED ASSETS

Certain investments of the General Fund have been restricted for park benefits. In addition, certain cash and investments in the Debt Service Funds have been restricted for payment of debt and certain cash and investments in the Enterprise Fund are restricted as required by various bond agreements. Agency Fund cash and investments are restricted by the source of the funds.

NOTE 4: SPECIAL ASSESSMENTS

The funds to pay for special assessment projects are generated through the levy of an assessment on individual property owners benefited by the project and through property taxes provided by the City to pay for the project's benefit to the general public.

(Continued on next page)

NOTE 4: SPECIAL ASSESSMENTS (CONTINUED)

The assessments receivable from property owners reflected on the balance sheet are payable in annual installments of principal and interest over periods up to 15 years. The City is obligated to provide for the funding of any deficiency in the financing of these projects through the levy of property taxes.

NOTE 5: CAPITAL ASSETS

	October 1, 2003	Additions	Disposals	September 30, 2004
Governmental activities:				
Land	563,047	0	0	563,047
Buildings	9,043,040	26,575	0	9,069,615
Equipment	2,713,259	68,922	1,128,726	1,653,455
Improvements	2,287,239	18,337	1,544,570	761,006
Construction in progress	68,671	1,122,505	68,671	1,122,505
Infrastructure	9,453,925	40,667	0	9,494,592
Total	24,129,181	1,277,006	2,741,967	22,664,220
Less accumulated depreciation				
Buildings	1,223,975	233,041	0	1,457,016
Equipment	1,119,947	110,080	0	1,230,027
Improvements	532,578	25,781	0	558,359
Infrastructure	5,158,956	246,404	0	5,405,360
Total	8,035,456	615,306	0	8,650,762
Net	16,093,725	661,700	2,741,967	14,013,458
Business-type activities:				
Land	363,475	0	22,920	340,555
Buildings	8,425,507	0	630,241	7,795,266
Distribution system	9,062,894	214,766	128,440	9,149,220
Equipment	5,253,955	94,493	907,649	4,440,799
Construction in process	0	11,229	0	11,229
Total	23,105,831	320,488	1,689,250	21,737,069
Less accumulated depreciation				
Buildings	3,471,694	278,839	0	3,750,533
Distribution system	5,173,820	228,141	66,179	5,335,782
Equipment	4,651,351	180,139	1,023,150	3,808,340
Total	13,296,865	687,119	1,089,329	12,894,655
Net	9,808,966	(366,631)	599,921	8,842,414

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NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	108,840
Public safety	72,425
Public works	290,955
Recreation	38,309
Community Activity Center	83,762
Library	21,015
Total depreciation expense	615,306
Business-type activities	
Electric	394,199
Water	151,107
Sewer	119,947
Transfer station	21,864
Total depreciation expense	687,117

NOTE 6: LONG-TERM DEBT

The City is in compliance with all significant requirements of the various bond requirements. Long-term debt consists of the following:

	October 1, 2003	Issued	Retired	September 30, 2004	Due within One Year
Governmental Activities:					
Various Purpose Bonds – 1998 with interest at 4.45% to 5.00%, maturing April 2013.	245,000	0	0	245,000	0
Sales Tax Revenue Bonds – 2000 with interest at 4.75% to 5.25%, maturing December 2015.	2,760,000	0	335,000	2,425,000	160,000
Public Safety Bonds – 2001 with interest at 4.25% to 5.35%, maturing November 2021.	670,000	0	25,000	645,000	25,000

(Continued on next page)

NOTE 6: LONG-TERM DEBT (CONTINUED)

	October 1, 2003	Issued	Retired	September 30, 2004	Due within One Year
Governmental Activities Continued:					
Various Purpose Bonds – 2002 with interest at 2.25% to 4.80%, maturing June 2011.	525,000	0	105,000	420,000	100,000
Bond Anticipation Note – 2003 with interest At 1.70%, maturing November 15, 2005.	0	640,000	0	640,000	0
Capital lease with interest at 5.36%, maturing May 2009.	400,980	0	58,313	342,667	61,480
Compensated Absences	59,292	20,917	0	80,209	60,331
Total Governmental Activities	4,660,272	660,917	523,313	4,797,876	406,811
Business-Type Activities:					
Water Revenue and Refunding Bonds – 1998 with interest at 4.05% to 4.75%, maturing July 2008.	815,000	0	151,000	664,000	155,000
Sewer Revenue and Refunding Bonds – 1998 with interest at 4.05% to 4.75%, maturing July 2008.	155,000	0	29,000	126,000	30,000
Electric Revenue and Refunding Bonds – 1999 with interest at 3.70% to 5.00%, maturing June 2015.	3,090,000	0	3,090,000	0	0
Electric Refunding Bonds – 2003 with interest at 1.25% to 4.35%, maturing June 2015.	0	2,980,000	125,000	2,855,000	230,000
Compensated Absences	50,377	8,496	0	58,873	58,873
Total Business-Type Activities	4,110,377	2,988,496	3,395,000	3,703,873	473,873

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NOTE 6: LONG-TERM DEBT (CONTINUED)

Maturities during the next five years and thereafter are as follows:

	Bonds		Capital Lease	
	Principal	Interest	Principal	Interest
2005	700,000	325,104	61,481	17,554
2006	1,335,000	292,864	64,821	14,215
2007	725,000	262,462	68,342	10,691
2008	755,000	232,157	72,054	6,979
2009	565,000	201,261	75,969	3,064
2010-2014	2,960,000	612,864	0	0
2015-2019	875,000	87,210	0	0
2020-2021	105,000	6,382	0	0
Total	8,020,000	2,020,304	342,667	52,503

Interest expense was charged to functions/programs as follows:

Governmental activities:	
Public safety	33,313
Public works	50,075
Community Activity Center	132,911
Total interest expense	216,299
Business-type activities	
Electric	120,897
Water	27,342
Sewer	5,193
Total interest expense	153,432

NOTE 7: INTERFUND BALANCES AND ACTIVITY

Due to and due from balances are used to record loans between funds. Of the $170,000, $17,500 is expected to be paid back within one year and the remaining balance of $152,500 will be paid back in future years.

(Continued on next page)

NOTE 7: INTERFUND BALANCES AND ACTIVITY CONTINUED

Due from	Due to	
	General Fund	Transfer Station Fund
Electric Fund	70,000	100,000

Transfers are used to move revenues between the funds. The transfers below are routine in nature.

Transfer out	Transfer in			
	General Fund	Sales Tax Fund	Nonmajor Governmental Fund	Electric Fund
Capital Projects Fund	0	37,000	50,000	0
Nonmajor Governmental Funds	10,000	0	0	0
Sales tax Fund	50,047	0	0	0
Electric Fund	39,518	0	58,312	0
Sewer Fund	0	0	0	28,000
Water Fund	0	0	0	28,000
Total	99,565	37,000	108,312	56,000

NOTE 8: RETIREMENT PLANS

Under Nebraska statutes, the City is to maintain a retirement plan for City policemen. This plan is funded through employee and employer contributions. The total contributions under this plan are deposited under a money purchase retirement plan with the Principal Financial Group. This plan requires that covered employees and City contribute an amount equal to 6% of the employee's monthly salary until such employee becomes eligible for regular retirement at which time contributions shall cease. Both the City and the covered employees required contribution of $19,868 each was made for the year ended September 30, 2004.

NOTE 9: OTHER POST EMPLOYMENT BENEFITS

The City will provide postretirement health insurance for three employees until they reach age 65 in accordance with the early retirement agreement. Postretirement health insurance expense of $3,879 was recognized for the year ended September 30, 2004.

(Continued on next page)

NOTE 10: ELECTRIC GENERATION CAPACITY LEASE AND WHOLESALE POWER COMMITMENT

The City entered into an agreement with Nebraska Public Power District (NPPD) on March 1, 1990 and amended in 1998, whereby the City agreed to sell to Nebraska Public Power District (NPPD) the usable capacity of the City's generating facilities. The agreement expires March 1, 2015. This contract was renegotiated subsequent to year end.

Concurrent with the execution of the capacity lease described above, the City entered into a wholesale power contract with Nebraska Public Power District (NPPD). Under the terms of the agreement, the City is required to purchase all the electric power and energy in excess of power and energy supplied by the NPPD needed in the operation of the City distribution system. Power purchased under this agreement totaled $2,179,018 for the year ended September 30, 2004. Prior to September 20, 2003, the City entered into a new long-term contract with NPPD to provide electric energy to the City. Beginning in the year 2011, the City can start reducing power and energy purchases from NPPD and purchase these from other sources. Lease payments for the power plant from NPPD would reduce in the same ratio as power and energy purchase from NPPD. This contract terminates in the year 2021.

The City also receives an allocation of electric energy from the United States Department of Energy Western Area Power Administration.

NOTE 11: CITY INSURANCE

The City has purchased commercial insurance on its own for the City of Wayne. This insurance is for the various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; dishonest employees; injuries to employees; and natural disasters. The City has not paid any amounts in excess of the coverage provided by insurance in the last three audit periods.

NOTE 12: CONDUIT DEBT OBLIGATION

On October 31, 1996, the Community Development Agency of the City of Wayne, Nebraska issued Tax Increment Revenue Bonds (Vintage Hill Project Area), Series 1996, in the principal amount of $250,000 and on September 30, 1998, tax increment revenue bonds in the original amount of $150,000 for the Wayne East Project. These bonds constitute a limited obligation of the Agency payable exclusively from that portion of the ad valorem real estate taxes mentioned in subdivision (2) of Section 18-2147 R.R.S. Neb. 1943, as levied, collected and apportioned from year to year with respect to certain real estate located within the "Project Areas".

(Continued on next page)

NOTE 12: CONDUIT DEBT OBLIGATION CONTINUED

These bonds do not constitute an obligation of the City of Wayne, Nebraska and the City of Wayne, Nebraska is not liable for the payment thereof from any fund or source including but not limited to tax monies (except for such tax receipts as having been pledged pursuant to Section 18-2150 R.R.S. Neb. 1943). Accordingly, these bonds are not reported as liabilities in the accompanying financial statements.

The City has issued Industrial Revenue Bonds in the original amount of $2,700,000 to provide financial assistance to Pacific Coast Feathers for the expansion of the facilities of Restful Knights, Inc. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The City facilitated a capital lease for equipment in the amount of $29,382 with AVP leasing for the Wayne Country Club. The lease is secured by the equipment and is guaranteed by the Wayne Country Club and accordingly the equipment and the capital lease have not been reported in the financial statements.

As of September 30, 2004, the aggregate amount of principal conduit debt outstanding was $1,657,352.

NOTE 13: COMMITMENTS

At September 20, 2004, the City has entered into contracts for construction as follows:

	Contract Amount	Expended To Date	Commitment
Wayne Trail	499,700	248,200	251,500
Country Club Road	628,900	149,700	479,200

NOTE 14: RECLASSIFICATIONS AND PRIOR PERIOD ADJUSTMENTS

Net assets of business-type activities on the statement of activities and in the fund financial statements have been reclassified as of the beginning of the year. The distinction between contributed capital and retained earnings is no longer operative under the new reporting model as directed by the provisions of GASB Statement No. 34.

(Continued on next page)

NOTE 14: RECLASSIFICATIONS AND PRIOR PERIOD ADJUSTMENTS CONTINUED

Beginning balances restatements have also been recorded in the governmental funds due to various fund reclassifications as implemented under GASB Statement No. 34 and the effects related to the required change in measurement focus and basis accounting. The reclassifications of funds between governmental and proprietary funds are shown under prior period adjustment on the fund statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF WAYNE, NEBRASKA

BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GOVERNMENTAL AND ENTERPRISE FUNDS

Year Ended September 30, 2004

	Original/Final Budget	Actual
RECEIPTS:		
Taxes	688,000	679,314
Intergovernmental	1,815,727	1,167,881
Local	550,750	1,706,553
Other	10,995,499	6,775,508
Transfers	414,912	297,945
TOTAL RECEIPTS	14,464,888	10,627,201
DISBURSEMENTS:		
General government	370,713	337,061
Public safety	829,759	1,393,080
Public works	3,097,271	1,174,945
Public health and social services	162,881	164,024
Culture and recreation	1,759,960	977,472
Community Development	273,582	197,711
Miscellaneous	1,409,205	0
Electric	12,361,839	8,427,659
Solid Waste	307,161	187,371
Wastewater	1,189,597	514,785
Water	1,545,740	642,357
TOTAL DISBURSEMENTS	23,307,708	14,016,466
RECEIPTS OVER (UNDER) DISBURSEMENTS	(8,842,820)	(3,389,265)

See accompanying note to budgetary comparison schedules - cash basis.

CITY OF WAYNE, NEBRASKA

NOTES TO BUDGETARY COMPARISON SCHEDULE – CASH BASIS

September 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Data

The budget prepared on a cash basis differs from that used to present the financial statements in accordance with generally accepted accounting principles (GAAP). Such differences and their effect on the respective funds' are summarized as follows:

Receipts over (under) disbursements and other financing sources (uses) on a budgetary basis	(3,389,265)
Adjustments increase (decrease) for accruals:	
Revenues – Governmental funds	(139,455)
Revenues – Enterprise funds	(143,578)
Expenditures – Governmental funds	167,471
Expenditures – Enterprise funds	3,846,866
Revenues over (under) expenditures and other financing sources (uses) on a GAAP basis	342,039

ADDITIONAL INFORMATION

CITY OF WAYNE, NEBRASKA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE:	Federal CFDA Number	Grant or Identifying Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Passed through Nebraska Department of Roads:			
Federal Transit-Capital Improvement Grants	20.509	RPT-M901	17,502
Highway Planning & Construction	20.205	STPAA 6702(3)	144,820
Highway Planning & Construction	20.205	STPB-90(3)	266,744
Highway Planning & Construction	20.205	STPAA-STPE 6702(3)	18,376
COPS Grant	16.710	2002UM/WX0216	33,061
U.S. DEPARTMENT OF AGRICULTURE:			
Nutrition Program for the Elderly	10.570	1405	9,926
U.S. HEALTH AND HUMAN SERVICES:			
Special Programs for the Aging-Title III Part B-Grants for Supportive Services and Senior Centers	93.044	1405	6,074
Special Programs for the Aging-Title III Part C-Nutrition Services	93.045	1405	20,623
TOTAL FEDERAL EXPENDITURES			517,126

See accompanying notes to schedule of expenditures of federal awards.

CITY OF WAYNE, NEBRASKA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Years Ended September 30, 2004

NOTE 1: <u>BASIS OF PRESENTATION</u>

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

NOTE 2: <u>REPORTING ENTITY</u>

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

NOTE 3: <u>PASS THROUGH AWARDS</u>

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

NOTE 4: <u>CONTINGENCIES</u>

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

ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133

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

To the City Council
Wayne, Nebraska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wayne, Nebraska, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2004. 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.

Compliance:
As part of obtaining reasonable assurance about whether the City of Wayne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:
In planning and performing our audit, we considered the City of Wayne's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements and amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management, others within the Organization, and state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Contryman Associates, P.C.
Certified Public Accountants
Grand Island, Nebraska

December 17, 2004

CONTRYMAN ASSOCIATES, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
Wayne, Nebraska

Compliance

We have audited the compliance of the City of Wayne, Nebraska, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2004. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Wayne, Nebraska, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the City of Wayne, Nebraska, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information of the city council, management, and state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Contryman Associates, P.C.
Certified Public Accountants
Grand Island, Nebraska

December 17, 2004

CITY OF WAYNE, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Years Ended September 30, 2004

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements:	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
Federal Awards:	
Internal control over programs:	
Material weakness(es) identified?	No
Reportable conditions(s) identified that are not considered To be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No
Identification of major programs:	
CFDA Number:	Name of Federal Program
20.205	Highway Planning & Construction
Dollar threshold used to distinguish between type A and type B programs:	$400,000
Auditee qualified as low risk auditee?	No

(Continued on next page)

CITY OF WAYNE, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Years Ended September 30, 2004

SECTION II – SUMMARY OF AUDITORS' RESULTS

Findings Required to be Reported by *Government Auditing Standards*

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Years Ended September 30, 2003

SECTION III – SUMMARY OF AUDITORS' RESULTS

Findings Required to be Reported by *Government Auditing Standards*

None