

CITY OF VALENTINE, NEBRASKA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

September 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Members of the City Council
City of Valentine, 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 Valentine, Nebraska, as of and for the year ended September 30, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Valentine, Nebraska, as of September 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013, on our consideration of the City of Valentine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control

SHAREHOLDERS

Robert D. Almquist
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over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 55 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements as a whole. The accompanying other supplementary information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information, as listed in the Table of Contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Almquist, Maltzahn
Dalloway & Lutz, P.C.*

Grand Island, Nebraska
February 5, 2013

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For The Year Ended September 30, 2012**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As management of the City of Valentine, we offer readers of the City of Valentine financial statements this narrative overview and analysis of the financial activities of the City of Valentine for the fiscal year ended September 30, 2012.

Financial Highlights

- The assets of the City of Valentine exceeded its liabilities at the close of the most recent fiscal year by \$17,142,275 (*net assets*). Of this amount, \$3,906,184 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Valentine governmental funds reported combined ending net assets of \$9,401,000. Approximately 10.4 percent of this total amount, \$979,275, is *unrestricted net assets*.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$710,433, or 26.6 percent of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Valentine's basic financial statements. The City of Valentine's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Valentine's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Valentine's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Valentine is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Valentine that are principally supported by taxes and intergovernmental revenues (*governmental activities*)

CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012

from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Valentine include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Valentine include the Electric, Water, Sewer, and Landfill Enterprise Funds.

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Valentine, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Valentine can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Valentine maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Street Fund, the Airport Fund, and the Infrastructure Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Valentine adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the General, Street, Airport, and Infrastructure Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary funds. The City of Valentine maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

government-wide financial statements. The City of Valentine uses enterprise funds to account for its Electric, Water, Sewer, and Landfill Funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water, Sewer, and Landfill Funds, all of which are considered to be major funds of the City of Valentine.

The basic proprietary fund financial statements can be found on pages 19-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-54 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Valentine's budgetary comparison schedules. Required supplementary information can be found on pages 55-59 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining fund statements can be found on pages 60-62 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Valentine, assets exceeded liabilities by \$17,142,275 at the close of the most recent fiscal year.

Summary of Net Assets

	<u>September 30, 2012</u>			<u>September 30, 2011</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and Other Assets	\$ 3,242,490	\$ 4,392,396	\$ 7,634,886	\$ 3,218,662	\$ 4,324,791	\$ 7,543,453
Capital Assets	7,938,199	7,242,722	15,180,921	7,574,793	7,453,175	15,027,968
Total Assets	<u>11,180,689</u>	<u>11,635,118</u>	<u>22,815,807</u>	<u>10,793,455</u>	<u>11,777,966</u>	<u>22,571,421</u>
Long-term Liabilities	1,207,641	3,170,569	4,378,210	1,564,387	3,151,374	4,715,761
Other Liabilities	572,048	723,274	1,295,322	478,917	673,853	1,152,770
Total Liabilities	<u>1,779,689</u>	<u>3,893,843</u>	<u>5,673,532</u>	<u>2,043,304</u>	<u>3,825,227</u>	<u>5,868,531</u>
Net Assets:						
Invested in Capital Assets, net of related debt	6,496,810	4,814,366	11,311,176	5,788,600	4,906,331	10,694,931
Restricted	1,924,915	-	1,924,915	1,949,452	-	1,949,452
Unrestricted	979,275	2,926,909	3,906,184	1,012,099	3,046,408	4,058,507
Total Net Assets	<u>\$ 9,401,000</u>	<u>\$ 7,741,275</u>	<u>\$ 17,142,275</u>	<u>\$ 8,750,151</u>	<u>\$ 7,952,739</u>	<u>\$ 16,702,890</u>

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

By far the largest portion of the City of Valentine's net assets (66.0 percent) reflects its investment in capital assets (land, infrastructure, buildings, machinery, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Valentine uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Valentine's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Valentine's net assets (11.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,906,184) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Valentine is able to report positive balances in all three categories of net assets, both for the government as a whole and for its separate governmental and business-type activities.

Expenses and Program Revenues – Governmental Activities

<u>Function</u>	<u>Year Ended September 30, 2012</u>		<u>Year Ended September 30, 2011</u>	
	<u>Program Revenues</u>	<u>Program Expenses</u>	<u>Program Revenues</u>	<u>Program Expenses</u>
General Government	\$ 81,102	\$ 222,040	\$ 192,723	\$ 415,934
Public Safety	2,122	523,614	3,135	484,424
Public Works	5,613	416,986	3,288	365,241
Recreation	272,616	372,624	245,666	360,840
Cemetery	11,688	88,736	7,263	35,029
Airport	321,233	313,167	373,867	321,805
Economic Development	-	8,000	-	48,015
Interest	-	33,590	-	65,365
Depreciation and Amortization	-	430,579	-	416,573
Total	<u>694,374</u>	<u>2,409,336</u>	<u>825,942</u>	<u>2,513,226</u>
Transfers out	-	-	-	58,400
	<u>\$ 694,374</u>	<u>\$ 2,409,336</u>	<u>\$ 825,942</u>	<u>\$ 2,571,626</u>

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

Revenues by Source – Governmental Activities

SOURCES OF REVENUE

	<u>Year Ended September 30, 2012</u>		<u>Year Ended September 30, 2011</u>	
Charges for Services	\$ 453,731	14.83 %	\$ 373,433	11.57 %
Operating Grants and Contributions	115,928	3.79	346,647	10.74
Capital Grants and Contributions	124,715	4.08	105,862	3.28
Property Taxes	415,613	13.58	417,882	12.94
Motor Vehicle Taxes	51,140	1.67	49,372	1.53
Sales Tax	914,320	29.88	867,045	26.86
Franchise Taxes	389,370	12.72	392,955	12.17
State Allocation	483,320	15.79	505,132	15.65
Special Assessments	25,832	0.84	79,481	2.46
Miscellaneous	77,359	2.53	80,113	2.48
Loss on Disposal of Equipment	(639)	(0.02)	-	-
Interest	9,496	0.31	10,311	0.32
Total	<u>\$ 3,060,185</u>	<u>100.00 %</u>	<u>\$ 3,228,233</u>	<u>100.00 %</u>

Net assets increased \$650,849 in the governmental funds during the year ended September 30, 2012.

Business-type activities. Business-type activities decreased the City of Valentine's net assets by \$(211,464). Key elements of this decrease are as follows:

Expenses and Program Revenues – Business-type Activities

<u>Function</u>	<u>Year Ended September 30, 2012</u>		<u>Year Ended September 30, 2011</u>	
	<u>Program Revenues</u>	<u>Program Expenses</u>	<u>Program Revenues</u>	<u>Program Expenses</u>
Electric	\$ 3,748,809	\$ 3,941,968	\$ 3,724,712	\$ 3,904,359
Water	466,933	412,951	368,662	382,708
Sewer	271,760	345,861	258,165	353,177
Landfill	540,470	561,463	525,402	477,055
Total	<u>\$ 5,027,972</u>	<u>\$ 5,262,243</u>	<u>\$ 4,876,941</u>	<u>\$ 5,117,299</u>

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

Revenues by Source – Business-type Activities

SOURCES OF REVENUE

	<u>Year Ended September 30, 2012</u>		<u>Year Ended September 30, 2011</u>	
Charges for Services	\$ 5,023,070	99.45 %	\$ 4,572,607	98.22 %
Grants and Contributions	4,902	0.10	4,334	0.09
Special Assessments	2,595	0.05	3,634	0.07
Loss on Disposal of Equipment	(533)	(0.01)	-	-
Interest	20,745	0.41	21,697	0.44
Interfund Transfer	-	-	58,400	1.18
Total	<u>\$ 5,050,779</u>	<u>100.00 %</u>	<u>\$ 4,660,672</u>	<u>100.00 %</u>

Financial Analysis of the Government's Funds

As noted earlier, the City of Valentine uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Valentine's *governmental* funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Valentine's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Valentine's governmental funds reported combined ending fund balances of \$2,784,515. Approximately 25.5 percent of this total amount (\$710,433) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balances is not available for new spending because it has already been 1) restricted for debt service (\$373,574), 2) restricted to pay for infrastructure (\$662,049), 3) restricted for economic development (\$404,023), 4) restricted for street improvements (\$288,034), 5) restricted for community betterment (\$32,317), 6) nonspendable for cemetery perpetual care (\$137,572), 7) nonspendable for inventory and prepaids (\$49,158), 8) assigned for airport activities (\$19,455), or 9) assigned for budgetary stabilization (\$107,900).

The General Fund is the chief operating fund of the City of Valentine. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$710,433, while total fund balance reached \$1,221,003. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unreserved fund balance represents 26.6 percent of total General Fund expenditures, while total fund balance represents 45.6 percent of the same amount.

The fund balance of the City of Valentine's General Fund decreased by \$(28,431) during the current fiscal year.

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

Proprietary funds. The City of Valentine's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the year were as follows: Electric Fund - \$2,249,477, Water Fund - \$533,390, Sewer Fund - \$139,696, and Landfill Fund - \$4,346. The Electric Fund net assets decreased \$(179,394), the Water Fund net assets increased \$57,442, the Sewer Fund net assets decreased \$(72,482), and the Landfill Fund net assets decreased \$(17,030). Other factors concerning the finances of these four funds have already been addressed in the discussion of the City of Valentine's business-type activities.

Budgetary Highlights

The City of Valentine did not amend its budget during the year ended September 30, 2012.

Capital Asset and Debt Administration

Capital Assets. The City of Valentine's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$15,180,921 (net of accumulated depreciation). This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Ecology playground equipment - \$20,000
- Gym windows and doors - \$135,000
- Paving Districts 119 and 120 - \$548,401
- Sirens - \$77,024
- City Third water main - \$22,143
- Wastewater treatment plant improvements - \$136,008

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

**City of Valentine's Capital Assets
(net of depreciation)**

	<u>Year Ended September 30, 2012</u>			<u>Year Ended September 30, 2011</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>		<u>Activities</u>	<u>Activities</u>	
Land	\$ 79,462	\$ -	\$ 79,462	\$ 79,462	\$ -	\$ 79,462
Construction in Progress	-	8,466	8,466	-	23,466	23,466
Buildings and Improvements	7,552,913	741,194	8,294,107	7,192,684	770,065	7,962,749
Machinery and Equipment	252,503	2,947,367	3,199,870	222,931	3,135,300	3,358,231
Distribution Systems, Buildings, and Equipment	-	3,386,450	3,386,450	-	3,340,567	3,340,567
Vehicles	53,321	159,245	212,566	79,716	183,777	263,493
Total	<u>\$ 7,938,199</u>	<u>\$ 7,242,722</u>	<u>\$ 15,180,921</u>	<u>\$ 7,574,793</u>	<u>\$ 7,453,175</u>	<u>\$ 15,027,968</u>

Additional information on the City of Valentine's capital assets can be found in Note C5 on pages 42-44 of this report.

Long-term debt. At the end of the current fiscal year, the City of Valentine had total bonded debt and notes payable outstanding of \$4,063,468.

City of Valentine's Outstanding Debt

	<u>Year Ended September 30, 2012</u>			<u>Year Ended September 30, 2011</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>		<u>Activities</u>	<u>Activities</u>	
General Obligation Bonds	\$ 75,000	\$ -	\$ 75,000	\$ 1,375,000	\$ -	\$ 1,375,000
Refunding Bonds	1,330,000	2,190,000	3,520,000	350,000	-	350,000
Revenue Bonds	-	-	-	-	2,135,000	2,135,000
Notes Payable	72,097	396,371	468,468	87,905	443,310	531,215
Total	<u>\$ 1,477,097</u>	<u>\$ 2,586,371</u>	<u>\$ 4,063,468</u>	<u>\$ 1,812,905</u>	<u>\$ 2,578,310</u>	<u>\$ 4,391,215</u>

The City of Valentine's total debt decreased by \$327,747 (7.5 percent) during the current fiscal year, due to scheduled payments.

The City of Valentine does not have a bond rating.

**CITY OF VALENTINE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012**

Additional information on the City of Valentine's long-term debt can be found in Note C7 on pages 44-48 of this report.

Economic Factors and Next Year's Budgets and Rates

- Property tax asking for the year ending September 30, 2013, is \$411,753, a \$27,789 decrease (6.3 percent) from the prior year.
- The City's property tax levy was \$0.35 for 2012-2013, the same as 2011-2012.
- The City increased electric rates 4.8 percent effective January, 2013.
- The City has a commitment of \$41,447 for the design of the landfill Phase 3 project.

All of these factors were considered in preparing the City of Valentine's budget for the 2013 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the City of Valentine's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City of Valentine, 323 N. Main Street, Valentine, NE 69201.

CITY OF VALENTINE, NEBRASKA

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government		
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,055,510	\$ 1,433,820	\$ 3,489,330
Certificates of deposit	309,441	1,559,276	1,868,717
County treasurer cash	21,313	-	21,313
Receivables:			
Special assessments	55,121	4,463	59,584
Accounts, net of allowance for doubtful accounts	-	213,035	213,035
Unbilled revenue	-	254,969	254,969
Current portion of notes receivable	62,765	16,920	79,685
Property tax	17,229	-	17,229
Interest	413	3,213	3,626
Sales tax	163,728	-	163,728
Inventory	23,394	244,626	268,020
Prepaid expenses	25,764	15,193	40,957
Total current assets	2,734,678	3,745,515	6,480,193
Noncurrent assets:			
Restricted cash and cash equivalents	373,574	-	373,574
Restricted certificates of deposit	-	466,285	466,285
Noncurrent portion of notes receivable	98,530	22,581	121,111
Unamortized bond costs	35,708	66,184	101,892
Bond defeasance, net	-	91,831	91,831
Capital assets:			
Land	79,462	-	79,462
Construction in progress	-	8,466	8,466
Depreciable capital assets, net of depreciation	7,858,737	7,234,256	15,092,993
Net capital assets	7,938,199	7,242,722	15,180,921
Total noncurrent assets	8,446,011	7,889,603	16,335,614
Total assets	11,180,689	11,635,118	22,815,807
LIABILITIES			
Current liabilities:			
Accounts payable	155,192	361,227	516,419
Accrued expenses	51,965	105,169	157,134
Deferred revenue	53,815	2,231	56,046
Customer deposits	-	100,845	100,845
Current portion of long-term obligations	311,076	153,802	464,878
Total current liabilities	572,048	723,274	1,295,322
Noncurrent liabilities:			
Accrued closure and postclosure costs	-	738,000	738,000
Compensated absences	41,620	-	41,620
Noncurrent portion of long-term obligations	1,166,021	2,432,569	3,598,590
Total noncurrent liabilities	1,207,641	3,170,569	4,378,210
Total liabilities	1,779,689	3,893,843	5,673,532
NET ASSETS			
Invested in capital assets, net of related debt	6,496,810	4,814,366	11,311,176
Restricted for:			
Debt service	400,920	-	400,920
Street	288,034	-	288,034
Infrastructure	662,049	-	662,049
Economic development	404,023	-	404,023
Community betterment	32,317	-	32,317
Cemetery perpetual care	137,572	-	137,572
Unrestricted	979,275	2,926,909	3,906,184
Total net assets	\$ 9,401,000	\$ 7,741,275	\$ 17,142,275

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
Primary government:			
Governmental activities:			
General government	\$ 222,040	\$ -	\$ 81,102
Public safety	523,614	-	-
Public works	416,986	5,613	-
Environment and leisure	372,624	147,711	2,312
Cemetery	88,736	11,688	-
Airport	313,167	288,719	32,514
Economic development	8,000	-	-
Interest on long-term debt	33,590	-	-
Depreciation and amortization	430,579	-	-
Total governmental activities	2,409,336	453,731	115,928
Business-type activities:			
Electric	3,941,968	3,748,809	-
Water	412,951	462,031	-
Sewer	345,861	271,760	-
Landfill	561,463	540,470	-
Total business-type activities	5,262,243	5,023,070	-
Total primary government	\$ 7,671,579	\$ 5,476,801	\$ 115,928

See notes to financial statements.

<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ -	\$ (140,938)		\$ (140,938)
2,122	(521,492)		(521,492)
-	(411,373)		(411,373)
122,593	(100,008)		(100,008)
-	(77,048)		(77,048)
-	8,066		8,066
-	(8,000)		(8,000)
-	(33,590)		(33,590)
-	(430,579)		(430,579)
<u>124,715</u>	<u>(1,714,962)</u>	<u>\$ -</u>	<u>(1,714,962)</u>
-	-	(193,159)	(193,159)
4,902	-	53,982	53,982
-	-	(74,101)	(74,101)
-	-	(20,993)	(20,993)
<u>4,902</u>	<u>-</u>	<u>(234,271)</u>	<u>(234,271)</u>
<u>\$ 129,617</u>	<u>(1,714,962)</u>	<u>(234,271)</u>	<u>(1,949,233)</u>
General revenues:			
Taxes:			
Property	415,613	-	415,613
Motor vehicle	51,140	-	51,140
Sales tax	914,320	-	914,320
Franchise	389,370	-	389,370
State allocation	483,320	-	483,320
Special assessments	25,832	2,595	28,427
Miscellaneous	77,359	-	77,359
Loss on disposal of equipment	(639)	(533)	(1,172)
Interest income	9,496	20,745	30,241
Total general revenues	<u>2,365,811</u>	<u>22,807</u>	<u>2,388,618</u>
Change in net assets	650,849	(211,464)	439,385
Net assets - September 30, 2011	<u>8,750,151</u>	<u>7,952,739</u>	<u>16,702,890</u>
Net assets - September 30, 2012	<u>\$ 9,401,000</u>	<u>\$ 7,741,275</u>	<u>\$ 17,142,275</u>

CITY OF VALENTINE, NEBRASKA

**BALANCE SHEET -
GOVERNMENTAL FUNDS**

September 30, 2012

	<u>General</u>	<u>Street</u>	<u>Airport</u>	<u>Infrastructure</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 810,624	\$ 203,695	\$ 35,304	\$ 585,753	\$ 420,134	\$ 2,055,510
Certificates of deposit	77,270	98,345	-	-	133,826	309,441
County treasurer cash	15,529	5,784	-	-	-	21,313
Receivables:						
Special assessments	-	55,121	-	-	-	55,121
Property tax	13,861	3,368	-	-	-	17,229
Interest	61	307	-	-	45	413
Sales tax	50,859	11,136	-	76,296	25,437	163,728
Inventory	-	-	23,394	-	-	23,394
Prepaid expenses	16,452	7,155	2,157	-	-	25,764
Restricted assets:						
Cash and cash equivalents	373,574	-	-	-	-	373,574
	<u>373,574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,574</u>
Total assets	<u>\$ 1,358,230</u>	<u>\$ 384,911</u>	<u>\$ 60,855</u>	<u>\$ 662,049</u>	<u>\$ 579,442</u>	<u>\$ 3,045,487</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 88,599	\$ 45,414	\$ 15,649	\$ -	\$ 5,530	\$ 155,192
Accrued expenses	38,400	13,365	200	-	-	51,965
Deferred revenue	10,228	43,587	-	-	-	53,815
Total liabilities	<u>137,227</u>	<u>102,366</u>	<u>15,849</u>	<u>-</u>	<u>5,530</u>	<u>260,972</u>
Fund balances:						
Nonspendable:						
Inventory and prepaids	16,452	7,155	25,551	-	-	49,158
Cemetery perpetual care	-	-	-	-	137,572	137,572
Restricted for:						
Debt service	373,574	-	-	-	-	373,574
Street improvements	12,644	275,390	-	-	-	288,034
Infrastructure	-	-	-	662,049	-	662,049
Economic development	-	-	-	-	404,023	404,023
Community betterment	-	-	-	-	32,317	32,317
Assigned for:						
Airport	-	-	19,455	-	-	19,455
Budgetary stabilization	107,900	-	-	-	-	107,900
Unassigned	710,433	-	-	-	-	710,433
Total fund balances	<u>1,221,003</u>	<u>282,545</u>	<u>45,006</u>	<u>662,049</u>	<u>573,912</u>	<u>2,784,515</u>
Total liabilities and fund balances	<u>\$ 1,358,230</u>	<u>\$ 384,911</u>	<u>\$ 60,855</u>	<u>\$ 662,049</u>	<u>\$ 579,442</u>	<u>\$ 3,045,487</u>

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA

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

September 30, 2012

Total fund balances - governmental funds		\$ 2,784,515
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:		
Notes receivable are not recorded as an asset in the fund financial statements.		161,295
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$10,355,508 and the accumulated depreciation is \$2,417,309.		7,938,199
Bond issuance costs for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The bond issuance costs are \$74,017 and the accumulated amortization is \$38,309.		35,708
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Compensated absences	\$ (41,620)	
Bonds and notes payable	<u>(1,477,097)</u>	<u>(1,518,717)</u>
Total net assets - governmental activities		<u><u>\$ 9,401,000</u></u>

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2012

	<u>General</u>	<u>Street</u>	<u>Airport</u>	<u>Infrastructure</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes:						
Property	\$ 415,613	\$ -	\$ -	\$ -	\$ -	\$ 415,613
Motor vehicle	-	51,140	-	-	-	51,140
Sales tax	282,642	66,393	-	423,964	141,321	914,320
Franchise	389,370	-	-	-	-	389,370
Intergovernmental	82,126	401,194	-	-	-	483,320
Special assessments	-	25,832	-	-	-	25,832
Licenses and permits	12,776	-	-	-	5,855	18,631
Charges for services	159,399	5,613	288,719	-	-	453,731
Grants and donations	188,801	-	32,514	-	19,328	240,643
Loan collections	-	-	-	-	19,656	19,656
Interest income	5,658	2,068	-	1,304	466	9,496
Bond proceeds	1,050,000	-	-	-	-	1,050,000
Other income	47,476	1,375	968	-	3,440	53,259
Total revenues	2,633,861	553,615	322,201	425,268	190,066	4,125,011
EXPENDITURES						
General government	224,625	-	-	-	5,530	230,155
Public safety	513,434	-	-	-	-	513,434
Public works	-	414,537	-	-	-	414,537
Environment and leisure	372,808	-	-	-	-	372,808
Cemetery	88,736	-	-	-	-	88,736
Airport	-	-	313,167	-	-	313,167
Economic development	-	-	-	-	40,000	40,000
Capital outlay	232,024	554,021	-	-	-	786,045
Bond issuance costs	17,575	-	-	-	-	17,575
Principal payments on debt	1,205,000	165,000	15,808	-	-	1,385,808
Interest on long-term debt	20,798	11,343	1,449	-	-	33,590
Total expenditures	2,675,000	1,144,901	330,424	-	45,530	4,195,855
Excess (deficiency) of revenues over expenditures	(41,139)	(591,286)	(8,223)	425,268	144,536	(70,844)
OTHER FINANCING SOURCES (USES)						
Net transfers in (out)	12,708	548,401	-	(548,401)	(12,708)	-
Net change in fund balances	(28,431)	(42,885)	(8,223)	(123,133)	131,828	(70,844)
Fund balances - September 30, 2011	1,249,434	325,430	53,229	785,182	442,084	2,855,359
Fund balances - September 30, 2012	\$ 1,221,003	\$ 282,545	\$ 45,006	\$ 662,049	\$ 573,912	\$ 2,784,515

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Total net change in fund balances - governmental funds	\$ (70,844)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Payments on notes receivable are reported in the governmental funds as revenue, but the payments decrease notes receivable in the statement of activities.	(14,187)
Advances on notes receivable are reported in the governmental funds as expenditures, but the advances increase notes receivable in the statement of activities.	40,000
The forgiveness of notes receivable is reported as an expense in the statement of net assets. Notes receivable are not reported in the government funds.	(8,000)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay (\$786,045) exceeds depreciation expense (\$422,000).	364,045
Remaining basis on capital asset disposals does not impact the governmental funds. However, in the statement of activities, the remaining basis decreases sales proceeds.	(639)
Bond fees are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the lives of the related bonds as amortization expense. This is the amount by which capitalized bond fees (\$17,575) exceeds amortization expense (\$8,579) in the period.	8,996
The change in noncurrent compensated absences is reported as an expense in the statement of net assets. Noncurrent compensated absences are not reported in the government funds.	(4,330)
Bond proceeds are reported as revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(1,050,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,385,808
Change in net assets of governmental activities	\$ 650,849

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
September 30, 2012

	Enterprise Funds				Eliminations	Total
	Electric Fund	Water Fund	Sewer Fund	Landfill Fund		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,017,522	\$ 289,436	\$ 126,862	\$ -	\$ -	\$ 1,433,820
Certificates of deposit	980,351	243,511	-	335,414	-	1,559,276
Receivables:						
Accounts, net of allowance for doubtful accounts	147,457	38,873	13,509	13,196	-	213,035
Unbilled revenue	202,201	34,806	17,789	173	-	254,969
Assessments	-	2,278	2,185	-	-	4,463
Current portion of notes receivable	16,920	-	-	-	-	16,920
Interest	2,510	703	-	-	-	3,213
Due from other funds	10,132	-	-	-	(10,132)	-
Inventory	225,794	16,891	1,941	-	-	244,626
Prepaid expenses	4,173	4,405	2,802	3,813	-	15,193
Total current assets	<u>2,607,060</u>	<u>630,903</u>	<u>165,088</u>	<u>352,596</u>	<u>(10,132)</u>	<u>3,745,515</u>
Noncurrent assets:						
Restricted certificates of deposit	-	-	-	466,285	-	466,285
Noncurrent portion of notes receivable	22,581	-	-	-	-	22,581
Unamortized bond costs	66,184	-	-	-	-	66,184
Bond defeasance, net	91,831	-	-	-	-	91,831
Capital assets:						
Construction in progress	-	-	-	8,466	-	8,466
Other capital assets	6,352,223	1,281,422	3,156,054	1,522,374	-	12,312,073
Less accumulated depreciation	<u>(2,526,267)</u>	<u>(635,134)</u>	<u>(1,349,184)</u>	<u>(567,232)</u>	<u>-</u>	<u>(5,077,817)</u>
Net capital assets	<u>3,825,956</u>	<u>646,288</u>	<u>1,806,870</u>	<u>963,608</u>	<u>-</u>	<u>7,242,722</u>
Total noncurrent assets	<u>4,006,552</u>	<u>646,288</u>	<u>1,806,870</u>	<u>1,429,893</u>	<u>-</u>	<u>7,889,603</u>
Total assets	<u>6,613,612</u>	<u>1,277,191</u>	<u>1,971,958</u>	<u>1,782,489</u>	<u>(10,132)</u>	<u>11,635,118</u>
LIABILITIES						
Current liabilities:						
Accounts payable	243,544	45,024	12,650	60,009	-	361,227
Due to other funds	-	-	-	10,132	(10,132)	-
Accrued payroll and vacation	21,480	19,462	11,650	5,514	-	58,106
Deferred revenue	-	1,139	1,092	-	-	2,231
Sales tax payable	23,883	-	-	-	-	23,883
Accrued interest payable	19,937	2,363	-	880	-	23,180
Customer deposits	71,320	29,525	-	-	-	100,845
Current portion of long-term obligations	105,000	22,187	-	26,615	-	153,802
Total current liabilities	<u>485,164</u>	<u>119,700</u>	<u>25,392</u>	<u>103,150</u>	<u>(10,132)</u>	<u>723,274</u>
Noncurrent liabilities:						
Accrued closure and postclosure costs	-	-	-	738,000	-	738,000
Noncurrent portion of long-term obligations	2,085,000	247,248	-	100,321	-	2,432,569
Total noncurrent liabilities	<u>2,085,000</u>	<u>247,248</u>	<u>-</u>	<u>838,321</u>	<u>-</u>	<u>3,170,569</u>
Total liabilities	<u>2,570,164</u>	<u>366,948</u>	<u>25,392</u>	<u>941,471</u>	<u>(10,132)</u>	<u>3,893,843</u>
NET ASSETS						
Invested in capital assets, net of related debt	1,793,971	376,853	1,806,870	836,672	-	4,814,366
Unrestricted	2,249,477	533,390	139,696	4,346	-	2,926,909
Total net assets	<u>\$ 4,043,448</u>	<u>\$ 910,243</u>	<u>\$ 1,946,566</u>	<u>\$ 841,018</u>	<u>\$ -</u>	<u>\$ 7,741,275</u>

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA

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

For the Year Ended September 30, 2012

	Enterprise Funds				Total
	Electric Fund	Water Fund	Sewer Fund	Landfill Fund	
Operating revenues:					
Charges for services	\$ 3,722,634	\$ 456,782	\$ 271,695	\$ 540,104	\$ 4,991,215
Other revenue	26,175	6,325	1,584	366	34,450
Total operating revenues	<u>3,748,809</u>	<u>463,107</u>	<u>273,279</u>	<u>540,470</u>	<u>5,025,665</u>
Operating expenses:					
Cost of power	2,928,679	-	-	-	2,928,679
Personnel services	221,440	213,649	161,478	75,398	671,965
Insurance and bonds	9,801	10,349	6,635	8,873	35,658
Utilities and telephone	13,344	14,340	43,580	1,824	73,088
Repairs and maintenance	43,860	82,156	37,198	16,712	179,926
Contractual obligations	1,914	4,348	1,188	355,092	362,542
Supplies	38,823	7,188	10,025	679	56,715
Licenses and fees	372,096	-	-	12,308	384,404
Professional fees	6,592	3,078	528	825	11,023
Miscellaneous	15,844	8,277	4,265	3,582	31,968
Landfill post-closure costs	-	-	-	38,000	38,000
Depreciation	215,942	58,330	80,964	41,289	396,525
Amortization	8,451	-	-	-	8,451
Total operating expenses	<u>3,876,786</u>	<u>401,715</u>	<u>345,861</u>	<u>554,582</u>	<u>5,178,944</u>
Operating income (loss)	(127,977)	61,392	(72,582)	(14,112)	(153,279)
Nonoperating revenues (expenses):					
Interest income	13,765	2,614	100	4,266	20,745
Grant income	-	4,902	-	-	4,902
Loss on disposal of fixed assets	-	(230)	-	(303)	(533)
Interest expense	(65,182)	(11,236)	-	(6,881)	(83,299)
Total nonoperating revenues (expenses)	<u>(51,417)</u>	<u>(3,950)</u>	<u>100</u>	<u>(2,918)</u>	<u>(58,185)</u>
Change in net assets	(179,394)	57,442	(72,482)	(17,030)	(211,464)
Net assets - September 30, 2011	<u>4,222,842</u>	<u>852,801</u>	<u>2,019,048</u>	<u>858,048</u>	<u>7,952,739</u>
Net assets - September 30, 2012	<u>\$ 4,043,448</u>	<u>\$ 910,243</u>	<u>\$ 1,946,566</u>	<u>\$ 841,018</u>	<u>\$ 7,741,275</u>

See notes to financial statements.

CITY OF VALENTINE, NEBRASKA

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the Year Ended September 30, 2012

	Enterprise Funds	
	Electric Fund	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 3,728,628	\$ 442,319
Payments to suppliers	(3,436,967)	(108,411)
Payments to employees	(230,159)	(212,305)
Net cash provided (used) by operating activities	61,502	121,603
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Change in due to/from other funds	(10,132)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(9,425)	(22,143)
Payments received on notes receivable	16,154	-
Grant proceeds	-	4,902
Proceeds from issuance of capital debt	2,190,000	-
Payments of bond issuance costs	(38,435)	-
Principal payments on capital debt	(80,000)	(21,536)
Payments to refunded bond escrow agent	(2,151,565)	-
Interest paid on capital debt	(80,334)	(11,425)
Net cash used by capital and related financing activities	(153,605)	(50,202)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in certificates of deposit and investments	(8,049)	(2,056)
Interest received	12,570	2,236
Net cash provided (used) by investing activities	4,521	180
Increase (decrease) in cash and cash equivalents	(97,714)	71,581
Cash and cash equivalents - beginning of the year	1,115,236	217,855
Cash and cash equivalents - end of the year	\$ 1,017,522	\$ 289,436

See notes to financial statements.

Enterprise Funds		
<u>Sewer Fund</u>	<u>Landfill Fund</u>	<u>Total</u>
\$ 272,897	\$ 540,367	\$ 4,984,211
(117,285)	(376,893)	(4,039,556)
(160,360)	(76,292)	(679,116)
<u>(4,748)</u>	<u>87,182</u>	<u>265,539</u>
-	10,132	-
(146,571)	(8,466)	(186,605)
-	-	16,154
-	-	4,902
-	-	2,190,000
-	-	(38,435)
-	(25,403)	(126,939)
-	-	(2,151,565)
-	(7,001)	(98,760)
<u>(146,571)</u>	<u>(40,870)</u>	<u>(391,248)</u>
-	(91,599)	(101,704)
100	4,266	19,172
<u>100</u>	<u>(87,333)</u>	<u>(82,532)</u>
(151,219)	(30,889)	(208,241)
<u>278,081</u>	<u>30,889</u>	<u>1,642,061</u>
<u>\$ 126,862</u>	<u>\$ -</u>	<u>\$ 1,433,820</u>

CITY OF VALENTINE, NEBRASKA

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS, Continued**

For the Year Ended September 30, 2012

	Enterprise Funds	
	Electric Fund	Water Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (127,977)	\$ 61,392
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	215,942	58,330
Amortization expense	8,451	-
Change in assets and liabilities:		
Accounts receivable and unbilled revenue	(22,961)	(21,063)
Assessments	-	999
Inventories	(14,009)	1,726
Prepaid expenses	(2,867)	(3,023)
Accounts payable	8,572	22,622
Accrued payroll and vacation	(8,719)	1,344
Deferred revenue	-	(999)
Other accrued expenses	2,290	-
Customer deposits	2,780	275
Net cash provided (used) by operating activities	\$ 61,502	\$ 121,603

See notes to financial statements.

<u>Enterprise Funds</u>		
<u>Sewer Fund</u>	<u>Landfill Fund</u>	<u>Total</u>
\$ (72,582)	\$ (14,112)	\$ (153,279)
80,964	41,289	396,525
-	-	8,451
(381)	(103)	(44,508)
1,231	-	2,230
2,850	-	(9,433)
(1,872)	(2,701)	(10,463)
(14,844)	25,703	42,053
1,118	(894)	(7,151)
(1,232)	-	(2,231)
-	38,000	40,290
-	-	3,055
<u>\$ (4,748)</u>	<u>\$ 87,182</u>	<u>\$ 265,539</u>

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

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CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Valentine, Nebraska (City) are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units 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 GASB pronouncements, in which case GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note.

1. Financial Reporting Entity

The City of Valentine, Nebraska, was incorporated in 1884. The City operates under a Council-Manager form of government with an elected Council, composed of five members. The five members of the City Council are elected on alternating four-year terms. The administration of the City government is performed under the direction of the Council by the City Manager. Services provided to residents include public safety; highways and streets; planning and zoning; parks; recreation; urban development; electric, water, and sanitary sewer systems; landfill; and general administrative services.

The City's financial reporting entity comprises the following:

Primary Government:	City of Valentine
---------------------	-------------------

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14 and Statement No. 39, and has included all organizations that make up the City's legal entity and all component units. Consistent with applicable guidance, the criteria used by the City to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. The City includes organizations as component units under the following financial accountability criteria:

- (1) Organizations for which the City Council appoints a voting majority of the organization's governing body and for which (a) the City is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.
- (2) Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the City.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

1. Financial Reporting Entity, continued

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City by appropriate activity type to compose the primary government presentation. Currently, the City has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

2. Basis of Presentation

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 or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

2. Basis of Presentation, continued

Fund Financial Statements, continued

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

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

Permanent Funds

The Permanent Funds account for assets held in trust by the City. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

2. Basis of Presentation, continued

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

<u>Fund</u>	<u>Brief Description</u>
<i>Major:</i>	
Governmental:	
General	See page 26 for description.
Street	The Street Fund is a Special Revenue Fund that accounts for the City's share of highway allocation from the State of Nebraska.
Airport	The Airport Fund is a Special Revenue Fund that accounts for airport operations.
Infrastructure	Accounts for the collection of the City sales tax.
Proprietary:	
Enterprise:	
Electric, Water, Sewer, and Landfill	See page 26 for description.
<i>Nonmajor:</i>	
Special Revenue:	
Fines and Fees	Accounts for local fines and fees collected.
Economic Development	Accounts for various economic development programs.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

2. Basis of Presentation, continued

Major and Nonmajor Funds, continued

<u>Fund</u>	<u>Brief Description</u>
<i>Nonmajor, continued:</i>	
Permanent:	
Perpetual Care	Accounts for the collection of receipts for cemetery perpetual care.
Queen Jackson Memorial	Accounts for trust monies received for the direct benefit, welfare, and convenience of the public in projects and purposes such as improvement and maintenance of the city park, library, cemetery, and/or any other public project.

3. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b, below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. Measurement Focus and Basis of Accounting, continued

Measurement Focus, continued

- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and fiduciary funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset is used.

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

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, “cash and cash equivalents” include all demand accounts and savings accounts. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all cash on hand, demand accounts, savings accounts, and equity in pooled cash which has an original maturity of three months or less. The County Treasurer’s cash represents revenues collected not yet remitted to the City.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes B2, C1, and D2.

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.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include special assessments and property taxes. Business-type activities report utility billings as their major receivables.

In the fund financial statements, receivables in governmental funds include revenue accruals such as special assessments and property taxes, since they are usually both measurable and available. Proprietary fund receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Assets, Liabilities, and Equity, continued

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital assets are capitalized and reported in the Statement of Net Assets. The City has a \$1,000 capitalization threshold. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. The City has elected the depreciation approach for reporting infrastructure.

Depreciation of general capital assets and all proprietary capital assets is recorded as an allocated 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 ranges of estimated useful lives by type of asset are as follows:

Buildings	20-50 years
Improvements	10-50 years
Machinery and Equipment	3-20 years
Utility System	25-50 years

The governmental funds infrastructure assets are capitalized under the prospective method, valued at cost. The cost of normal maintenance, preservation, and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized.

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Assets, Liabilities, and Equity, continued

Capital Assets, continued

Fund Financial Statements

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

Unamortized Bond Discounts

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 the straight-line method. In the government-wide financial statements, both governmental and business-type activities capitalize and amortize bond issuance costs over the terms of the respective bonds using the straight-line method.

Deferred Revenues

Deferred revenues consist of property taxes and special assessments expected to be collected after 60 days.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. In the event of termination, an employee is paid for all unused accumulated vacation time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds do not report the compensated absence liability since it is not payable from expendable available financial resources. The proprietary funds report the total liability.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds and notes payable.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Assets, Liabilities, and Equity, continued

Long-term Debt, continued

Fund Financial Statements

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted 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.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Assets, Liabilities, and Equity, continued

Equity Classifications, continued

Effective October 1, 2010, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

Assigned—Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by the City Council.

Unassigned—All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 15). Restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the City Council or the Assignment has been changed by the Mayor. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Revenues, Expenditures, and Expenses

Sales and Use Tax

The City presently levies a one-and-one-half-cent sales tax on taxable sales within the City. The sales tax is to be used for the following purposes:

- 3/4 percent – Pay principal and interest on bonds, relieve property tax, and purchase and maintain equipment and infrastructure
- 1/2 percent – Pool debt service
- 1/4 percent – Economic Development Program

The sales tax is collected by the Nebraska Department of Revenue and remitted to the City in the month following receipt. The Nebraska Department of Revenue receives the sales tax approximately one month after collection by vendors. One-third of the sales tax is recorded in the General Fund and used for budgeted pool debt service. The remaining two-thirds is recorded in the infrastructure fund, a special revenue fund, and transfers are made to other funds as needed.

Sales taxes collected by the State in August and September and received by the City in October and November have been accrued and are included in receivables. As of October 1, 2006, sales tax collected on the sale of motor vehicles is recorded in the Street Fund as required by LB904.

Property Taxes

The City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law.

The tax levies for all political subdivisions in Cherry County are certified by the County Board on or before October 15. Real estate taxes are due on December 31 and attach as an enforceable lien and become delinquent in two equal installments on May 1 and September 1. Personal property taxes are due in the same manner as real estate taxes. Delinquent taxes bear 14 percent interest.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Revenues, Expenditures, and Expenses, continued

Property Taxes, continued

Property taxes levied for 2011-2012 are recorded as revenue when expected to be collected within 60 days after September 30, 2012. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – by Character and Function

Proprietary Funds – by Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

1. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include: General, Special Revenue, and Permanent Funds.

2. Deposit Laws and Regulations

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 or with U.S. Treasury and U.S. agency securities having an aggregate value at least equal to the amount of the deposits. The City's cash deposits, including certificates of deposit, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing demand deposits, up to \$250,000 for time deposits/savings, and all non-interest-bearing deposits are insured. Any cash deposits and certificates of deposit in excess of the FDIC limits are insured by collateral held by the pledging institution in the City's name.

3. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources are described in Note A2 for the various funds.

4. Debt Restrictions and Covenants

Bonds Payable

The various bond ordinances relating to the bonds payable contain some restrictions or covenants that are financial-related. These include covenants such as debt service coverage requirements and required reserve account balances. The City is in compliance with the bond restrictions and covenants.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

5. Budgetary Data

The City is required by state laws to adopt annual budgets for all fund types. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the state budget act.

The Nebraska Budget Act provides the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various expenditure and/or tax levy limitations.

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

- a. On or before August 1, the City prepares a budget for the fiscal year commencing October 1. The budget includes proposed expenditures and resources available.
- b. The budget is published with subsequent public hearings to obtain taxpayer comments.
- c. Prior to September 20, the City Council adopts the budget, which is then filed with the appropriate state and county officials.
- d. Total expenditures may not legally exceed total appropriations. Appropriations lapse at year end and any revisions require board approval.
- e. The County Clerk certifies a preliminary property tax levy for each fund of the City which levied property taxes in the county the previous year based on the combined valuation and amount required for the City the prior year. The preliminary levy becomes the final levy unless the governing board passes, by a majority vote, a resolution setting the levy at a different amount.
- f. The property tax requirements resulting from the budget process are utilized by the County Assessor to establish the tax levy. Taxes are levied annually on or before October 15. Real property taxes and personal property taxes are due December 31 with the first half delinquent May 1 and the second half delinquent September 1.
- g. Appropriations lapse at the end of the fiscal year, except for capital improvement appropriations and certain encumbrances against operating budgets.
- h. The City of Valentine adopts a budget by resolution for all fund types.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for the City’s various assets, liabilities, equity, revenues, and expenditures/expenses.

1. Cash and Certificates of Deposit

Deposits

The City’s policies regarding deposits of cash are discussed in Note A4. The table presented below is designed to disclose how its deposits were insured or secured with collateral at September 30, 2012. The categories of collateral are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the City (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City’s name; or collateralized with no written or approved collateral agreement.

<u>Types of Deposits</u>	<u>Total Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total Carrying Value</u>
Demand deposits, money market funds, and certificates of deposit	\$ 6,250,555	\$ 2,157,218	\$ 4,093,337	\$ -	\$ <u>6,197,906</u>

Reconciliation to Government-wide Statement of Net Assets:

Cash and Cash Equivalents –					
Unrestricted					\$ 3,489,330
Restricted					373,574
Certificates of Deposit –					
Unrestricted					1,868,717
Restricted					<u>466,285</u>
					<u>\$ 6,197,906</u>

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

2. Restricted Assets

The restricted assets as of September 30, 2012, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Type of Restricted Assets:			
Cash and cash equivalents	\$ 373,574	\$ -	\$ 373,574
Certificates of deposit	-	466,285	466,285
	<u>\$ 373,574</u>	<u>\$ 466,285</u>	<u>\$ 839,859</u>

The governmental activities' restricted assets (\$373,574) relate to pool debt service and are required by bond agreements. The business-type activities' restricted assets (\$466,285) are restricted to cover landfill closure costs.

3. Accounts Receivable

Accounts receivable of the business-type activities consist of utilities receivable. Receivables detail at September 30, 2012, is as follows:

	<u>Business-type Activities</u>
Accounts receivable	\$ 280,935
Allowance for doubtful accounts	(67,900)
Net accounts receivable	<u>\$ 213,035</u>

4. Notes Receivable

Governmental Activities

The Economic Development Fund has made five economic development loans. Notes receivable at September 30, 2012, consisted of the following:

Note for \$40,000 dated May 20, 2009; principal to be forgiven in annual installments of \$8,000 over five years through May 20, 2014, and interest due in annual installments over five years through May 20, 2014; bearing interest at 4.0 percent. \$ 16,000

Note for \$25,000 dated May 20, 2009; due in 60 monthly payments of \$462.56 through July 1, 2014; bearing interest at 4.0 percent. 9,796

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

4. Notes Receivable, continued

Governmental Activities, continued

Note for \$63,000 dated December 1, 2010; due in 120 monthly payments of \$644.24 through February 15, 2021; bearing interest at 4.0 percent.	55,071
Note for \$44,800 dated July 20, 2011; due in 120 monthly payments of \$453.26 through July 15, 2021; bearing interest at 4.0 percent.	40,428
Grant for \$40,000 dated March 13, 2012; to be repaid if the grantee dissolves or loses their lease. The grantee ceased operations during the year ended September 30, 2012.	<u>40,000</u>
Total governmental activities notes receivable	\$ <u>161,295</u>
Current portion	\$ 62,765
Noncurrent portion	<u>98,530</u>
Total	\$ <u>161,295</u>

Business-type Activities

The Electric Fund has made two loans. Notes receivable at September 30, 2012, consisted of the following:

In 2001, the Landfill Fund borrowed \$80,000 from the Electric Fund for purchase of a loader. Interest is at 5.25 percent and payments are due over a ten-year term.	\$ 9,964
In 2002, the Electric Fund loaned \$66,000 to the Airport Fund as part of a hangar project. Loan payments of \$8,137 are due annually beginning August 31, 2007, with the final payment due August 31, 2016. The loan bears an interest rate of four percent.	<u>29,537</u>
Total business-type activities notes receivable	\$ <u>39,501</u>
Current portion	\$ 16,920
Noncurrent portion	<u>22,581</u>
Total	\$ <u>39,501</u>

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

5. Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance at</u> <u>October 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>September 30, 2012</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 79,462	\$ -	\$ -	\$ 79,462
Other capital assets being depreciated:				
Buildings and improvements	8,512,220	683,401	-	9,195,621
Machinery and equipment	665,990	102,644	(18,255)	750,379
Vehicles	332,746	-	(2,700)	330,046
Total other capital assets at historical cost	<u>9,510,956</u>	<u>786,045</u>	<u>(20,955)</u>	<u>10,276,046</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,319,536)	(323,172)	-	(1,642,708)
Machinery and equipment	(443,059)	(72,433)	17,616	(497,876)
Vehicles	(253,030)	(26,395)	2,700	(276,725)
Total accumulated depreciation	<u>(2,015,625)</u>	<u>(422,000) *</u>	<u>20,316</u>	<u>(2,417,309)</u>
Other capital assets, net	<u>7,495,331</u>	<u>364,045</u>	<u>(639)</u>	<u>7,858,737</u>
Governmental activities capital assets, net	<u>\$ 7,574,793</u>	<u>\$ 364,045</u>	<u>\$ (639)</u>	<u>\$ 7,938,199</u>

* Depreciation expense was incurred by the following governmental activities:

General Fund:

General government \$ 6,700

Public safety:

 Police 18,176

 Fire 33,050

 Total public safety 51,226

Public works:

 Cemetery 7,350

Environment and leisure:

 Swimming pool 65,900

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

5. Capital Assets, continued

Governmental Activities, continued:

General Fund, continued:

Environment and leisure, continued:

Library	12,988
Parks and recreation	23,757
Bookmobile	<u>41</u>
Total environment and leisure	<u>102,686</u>
 Total General Fund	 167,962
 Street Fund	 26,355
Airport Fund	<u>227,683</u>
Total governmental activities depreciation expense	<u>\$ 422,000</u>

	Balance at <u>October 1, 2011</u>	Additions	Disposals	Reclass	Balance at <u>September 30, 2012</u>
<u>Business-type Activities:</u>					
Capital assets not being depreciated:					
Construction in progress	\$ 23,466	\$ 144,474	\$ -	\$(159,474)	\$ 8,466
Other capital assets being depreciated:					
Distribution systems, buildings, and equipment	4,426,129	22,143	-	159,474	4,607,746
Buildings and improvements	1,280,298	-	-	-	1,280,298
Machinery and equipment	6,016,236	19,988	(10,550)	-	6,025,674
Vehicles	<u>411,880</u>	<u>-</u>	<u>(13,525)</u>	<u>-</u>	<u>398,355</u>
Total other capital assets at historical cost	12,134,543	42,131	(24,075)	159,474	12,312,073
Less accumulated depreciation for:					
Distribution systems, buildings, and equipment	(1,085,562)	(135,734)	-	-	(1,221,296)
Buildings and improvements	(510,233)	(28,871)	-	-	(539,104)
Machinery and equipment	(2,880,936)	(207,388)	10,017	-	(3,078,307)
Vehicles	<u>(228,103)</u>	<u>(24,532)</u>	<u>13,525</u>	<u>-</u>	<u>(239,110)</u>
Total accumulated depreciation	<u>(4,704,834)</u>	<u>(396,525) *</u>	<u>23,542</u>	<u>-</u>	<u>(5,077,817)</u>
Other capital assets, net	<u>7,429,709</u>	<u>(354,394)</u>	<u>(533)</u>	<u>159,474</u>	<u>7,234,256</u>
Business-type activities capital assets, net	<u>\$ 7,453,175</u>	<u>\$(209,920)</u>	<u>\$ (533)</u>	<u>\$ -</u>	<u>\$ 7,242,722</u>

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

5. Capital Assets, continued

Business-type Activities, continued:

* Depreciation expense was charged to functions as follows:

Electric	\$ 215,942
Water	58,330
Sewer	80,964
Landfill	<u>41,289</u>
Total business-type activities depreciation expense	<u>\$ 396,525</u>

Construction in progress is for design of the landfill Phase 3 project. The project is expected to cost \$49,913 and be completed during the fall of 2013. See Note D3 for more information on construction commitments.

6. Accounts Payable

Payables in the general, other governmental, and proprietary funds are primarily composed of payables to vendors.

7. Long-term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2012:

<u>Type of Debt</u>	<u>Balance at October 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at September 30, 2012</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds and notes payable	<u>\$ 1,812,905</u>	<u>\$ 1,050,000</u>	<u>\$(1,385,808)</u>	<u>\$ 1,477,097</u>	<u>\$ 311,076</u>
Business-type Activities:					
Bonds and notes payable	<u>\$ 2,578,310</u>	<u>\$ 2,190,000</u>	<u>\$(2,181,939)</u>	<u>\$ 2,586,371</u>	<u>\$ 153,802</u>

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

7. Long-term Debt, continued

Governmental Activities

As of September 30, 2012, the governmental long-term liabilities consisted of the following:

Bonds and notes payable:

<p>General obligation pool bonds, series 2007, with an original issue amount of \$1,875,000. Interest rates range from 3.70 percent to 4.00 percent. Interest is due in semi-annual installments and principal is due in annual installments through December 15, 2016. These bonds were refunded during the year ended September 30, 2012.</p>	<p>\$ -</p>
<p>General obligation allocation fund pledge bonds - paving districts, series 2007, with an original issue amount of \$230,000. Interest rates range from 3.70 percent to 4.00 percent. Interest is due in semi-annual installments and principal is due in annual installments through December 15, 2017.</p>	<p>75,000</p>
<p>General obligation refunding bonds, Series 2009, with an original issue amount of \$415,000. Interest rates range from 1.30 percent to 3.00 percent. Interest is due in semi-annual installments and principal is due in annual installments through October 15, 2015.</p>	<p>280,000</p>
<p>The City entered into a loan agreement with the State of Nebraska Department of Aeronautics for the repayment of funds borrowed under the State of Nebraska Department of Aeronautics Revolving Hangar Loan Program. The total project cost was \$233,090. The State loaned the City \$137,115 to be repaid over a period of 180 months at \$760 per month.</p>	<p>42,560</p>
<p>General obligation refunding bonds, series 2011, with an original issue amount of \$1,050,000. Interest rates range from 0.45 percent to 1.40 percent. Interest is due in semi-annual installments and principal is due in annual installments through December 15, 2016.</p>	<p>1,050,000</p>

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

7. Long-term Debt, continued

Governmental Activities, continued

Bonds and notes payable, continued:

In 2002, the Electric Fund loaned \$66,000 to the Airport Fund as part of a hangar project. Loan payments of \$8,137 are due annually beginning August 31, 2007, with the final payment due August 31, 2016. The loan bears an interest rate of four percent.

29,537

Total governmental activities bonds and notes payable

\$ 1,477,097

Current portion

\$ 311,076

Noncurrent portion

1,166,021

Total

\$ 1,477,097

Business-type Activities

As of September 30, 2012, the long-term debt payable from proprietary fund resources consisted of the following:

Bonds and notes payable:

On December 22, 1994, the City entered into a loan agreement with the U.S. Department of Agriculture Rural Economic & Community Development for the construction of a new landfill. The loan payments of \$21,918 are due annually, with the final payment due August 1, 2019, in the amount of \$5,425. The loan bears an interest rate of 4.5 percent.

\$ 116,972

Combined utilities system revenue and refunding bonds, series 2008, with an original issue amount of \$2,350,000. Interest rates range from 3.15 percent to 4.85 percent. Interest is due in semi-annual installments and principal is due in annual installments through November 15, 2028. These bonds were refunded during the year ended September 30, 2012.

-

Combined utilities system revenue refunding bonds, series 2011, with an original issue amount of \$2,190,000. Interest rates range from 0.45 percent to 3.70 percent. Interest is due in semi-annual installments and principal is due in annual installments through November 15, 2028.

2,190,000

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

7. Long-term Debt, continued

Business-type Activities, continued

During the year ended September 30, 2003, the City borrowed \$104,390 from the Nebraska Department of Environmental Quality for the purpose of repairing and improving the City public water supply system. The project was complete at the end of the 2003 fiscal year, and funds borrowed were \$450,000. The term of the loan is 20 years and it bears interest at three percent and a one percent fee for a total carryover cost of four percent. Payments are semi-annual in June and December. The first payment was June 15, 2003, and the last payment is December 2022. 269,435

In 2001, the Landfill Fund borrowed \$80,000 from the Electric Fund for purchase of a loader. Interest is at 5.25 percent and payments are due over a ten-year term. 9,964

Total business-type activity bonds and notes payable \$ 2,586,371

Current portion \$ 153,802

Noncurrent portion 2,432,569

Total \$ 2,586,371

Annual debt service requirements to maturity, including principal and interest, for long-term debt as of September 30, 2012, are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities		
	Principal	Interest	Principal	Interest	Loan Fees
2013	\$ 311,076	\$ 19,298	\$ 153,802	\$ 66,211	\$ 2,639
2014	316,354	15,358	150,258	64,198	2,416
2015	316,643	10,743	151,732	61,871	2,186
2016	311,944	5,713	158,262	59,156	1,948
2017	221,080	1,505	159,849	56,045	1,704
2018-2022	-	-	782,639	223,872	4,585
2023-2027	-	-	714,829	117,096	74
2028-2029	-	-	315,000	11,670	-
	<u>\$1,477,097</u>	<u>\$ 52,617</u>	<u>\$ 2,586,371</u>	<u>\$ 660,119</u>	<u>\$ 15,552</u>

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

7. Long-term Debt, continued

Business-type Activities, continued

Advance Refundings

On December 2, 2011, the City issued \$2,190,000 Combined Utility System Revenue Refunding Bonds, series 2011, with an average interest rate of 2.59 percent. The bonds consist of serial bonds bearing various fixed rates ranging from 0.45 percent to 3.70 percent with annual maturities from May 15, 2012, through November 15, 2028.

The net proceeds of \$2,151,565 (after issuance costs of \$38,435) were used to advance refund various series of bonds with a total principal amount of \$2,055,000 and an average interest rate of 4.63 percent.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payment on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed for the City's liabilities.

The advance refunding was done in order to reduce future debt payments. The refunding decreased the City's total debt service payments by approximately \$147,451. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and new bonds) of approximately \$118,424.

8. Special Assessments

Governmental Activities

The City completed street improvements in October of 1996. The total project construction and engineering costs totaled \$398,951. Of this amount, \$278,547 was assessed to property owners.

The City completed street improvements in August of 2000. The total construction and engineering costs totaled \$659,645. Of this amount, \$385,393 was assessed to property owners.

In 2006, additional assessments of \$192,875 were assessed to property owners for recently developed land.

The City completed street improvements in August of 2008. The total construction and engineering costs totaled \$146,759, of this amount \$111,043 was assessed to property owners.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE C – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS, continued

8. Special Assessments

Governmental Activities, continued

Principal collections from various special assessments outstanding are reported in the Street Fund. Special assessments receivable comprised the following assessments at September 30, 2012:

Current portion	\$ 14,020
Non-current portion	<u>41,101</u>
Total street improvement assessments	<u>\$ 55,121</u>

Business-type Activities

The City completed water service improvements in 1996 and 2004. Assessments to property owners were \$60,227.

The City completed sewer service improvements in 2000. Assessments to property owners were \$82,311. Special assessments receivable comprised the following assessments at September 30, 2012:

	<u>Water</u>	<u>Sewer</u>
Current portion	\$ 1,139	\$ 1,093
Non-current portion	<u>1,139</u>	<u>1,092</u>
Total improvements assessments	<u>\$ 2,278</u>	<u>\$ 2,185</u>

9. Interfund Transactions

Operating transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 12,708	\$ -
Street Fund	548,401	-
Infrastructure Fund	-	(548,401)
Nonmajor Funds	<u>-</u>	<u>(12,708)</u>
Total operating transfers	<u>\$ 561,109</u>	<u>\$ (561,109)</u>

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE D – OTHER NOTES

1. Employee Pension and Other Benefit Plans

City General Pension Plan

The City of Valentine has a contributory defined contribution employees' pension plan in which the employees of the City participate. Eligible employees contribute six percent of their gross payroll and the City matches the six percent. Employees are eligible to participate after one month of continuous service and after attaining age 18.

All employees are fully vested in their own contributions and become vested in the City's contribution after seven years' participation in the plan.

For the year ended September 30, 2012, the City's total payroll and covered payroll under the plan was \$1,108,780 and \$961,777, respectively. Both the City's required contribution of \$57,173 and the covered employees' required contribution of \$57,173 were made for the year ended September 30, 2012.

Deferred Compensation Plan

The City has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all City employees. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, unforeseeable emergency, or permanent disability.

As of January 1, 1997, these funds were placed in trust, in accordance with IRS Code Section 457(g)(1). IRS Code Section 457(g)(1), applicable for plan year beginning January 1, 1997, states that "a plan maintained by an eligible employer shall not be treated as an eligible deferred compensation plan unless all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries." The deferred compensation plan as placed in trust is not subject to any creditors of the City.

The employees contributed \$10,780 under the plan for the year ended September 30, 2012.

2. Risk Management

The City is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The City purchases commercial insurance to minimize the effect of possible exposure to these risks. There have been no significant reductions in insurance coverage from coverage in the prior year. During the past three fiscal years, there have been no settlements exceeding the amount of the City's insurance coverage.

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE D – OTHER NOTES, continued

2. Risk Management, continued

Deposits and Investments

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the City's investments at September 30, 2012, are held by the counterparties not in the name of the City. The underlying securities consist of cash, certificates of deposit, and insured money market funds.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy requires that market conditions and investment securities be analyzed to determine the maximum yield to be obtained and to minimize the impact of rising interest rates. The certificate of deposit maturities are as follows:

<u>Maturities by Month</u>	<u>Amount</u>
May 2013	\$ 941,952
April 2013	62,266
August 2013	10,877
September 2013	801,699
October 2013	518,208
	<u>\$ 2,335,002</u>

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's investments consist of certificates of deposit and money market funds, minimizing credit risk associated with the City's investment portfolio.

Concentration of Credit Risk. The City's investment policy places no limit on the amount that may be invested in any one issuer. At September 30, 2012, the City's investments and certificates of deposit consisted of the following:

<u>Financial Institution</u>	<u>Amount</u>
Security First Bank	\$ 941,952
Bank of the West	10,877
Union Bank & Trust	1,382,173
Totals	<u>\$ 2,335,002</u>

Foreign Currency Risk. This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The City's investments had no exposure to foreign currency risk and the City held no investments denominated in foreign currency at September 30, 2012.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

3. Commitments and Contingencies

Closure and Postclosure Costs

State and federal laws and regulations require the Valentine Landfill to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Valentine Landfill reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$738,000 reported as landfill closure and postclosure care liability at September 30, 2012, represents the cumulative amount reported to date based on the use of approximately 45.0 percent of the estimated capacity of the landfill. The Valentine Landfill will recognize the remaining estimated cost of closure and postclosure care of \$902,263 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. The Valentine Landfill expects to close the landfill in the year 2041. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

In accordance with the State of Nebraska Title 132 Solid Waste Regulations, the City of Valentine must satisfy the requirements for a financial assurance mechanism (FAM). During the year ended September 30, 1996, the City Council passed Resolution 96-13 to make annual contributions to a special fund to finance closure and postclosure care. The Valentine Landfill is in compliance with these requirements, and, at September 30, 2012, investments totaled \$466,285 at Union Bank. The City of Valentine expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Construction Commitments

The City had the following construction commitment as of September 30, 2012:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Paid Through 9/30/2012</u>	<u>Obligation Pending</u>
Olsson Associates	Landfill Phase 3 design	<u>\$ 49,913</u>	<u>\$ 8,466</u>	<u>\$ 41,447</u>

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

NOTE D – OTHER NOTES, continued

4. Interlocal Agreements

The City had the following Interlocal agreements in effect as of September 30, 2012:

<u>Parties to Agreement</u>	<u>Term</u>	<u>Description</u>
Cherry County	October 1, 2011 - September 30, 2012	Agreement for law enforcement and fire dispatch
Cherry County	September 12, 2012 - September 12, 2013	Provide for Valentine/Cherry County Economic Development Board
City of Gordon, City of Rushville, City of Hay Springs, City of Chadron, City of Crawford, County of Sheridan, County of Dawes, and County of Cherry	November 12, 2002 - perpetual	Provide for intergovernmental law enforcement
Middle Niobrara Natural Resources District	June 20, 2000 - perpetual	Joint ownership of Mill Pond property
Cherry County	February 12, 2009 - perpetual	Cherry County Justice Center Exchange

5. Conduit Debt

In 2008, the Community Development Agency (CDA) issued tax increment revenue bonds in the original amount of \$103,821 for Danielski Harvesting & Farming, LLC. 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.” The conduit debt has a principal balance of \$94,869 as of September 30, 2012.

In 2009, the Community Development Agency (CDA) issued tax increment revenue bonds in the original amount of \$407,000 for the Ranchland Foods 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.” The conduit debt has a principal balance of \$339,040 as of September 30, 2012.

These bonds do not constitute an obligation of the City of Valentine, Nebraska, as the City 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 have 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.

CITY OF VALENTINE, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

6. Union Contract

The City is subject to the following union contract:

- Local Union No. 1597 of the International Brotherhood of Electrical Workers, AFL - CIO. This agreement commenced October 1, 2009, and terminates September 30, 2012.

7. Subsequent Events

Management has evaluated subsequent events through February 5, 2013, the date on which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VALENTINE, NEBRASKA
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND

Year Ended September 30, 2012

	Budget (Original and <u>Final</u>)	<u>Actual</u>	Variances - Actual Over (Under) Final <u>Budget</u>
RESOURCES (INFLOWS)			
Taxes:			
Property	\$ 521,005	\$ 418,219	\$ (102,786)
Sales	250,000	280,631	30,631
Franchise	408,588	389,370	(19,218)
Intergovernmental	83,008	82,126	(882)
Licenses and permits	12,880	12,776	(104)
Charges for services	155,750	159,399	3,649
Grants and contributions	507,039	188,801	(318,238)
Interest income	8,090	5,687	(2,403)
Bond proceeds	-	1,050,000	1,050,000
Other	14,650	47,476	32,826
	<hr/>	<hr/>	<hr/>
Total resources	1,961,010	2,634,485	673,475
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
General government	380,418	183,757	(196,661)
Public safety	517,207	511,768	(5,439)
Leisure and environment	599,555	404,469	(195,086)
Cemetery	94,950	84,665	(10,285)
Capital outlay	412,300	232,024	(180,276)
Bond issuance costs	-	17,575	17,575
Principal payments on debt	180,000	1,205,000	1,025,000
Interest payments on debt	43,533	31,737	(11,796)
	<hr/>	<hr/>	<hr/>
Total charges to appropriations	2,227,963	2,670,995	443,032
Resources over (under) charges to appropriations	(266,953)	(36,510)	230,443
OTHER FINANCING SOURCES (USES)			
Net transfers	162,500	12,708	(149,792)
	<hr/>	<hr/>	<hr/>
RESOURCES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>\$ (104,453)</u>	<u>\$ (23,802)</u>	<u>\$ 80,651</u>

CITY OF VALENTINE, NEBRASKA
BUDGETARY COMPARISON SCHEDULE -
STREET FUND

Year Ended September 30, 2012

	Budget (Original and <u>Final</u>)	<u>Actual</u>	Variances - Actual Over (Under) Final <u>Budget</u>
RESOURCES (INFLOWS)			
Motor vehicle tax	\$ 48,000	\$ 51,776	\$ 3,776
Sales tax	56,000	69,184	13,184
Intergovernmental	358,112	401,194	43,082
Special assessments	14,342	20,809	6,467
Interest income	1,600	1,901	301
Charges for services	5,500	5,613	113
Grants and contributions	400,124	-	(400,124)
Other income	100	1,375	1,275
	<hr/>	<hr/>	<hr/>
Total resources	883,778	551,852	(331,926)
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
Public works	520,683	393,798	(126,885)
Capital outlay	1,043,727	554,021	(489,706)
Principal payments on debt	165,000	165,000	-
Interest payments on debt	16,021	13,021	(3,000)
	<hr/>	<hr/>	<hr/>
Total charges to appropriations	1,745,431	1,125,840	(619,591)
Resources over (under) charges to appropriations	(861,653)	(573,988)	287,665
OTHER FINANCING SOURCES (USES)			
Net transfers in	786,133	548,401	(237,732)
	<hr/>	<hr/>	<hr/>
RESOURCES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>\$ (75,520)</u>	<u>\$ (25,587)</u>	<u>\$ 49,933</u>

CITY OF VALENTINE, NEBRASKA
BUDGETARY COMPARISON SCHEDULE -
AIRPORT FUND

Year Ended September 30, 2012

	Budget (Original and <u>Final</u>)	<u>Actual</u>	Variances - Actual Over (Under) Final <u>Budget</u>
RESOURCES (INFLOWS)			
Charges for services	\$ 208,000	\$ 288,719	\$ 80,719
Grant income	229,381	32,514	(196,867)
Other income	680	968	288
	438,061	322,201	(115,860)
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
Operating expenditures	215,293	298,924	83,631
Capital outlay	228,200	-	(228,200)
Principal payments on debt	15,808	15,808	-
Interest on long-term debt	1,449	1,449	-
	460,750	316,181	(144,569)
Total charges to appropriations			
Resources over (under) charges to appropriations	(22,689)	6,020	28,709
OTHER FINANCING SOURCES (USES)			
Net transfers in	22,820	-	(22,820)
	22,820	-	(22,820)
RESOURCES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) CHARGES TO APPROPRIATIONS	\$ 131	\$ 6,020	\$ 5,889

CITY OF VALENTINE, NEBRASKA
BUDGETARY COMPARISON SCHEDULE -
INFRASTRUCTURE FUND

Year Ended September 30, 2012

	Budget (Original and <u>Final</u>)	<u>Actual</u>	Variances - Actual Over (Under) Final <u>Budget</u>
RESOURCES (INFLOWS)			
Sales tax	\$ 370,000	\$ 420,947	\$ 50,947
Interest income	1,000	1,304	304
	<hr/>	<hr/>	<hr/>
Total resources	371,000	422,251	51,251
OTHER FINANCING USES			
Net transfers out	(512,812)	(548,401)	(35,589)
	<hr/>	<hr/>	<hr/>
RESOURCES OVER (UNDER) OTHER FINANCING USES	<u>\$ (141,812)</u>	<u>\$ (126,150)</u>	<u>\$ 15,662</u>

CITY OF VALENTINE, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE -
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

Year Ended September 30, 2012

**Note A - Explanation of Differences between Budgetary Inflows and Outflows and
GAAP Revenue and Expenditures**

	<u>General Fund</u>	<u>Street Fund</u>	<u>Airport Fund</u>	<u>Infrastructure Fund</u>
Sources/inflows of resources:				
Actual amounts of resources (budgetary basis) from the budgetary comparison schedules	\$ 2,634,485	\$ 551,852	\$ 322,201	\$ 422,251
Differences - budget to GAAP:				
Cash to accrual adjustments	<u>(624)</u>	<u>1,763</u>	<u>-</u>	<u>3,017</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,633,861</u>	<u>\$ 553,615</u>	<u>\$ 322,201</u>	<u>\$ 425,268</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedules	\$ 2,670,995	\$ 1,125,840	\$ 316,181	\$ -
Differences - budget to GAAP:				
Cash to accrual adjustments	<u>4,005</u>	<u>19,061</u>	<u>14,243</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,675,000</u>	<u>\$ 1,144,901</u>	<u>\$ 330,424</u>	<u>\$ -</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF VALENTINE, NEBRASKA
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

	Special Revenue Funds		Permanent Funds		Total Nonmajor Governmental Funds
	Fines and <u>Fees</u>	Economic <u>Development</u>	Perpetual <u>Care</u>	Queen Jackson <u>Memorial</u>	
ASSETS					
Cash and cash equivalents	\$ 7,706	\$ 378,586	\$ 3,701	\$ 30,141	\$ 420,134
Certificates of deposit	-	-	133,826	-	133,826
Interest receivable	-	-	45	-	45
Sales tax recievable	-	25,437	-	-	25,437
Total assets	<u>\$ 7,706</u>	<u>\$ 404,023</u>	<u>\$ 137,572</u>	<u>\$ 30,141</u>	<u>\$ 579,442</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 5,530	\$ -	\$ -	\$ -	\$ 5,530
Fund balances:					
Nonspendable for:					
Cemetery perpetual care	-	-	137,572	-	137,572
Restricted for:					
Economic development	-	404,023	-	-	404,023
Community betterment	2,176	-	-	30,141	32,317
Total fund balances	<u>2,176</u>	<u>404,023</u>	<u>137,572</u>	<u>30,141</u>	<u>573,912</u>
Total liabilities and fund balances	<u>\$ 7,706</u>	<u>\$ 404,023</u>	<u>\$ 137,572</u>	<u>\$ 30,141</u>	<u>\$ 579,442</u>

CITY OF VALENTINE, NEBRASKA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2012

	Special Revenue Funds		Permanent Funds		Total Nonmajor Governmental Funds
	Fine and Fees	Economic Development	Perpetual Care	Queen Jackson Memorial	
REVENUES					
Sales tax	\$ -	\$ 141,321	\$ -	\$ -	\$ 141,321
Licenses and permits	5,855	-	-	-	5,855
Grants and contributions	-	-	-	19,328	19,328
Interest income	-	466	-	-	466
Loan collections	-	19,656	-	-	19,656
Other	-	2,915	525	-	3,440
Total revenues	5,855	164,358	525	19,328	190,066
EXPENDITURES					
General government	5,530	-	-	-	5,530
Economic development	-	40,000	-	-	40,000
Total expenditures	5,530	40,000	-	-	45,530
Excess of revenues over expenditures	325	124,358	525	19,328	144,536
OTHER FINANCING SOURCES (USES)					
Transfers to other funds	-	(7,708)	-	(5,000)	(12,708)
Net change in fund balances	325	116,650	525	14,328	131,828
Fund balances - September 30, 2011	1,851	287,373	137,047	15,813	442,084
Fund balances - September 30, 2012	\$ 2,176	\$ 404,023	\$ 137,572	\$ 30,141	\$ 573,912

CITY OF VALENTINE, NEBRASKA

COMBINING STATEMENT OF REVENUES AND EXPENDITURES -

GENERAL FUND DEPARTMENTS

Year Ended September 30, 2012

	<u>Administrative</u>	<u>Police</u>	<u>Fire</u>
REVENUES			
Taxes:			
General property tax	\$ 206,146	\$ -	\$ -
Sales tax	-	-	-
Franchise	389,370	-	-
Intergovernmental revenue:			
State assistance	80,007	-	-
Licenses and permits	12,776	-	-
Charges for services	-	-	-
Grants and donations	61,774	2,122	-
Interest income	1,302	-	-
Bond proceeds	-	-	-
Other receipts	31,420	-	-
Total revenues	<u>782,795</u>	<u>2,122</u>	<u>-</u>
EXPENDITURES			
Personnel services:			
Salaries and benefits	126,774	348,002	3,584
Operating expenses:			
Insurance	4,709	9,411	8,071
Professional fees	825	757	-
Meetings, seminars, and dues	9,130	197	100
Repairs and maintenance	4,829	29,228	14,096
Printing, postage, and publications	344	200	45
Utilities and telephone	10,848	-	14,571
Total operating expenses	<u>30,685</u>	<u>39,793</u>	<u>36,883</u>
Supplies	3,703	2,453	471
Other expenses	63,463	65,610	16,638
Capital outlay	77,024	-	-
Bond issuance costs	-	-	-
Principal payments on debt	-	-	-
Interest payments	-	-	-
Total expenditures	<u>301,649</u>	<u>455,858</u>	<u>57,576</u>
Excess (deficiency) of revenues over expenditures before transfers	481,146	(453,736)	(57,576)
TRANSFERS FROM OTHER FUNDS	<u>7,708</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 488,854</u>	<u>\$ (453,736)</u>	<u>\$ (57,576)</u>

<u>Pool</u>	<u>Library</u>	<u>Cemetery</u>	<u>Park</u>	<u>Bookmobile</u>	<u>Time Capsule</u>	<u>Total</u>
\$ -	\$ 89,648	\$ 26,227	\$ 93,592	\$ -	\$ -	\$ 415,613
282,642	-	-	-	-	-	282,642
-	-	-	-	-	-	389,370
-	2,119	-	-	-	-	82,126
-	-	-	-	-	-	12,776
29,998	5,256	11,688	34,457	78,000	-	159,399
-	1,863	-	123,042	-	-	188,801
760	36	3,199	8	337	16	5,658
1,050,000	-	-	-	-	-	1,050,000
360	445	-	15,240	11	-	47,476
<u>1,363,760</u>	<u>99,367</u>	<u>41,114</u>	<u>266,339</u>	<u>78,348</u>	<u>16</u>	<u>2,633,861</u>
38,020	61,316	-	33,807	49,211	-	660,714
4,118	4,098	777	4,993	2,655	-	38,832
554	461	76	324	37	-	3,034
-	183	-	-	183	-	9,793
5,472	8,045	84,489	22,193	6,194	-	174,546
-	240	-	200	240	-	1,269
11,997	2,718	2,875	56,976	88	-	100,073
<u>22,141</u>	<u>15,745</u>	<u>88,217</u>	<u>84,686</u>	<u>9,397</u>	<u>-</u>	<u>327,547</u>
14,156	10,379	494	1,856	10,408	-	43,920
962	2,456	25	17,899	369	-	167,422
-	-	-	155,000	-	-	232,024
17,575	-	-	-	-	-	17,575
1,205,000	-	-	-	-	-	1,205,000
20,798	-	-	-	-	-	20,798
<u>1,318,652</u>	<u>89,896</u>	<u>88,736</u>	<u>293,248</u>	<u>69,385</u>	<u>-</u>	<u>2,675,000</u>
45,108	9,471	(47,622)	(26,909)	8,963	16	(41,139)
<u>(47,000)</u>	<u>5,000</u>	<u>-</u>	<u>47,000</u>	<u>-</u>	<u>-</u>	<u>12,708</u>
<u>\$ (1,892)</u>	<u>\$ 14,471</u>	<u>\$ (47,622)</u>	<u>\$ 20,091</u>	<u>\$ 8,963</u>	<u>\$ 16</u>	<u>\$ (28,431)</u>

**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**

To the Members of the City Council
City of Valentine, 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 Valentine, Nebraska, as of and for the year ended September 30, 2012, which collectively comprise the City of Valentine, Nebraska's basic financial statements, and have issued our report thereon dated February 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Valentine is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Valentine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Segregation of Duties

Due to limited number of personnel, there is not adequate segregation of duties to ensure internal control over cash receipts, disbursements, and recording of transactions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Valentine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Council of the City of Valentine, in a separate letter dated February 5, 2013.

This report is intended solely for the information and use of management, the State of Nebraska Auditor of Public Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grand Island, Nebraska
February 5, 2013