

CITY OF VALENTINE, NEBRASKA

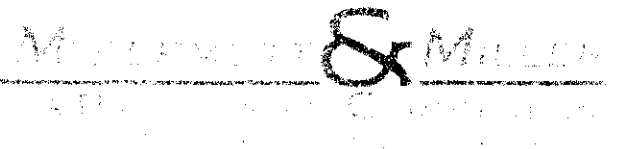
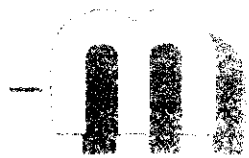
FINANCIAL REPORT

SEPTEMBER 30, 2005

**CITY OF VALENTINE, NEBRASKA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and 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, 2005 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Valentine'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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2005, and the changes in financial position and cash flows, of those activities, units and funds, 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 issued our report dated December 7, 2005 on our consideration of City of Valentine's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 16 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McDERMOTT AND MILLER, P.C.

McDermott & Miller, P.C.

Kearney, Nebraska
December 7, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Valentine, we offer readers of the City of Valentine's financial statements this narrative overview and analysis of the financial activities of the City of Valentine for the fiscal year ended September 30, 2005.

Financial Highlights

- The assets of the City of Valentine exceeded its liabilities at the close of the most recent fiscal year by \$9,730,877 (net assets). The City has a deficit of \$241,576 in unrestricted net assets. Unrestricted net assets are used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City of Valentine's total net assets increased by \$21,423 in comparison with the prior year.
- As of the close of the current fiscal year, the City of Valentine's governmental funds reported combined ending fund deficit balances of \$(279,437).
- At the end of the current fiscal year, unreserved fund balance for the general fund was a deficit of \$(79,874), or 7.3 percent of total general fund expenditures.
- The City of Valentine's total debt decreased by \$214,510 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are 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.

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) 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, swimming pool, street, library, cemetery, park and recreation, airport, library grant, CMS/TWX, bookmobile, fire sinking, bookmobile reserve, cemetery reserve, street reserve, library reserve and swimming pool reserve. The business-type activities of the City of Valentine include landfill, electric, water, and sewer.

The government-wide financial statements can be found on pages 11 & 12 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 three categories: governmental funds, proprietary funds, and fiduciary 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 financial 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 the comparison between governmental funds and governmental activities.

The City of Valentine maintains sixteen 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, street, airport, fire sinking, and other governmental funds.

The City of Valentine adopts an annual appropriated budget for its general fund and major special revenue funds. A budgetary comparison has been provided for the general fund and all major special revenue funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 & 14 of this report.

Proprietary funds. The City of Valentine maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Valentine uses enterprise funds to account for its landfill, electric, water and sewer.

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 landfill, electric, water, and sewer all of which are considered major funds of the City of Valentine.

The basic proprietary fund financial statements can be found on pages 17 to 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of the parties outside the City of Valentine. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Valentine's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20 & 21 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 22 to 46 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 \$9,730,877 at the close of the most recent fiscal year.

By far, the largest portion of the City of Valentine's net assets (87 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, 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 capital assets themselves cannot be used to liquidate these liabilities.

**City of Valentine's Net Assets
FYE 9-30-2005**

	Governmental Activities	Business-Type Activities	Total
Current & other assets	\$ 505,268	\$ 3,739,124	\$ 4,244,392
Capital assets	2,157,262	7,178,630	9,335,892
Total assets	\$ 2,662,530	\$10,917,754	\$13,580,284
Long-term liabilities	\$ 1,146,999	\$ 1,267,426	\$ 2,414,425
Other liabilities	655,049	779,933	1,434,982
Total liabilities	\$ 1,802,048	\$ 2,047,359	\$ 3,849,407
Net assets:			
Invested in capital assets			
Net of related debt	\$ 1,707,513	\$ 5,911,204	\$ 7,618,717
Restricted	0	2,353,736	2,353,736
Unrestricted (deficit)	(847,031)	605,455	(241,576)
Total net assets	\$ 860,482	\$ 8,870,395	\$ 9,730,877

FYE 9-30-2004

	Governmental Activities	Business-Type Activities	Total
Current & other assets	\$ 550,978	\$ 4,002,616	\$ 4,553,594
Capital assets	1,927,994	7,041,663	8,969,657
Total assets	\$ 2,478,972	\$11,044,279	\$13,523,251
Long-term liabilities	\$ 1,232,229	\$ 1,781,918	\$ 3,014,147
Other liabilities	525,304	274,346	799,650
Total liabilities	\$ 1,757,533	\$ 2,056,264	\$ 3,813,797
Net assets:			
Invested in capital assets			
Net of related debt	\$ 1,444,240	\$ 5,644,958	\$ 7,089,198
Restricted	0	2,583,391	2,583,391
Unrestricted (deficit)	(722,801)	759,666	36,865
Total net assets	\$ 721,439	\$ 8,988,015	\$ 9,709,454

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, as well as for its separate governmental and business-type activities.

- **Governmental Activities.** Governmental activities increased the City of Valentine's net assets by \$139,043, thereby accounting for 649 percent of the total growth in the net assets of the City of Valentine.
- **Business-type Activities.** Business-type activities decreased the City of Valentine's net assets by \$(117,620), thereby accounting for (549) percent decrease in the net assets of the City of Valentine.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Valentine's governmental funds reported combined ending deficit fund balances of \$(279,437).

The general fund is the chief operating fund of the City of Valentine. At the end of the current fiscal year, unreserved fund balance of the general fund was \$(79,874). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 29 percent of total general fund expenditures.

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 (deficit) in the respective proprietary funds are Landfill -- \$(493,540), Electric - \$900,829, Water - \$133,327, and Sewer - \$64,839. The total growth or (decrease) in net assets for the respective proprietary funds was Landfill - \$(14,246), Electric - \$49,038, Water - \$(54,714), and Sewer - \$(97,698).

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

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, 2005 amounts to \$9,335,892 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, vehicles and infrastructure.

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

FYE 09-30-2005

	Governmental Activities	Business-Type Activities	Total
Land	\$ 79,462	\$ 0	\$ 79,462
Buildings	1,202,453	2,635,869	3,838,322
Improvements	351,613	0	351,613
Equipment	327,005	4,542,761	4,869,766
Vehicles	193,171	0	193,171
Infrastructure	3,558	0	3,558
Total	\$ 2,157,262	\$ 7,178,630	\$ 9,335,892

FYE 09-30-2004

	Governmental Activities	Business-Type Activities	Total
Land	\$ 79,462	\$ 0	\$ 79,462
Buildings	1,250,814	2,699,355	3,950,169
Improvements	66,850	0	66,850
Equipment	356,437	4,342,308	4,698,745
Vehicles	170,684	0	170,684
Infrastructure	3,747	0	3,747
Total	\$ 1,927,994	\$ 7,041,663	\$ 8,969,657

Additional information on the City of Valentine's capital assets can be found in Note 4 on pages 35 & 36 of this report.

Long-term debt. At the end of the current fiscal year, the City of Valentine had total bonded debt and loans outstanding of \$2,414,425.

City of Valentine's Outstanding Debt

FYE 09-30-2005

	Governmental Activities	Business-type Activities	Total
Various Purpose	\$ 685,000	\$ -	\$ 685,000
Department of Aeronautics	105,640	-	105,640
Fire building	84,223	-	84,223
Due to electric fund	66,000	73,713	139,713
Equipment loans	130,158	6,008	136,166
Airport runway loan	60,000	-	60,000
Revenue Bonds	-	565,000	565,000
Department of Environmental Quality	-	407,546	407,546
Department of Agriculture	-	215,158	215,158
Total	<u>\$ 1,131,021</u>	<u>\$ 1,267,425</u>	<u>\$ 2,398,446</u>

FYE 09-30-2004

	Governmental Activities	Business-type Activities	Total
Various Purpose	\$ 735,000	\$ -	\$ 735,000
Department of Aeronautics	131,360	-	131,360
Fire building	109,712	-	109,712
Due to electric fund	66,000	73,713	139,713
Equipment loans	130,158	11,094	141,252
Airport runway loan	60,000	-	60,000
Revenue Bonds	-	660,000	660,000
Department of Environmental Quality	-	425,029	425,029
Department of Agriculture	-	226,867	226,867
Total	<u>\$ 1,232,230</u>	<u>\$ 1,396,703</u>	<u>\$ 2,628,933</u>

Additional information on the City of Valentine's long-term debt can be found in Note 4 on pages 36 to 41 of this report.

Economic Factors and Next Year's Budget and Rates

The increase in the City of Valentine's property tax base for the 2005-2006 fiscal year was slightly more than four percent.

These factors were considered in preparing the City of Valentine's budget for the 2005-2006 fiscal year.

Requests 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 of Valentine, PO Box 177, Valentine, Nebraska 69201.

City of Valentine, Nebraska
Statement of Net Assets
September 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ 101,679	\$ 101,679
Investments	234,501	200,094	434,595
Receivables, net			
Interest	717	14,076	14,793
Taxes-delinquent	64,229	-	64,229
Accounts	-	453,657	453,657
Special Assessments	105,232	72,247	177,479
Due from country treasurer	75,822	-	75,822
Due from other funds	-	141,798	141,798
Prepaid Interest	12,517	-	12,517
Inventories	-	325,331	325,331
Total current assets	<u>\$ 493,018</u>	<u>\$ 1,308,882</u>	<u>\$ 1,801,900</u>
Noncurrent assets:			
Restricted cash and cash equivalents	\$ -	\$ 556,251	\$ 556,251
Restricted investments	-	1,866,765	1,866,765
Capital Assets, net			
Land	79,462	-	79,462
Buildings	1,202,453	2,635,869	3,838,322
Improvements	351,613	-	351,613
Equipment	327,005	4,542,761	4,869,766
Vehicles	193,171	-	193,171
Infrastructure	3,558	-	3,558
Bond issue costs	12,250	7,226	19,476
Total noncurrent assets	<u>\$ 2,169,512</u>	<u>\$ 9,608,872</u>	<u>\$ 11,778,384</u>
Total assets	<u>\$ 2,662,530</u>	<u>\$ 10,917,754</u>	<u>\$ 13,580,284</u>
LIABILITIES			
Cash, deficit, unrestricted	\$ 598,282	\$ 131,598	\$ 729,880
Accounts payable and other			
current liabilities	42,032	93,094	135,126
Accrued interest payable	14,734	25,207	39,941
Customer deposits	-	69,280	69,280
Noncurrent liabilities:			
Deferred Revenue Assessments	-	64,797	64,797
Due within one year	144,754	140,221	284,975
Due in more than one year	1,002,246	1,127,204	2,129,450
Accrued closure and postclosure costs	-	395,958	395,958
Total liabilities	<u>\$ 1,802,048</u>	<u>\$ 2,047,359</u>	<u>\$ 3,849,407</u>
NET ASSETS			
Invested in capital assets,			
net of related debt	\$ 1,707,512	\$ 5,911,205	\$ 7,618,717
Restricted net assets	-	2,353,736	2,353,736
Unrestricted (deficit)	(847,030)	605,454	(241,576)
Total net assets	<u>\$ 860,482</u>	<u>\$ 8,870,395</u>	<u>\$ 9,730,877</u>

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statement of Activities
For the Year Ended September 30, 2005

Primary government: Governmental activities:	Functions/Programs	Expenses	Program Revenues					Net (Expense) Revenue and Changes in Net Assets	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Primary Government
General government		\$ 1,046,000	\$ 38,844	\$ 180,000	\$ -	\$ (827,156)	\$ -	\$ (827,156)	
Swimming pool		18,038	260	-	-	(17,778)	-	(17,778)	
Street		336,046	9,625	-	-	(326,421)	-	(326,421)	
Library		83,210	5,877	8,279	-	(69,054)	-	(69,054)	
Cemetery		30,363	21,915	-	-	(8,448)	-	(8,448)	
Park and recreation		136,237	11,087	-	-	(125,150)	-	(125,150)	
Airport		183,067	108,274	283,344	-	208,551	-	208,551	
Library grant		-	-	-	-	-	-	-	
CMS/TWIX		-	-	-	-	-	-	-	
Bookmobile		59,879	62,133	-	-	2,254	-	2,254	
Fire sinking		10,861	-	-	-	(10,861)	-	(10,861)	
Bookmobile reserve		-	-	-	-	-	-	-	
Cemetery reserve		-	-	-	-	-	-	-	
Street reserve		-	-	-	-	-	-	-	
Library reserve		-	-	-	-	-	-	-	
Swimming pool reserve		-	-	-	-	-	-	-	
Total governmental activities		\$ 1,903,701	\$ 258,015	\$ 471,623	\$ -	\$ (1,174,063)	\$ -	\$ (1,174,063)	
Business-type activities:									
Water		\$ 319,769	\$ 324,006	\$ -	\$ -	\$ -	\$ 4,237	\$ 4,237	
Sewer		263,114	207,628	-	-	-	(55,486)	(55,486)	
Electric		2,389,933	2,599,413	-	-	-	229,480	229,480	
Landfill		406,965	401,421	-	-	-	(5,544)	(5,544)	
Total business-type activities		\$ 3,389,781	\$ 3,532,468	\$ -	\$ -	\$ -	\$ 172,687	\$ 172,687	
Total primary government		\$ 5,293,482	\$ 3,790,483	\$ 471,623	\$ -	\$ (1,174,063)	\$ 172,687	\$ (1,001,376)	
General revenues:									
Taxes:									
			Property taxes			\$ 468,752	\$ -	\$ 468,752	
			Occupation taxes			7,000	-	7,000	
			Motor vehicle taxes			106,985	-	106,985	
			State taxes			273,693	-	273,693	
			Miscellaneous			94,214	-	94,214	
			Unrestricted investment earnings			11,327	60,828	72,155	
			Transfers			351,135	(351,135)	-	
			Total general revenues and transfers			\$ 1,313,106	\$ (290,307)	\$ 1,022,799	
			Change in net assets			\$ 139,043	\$ (117,620)	\$ 21,423	
			Net assets - beginning			721,439	8,988,015	9,709,454	
			Net assets - ending			\$ 860,482	\$ 8,870,395	\$ 9,730,877	

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Balance Sheet
Governmental Funds
September 30, 2005

	General	Street	Airport	Fire Sinking	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash on hand	-	-	-	-	100	100
Investments	-	-	-	-	234,401	234,401
Receivables, net						
Taxes-delinquent	37,053	-	3,642	5,280	18,254	64,229
Special assessments	-	105,232	-	-	-	105,232
Due from county treasurer	30,399	22,865	3,549	4,331	14,678	75,822
Interest	-	-	-	-	717	717
Prepaid interest	-	12,517	-	-	-	12,517
Total assets	<u>\$ 67,452</u>	<u>\$ 140,614</u>	<u>\$ 7,191</u>	<u>\$ 9,611</u>	<u>\$ 268,150</u>	<u>\$ 493,018</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Cash deficit	\$ 121,416	\$ 113,466	\$ 101,906	\$ 53,643	\$ 207,851	\$ 598,282
Accounts payable	2,916	32	3,335	-	7,423	13,706
Accrued payroll	10,847	2,683	-	-	2,183	15,713
Accrued compensated absences	-	-	-	-	-	-
Notes payable	12,147	1,270	29,597	46,740	-	89,754
Matured bonds payable	-	55,000	-	-	-	55,000
Accrued interest payable	-	-	-	-	-	-
Total liabilities	<u>\$ 147,326</u>	<u>\$ 172,451</u>	<u>\$ 134,838</u>	<u>\$ 100,383</u>	<u>\$ 217,457</u>	<u>\$ 772,455</u>
Fund balances:						
Reserved for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:						
General fund	(79,874)	-	-	-	-	(79,874)
Special revenue funds	-	(31,837)	(127,647)	(90,772)	50,693	(199,563)
Total fund balances (deficit)	<u>\$ (79,874)</u>	<u>\$ (31,837)</u>	<u>\$ (127,647)</u>	<u>\$ (90,772)</u>	<u>\$ 50,693</u>	<u>\$ (279,437)</u>
Total liabilities and fund balances	<u>\$ 67,452</u>	<u>\$ 140,614</u>	<u>\$ 7,191</u>	<u>\$ 9,611</u>	<u>\$ 268,150</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,169,512
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	
Expenses reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds	(27,347)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,002,246)
Net assets of governmental activities	<u>\$ 860,482</u>

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2005

	General Fund	Street Fund	Airport	Fire Sinking	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 267,790	\$ -	\$ 27,074	\$ 39,135	\$ 134,753	\$ 468,752
Motor vehicle	-	106,985	-	-	-	106,985
State tax	26,215	247,478	-	-	-	273,693
Occupation tax	7,000	-	-	-	-	7,000
Program revenue	218,844	9,625	391,618	-	109,551	729,638
Investment income	2,480	1,984	4	(3)	6,862	11,327
Other	72,861	10,665	-	-	10,688	94,214
Total revenues	\$ 595,190	\$ 376,737	\$ 418,696	\$ 39,132	\$ 261,854	\$ 1,691,609
EXPENDITURES						
Current operating:						
Personnel expenses	\$ 564,797	\$ 151,104	\$ 4,336	\$ -	\$ 98,288	\$ 818,525
Contractual obligations	32,629	8,754	304	-	44,072	85,759
Operating expenditures	404,541	135,867	145,161	-	160,635	846,204
Supplies	13,301	3,856	1,167	-	7,752	26,076
Capital Outlay	60,005	21,082	289,610	-	6,142	376,839
Debt service:						
Principal	14,120	56,270	24,100	46,740	-	141,230
Interest	239	22,930	2,805	11,008	-	36,982
Total expenditures	\$ 1,089,632	\$ 399,863	\$ 467,483	\$ 57,748	\$ 316,889	\$ 2,331,615
Excess (deficiency) of revenues over (under) expenditures	\$ (494,442)	\$ (23,126)	\$ (48,787)	\$ (18,616)	\$ (55,035)	\$ (640,006)
OTHER FINANCING SOURCES (USES)						
Proceeds of refunding bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loan proceeds	37,568	-	-	-	-	37,568
Transfers in	351,135	-	-	-	-	351,135
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	\$ 388,703	\$ -	\$ -	\$ -	\$ -	\$ 388,703
Net change in fund balances (decrease)	(105,739)	(23,126)	(48,787)	(18,616)	(55,035)	(251,303)
Fund balances-beginning	25,865	(8,711)	(78,860)	(72,156)	105,728	(28,134)
Fund balances-ending	\$ (79,874)	\$ (31,837)	\$ (127,647)	\$ (90,772)	\$ 50,693	\$ (279,437)

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2005

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Net change (decrease) in fund balances - total governmental funds (page 14)	\$	(251,303)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current year.		228,043
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		-
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		103,662
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<div style="border-top: 1px solid black; display: inline-block;">58,641</div>
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Change in net assets of governmental activities	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">139,043</div>
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See accompanying notes to the financial statements.

City of Valentine, Nebraska
Primary Government Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual
For the Year Ended September 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 469,847	\$ 469,847	\$ 469,187	\$ (660)
Motor Vehicle	75,000	75,000	108,292	33,292
Other	410,334	410,334	249,186	(161,148)
Operating revenues	2,557,710	2,557,710	760,472	(1,797,238)
Highway allocation	231,556	231,556	245,478	13,922
Transfers in	610,310	610,310	351,135	(259,175)
Total revenues	<u>\$ 4,354,757</u>	<u>\$ 4,354,757</u>	<u>\$ 2,183,750</u>	<u>\$ (2,171,007)</u>
EXPENDITURES				
General government	\$ 1,029,978	\$ 1,029,978	\$ 1,079,104	\$ (49,126)
Swimming pool	59,767	59,767	7,679	52,088
Street	902,130	902,130	469,570	432,560
Library	100,708	100,708	90,506	10,202
Cemetery	91,875	91,875	31,813	60,062
Park and recreation	323,460	323,460	125,984	197,476
Airport	1,386,065	1,386,065	427,715	958,350
Library grant	-	-	-	-
CMS/TWX	-	-	-	-
Bookmobile	69,620	69,620	57,838	11,782
Fire sinking	56,497	56,497	56,497	-
Bookmobile reserve	-	-	-	-
Cemetery reserve	9,000	9,000	-	9,000
Street reserve	103,113	103,113	-	103,113
Library reserve	-	-	-	-
Swimming pool reserve	-	-	-	-
Total expenditures	<u>\$ 4,132,213</u>	<u>\$ 4,132,213</u>	<u>\$ 2,346,706</u>	<u>\$ 1,673,394</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 222,544	\$ 222,544	\$ (162,956)	\$ (497,613)
Fund Balances (deficit) - beginning (cash basis)	52,788	52,788	(28,134)	-
Fund Balances - ending (cash basis)	<u>\$ 275,332</u>	<u>\$ 275,332</u>	<u>\$ (191,090)</u>	<u>\$ (497,613)</u>
Basis of accounting reconciliation			(88,347)	
Fund Balances (deficit) - ending (modified accrual basis)			<u>\$ (279,437)</u>	

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statement of Net Assets
Proprietary Funds
September 30, 2005

	Business-type Activities				
	Water	Sewer	Electric	Landfill	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 41,439	\$ 60,240	\$ -	\$ -	\$ 101,679
Investments	-	-	200,094	-	200,094
Receivables, net					
Interest	491	-	13,585	-	14,076
Accounts	59,215	27,230	330,043	37,169	453,657
Assessments	23,641	48,606	-	-	72,247
Due from other funds	-	-	141,798	-	141,798
Inventories	47,453	-	277,878	-	325,331
Total current assets	<u>\$ 172,239</u>	<u>\$ 136,076</u>	<u>\$ 963,398</u>	<u>\$ 37,169</u>	<u>\$ 1,308,882</u>
Noncurrent assets:					
Restricted cash and cash equivalents	\$ 23,542	\$ 259,009	\$ 45,738	\$ 227,962	\$ 556,251
Restricted investments	227,847	-	1,638,918	-	1,866,765
Capital assets, net					
Buildings	231,342	1,601,613	129,568	673,346	2,635,869
Equipment	715,262	529,017	2,761,625	536,857	4,542,761
Bond issue costs, net	-	-	7,226	-	7,226
Total noncurrent assets	<u>\$ 1,197,993</u>	<u>\$ 2,389,639</u>	<u>\$ 4,583,075</u>	<u>\$ 1,438,165</u>	<u>\$ 9,608,872</u>
Total assets	<u>\$ 1,370,232</u>	<u>\$ 2,525,715</u>	<u>\$ 5,546,473</u>	<u>\$ 1,475,334</u>	<u>\$ 10,917,754</u>
LIABILITIES					
Current liabilities:					
Cash, deficit, unrestricted	\$ -	\$ -	\$ 28,155	\$ 103,443	\$ 131,598
Accounts payable	446	25,026	6,948	17,341	49,761
Accrued payroll	2,657	1,745	3,373	815	8,590
Accrued compensated absences	5,110	2,400	10,280	3,952	21,742
Customer deposits	23,542	-	45,738	-	69,280
Accrued closure and postclosure costs	-	-	-	395,958	395,958
Sales tax payable	1,950	910	10,141	-	13,001
Accrued interest payable	5,108	-	10,898	9,201	25,207
Deferred Revenue Assessments	2,627	8,231	-	-	10,858
Bonds, notes, and loans payable	19,283	-	100,000	20,938	140,221
Total current liabilities	<u>\$ 60,723</u>	<u>\$ 38,312</u>	<u>\$ 215,533</u>	<u>\$ 551,648</u>	<u>\$ 866,216</u>
Noncurrent liabilities:					
Deferred Revenue Assessments	\$ 21,014	\$ 32,925	\$ -	\$ -	\$ 53,939
Bonds, notes, and loans payable	392,186	-	465,000	270,018	1,127,204
Total noncurrent liabilities	<u>\$ 413,200</u>	<u>\$ 32,925</u>	<u>\$ 465,000</u>	<u>\$ 270,018</u>	<u>\$ 1,181,143</u>
Total liabilities	<u>\$ 473,923</u>	<u>\$ 71,237</u>	<u>\$ 680,533</u>	<u>\$ 821,666</u>	<u>\$ 2,047,359</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 535,135	\$ 2,130,630	\$ 2,326,193	\$ 919,247	\$ 5,911,205
Restricted net assets	227,847	259,009	1,638,918	227,962	2,353,736
Unrestricted	133,327	64,839	900,829	(493,541)	605,454
Total net assets	<u>\$ 896,309</u>	<u>\$ 2,454,478</u>	<u>\$ 4,865,940</u>	<u>\$ 653,668</u>	<u>\$ 8,870,395</u>

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2005

	Business-type Activities				
	Water	Sewer	Electric	Landfill	Total
Operating revenues:					
Charges for services:					
Sales	\$ 311,626	\$ 195,403	\$ 2,565,731	\$ 262,068	\$ 3,334,828
Miscellaneous	12,380	12,225	33,682	139,353	197,640
Total operating revenues	<u>\$ 324,006</u>	<u>\$ 207,628</u>	<u>\$ 2,599,413</u>	<u>\$ 401,421</u>	<u>\$ 3,532,468</u>
Operating Expenses:					
Personnel services	\$ 138,921	\$ 79,138	\$ 133,643	\$ 53,179	\$ 404,881
Contractual obligations	6,806	4,454	45,442	169,495	226,197
Utilities	51,079	28,751	1,908,547	966	1,989,343
Repairs and maintenance	11,048	40,287	10,883	17,640	79,858
Other supplies and expenses	31,418	21,504	64,241	107,197	224,360
Insurance claims and expenses	13,986	14,593	16,651	10,987	56,217
Depreciation and amortization expenses	49,535	74,386	160,988	36,741	321,650
Total operating expenses	<u>\$ 302,793</u>	<u>\$ 263,113</u>	<u>\$ 2,340,395</u>	<u>\$ 396,205</u>	<u>\$ 3,302,506</u>
Operating income (loss)	<u>\$ 21,213</u>	<u>\$ (55,485)</u>	<u>\$ 259,018</u>	<u>\$ 5,216</u>	<u>\$ 229,962</u>
Nonoperating revenues (expenses)					
Investment earnings	\$ 4,909	\$ 2,346	\$ 47,276	\$ 6,297	\$ 60,828
Interest expense	(16,977)	-	(29,539)	(10,759)	(57,275)
Total nonoperating revenues (expenses)	<u>\$ (12,068)</u>	<u>\$ 2,346</u>	<u>\$ 17,737</u>	<u>\$ (4,462)</u>	<u>\$ 3,553</u>
Income (loss) before transfers	<u>\$ 9,145</u>	<u>\$ (53,139)</u>	<u>\$ 276,755</u>	<u>\$ 754</u>	<u>\$ 233,515</u>
Transfers out	<u>\$ (63,859)</u>	<u>\$ (44,559)</u>	<u>\$ (227,717)</u>	<u>\$ (15,000)</u>	<u>\$ (351,135)</u>
Change in net assets (decrease)	\$ (54,714)	\$ (97,698)	\$ 49,038	\$ (14,246)	\$ (117,620)
Total net assets - beginning	951,023	2,552,176	4,816,902	667,914	8,988,015
Total net assets - ending	<u>\$ 896,309</u>	<u>\$ 2,454,478</u>	<u>\$ 4,865,940</u>	<u>\$ 653,668</u>	<u>\$ 8,870,395</u>

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005

	Business-type Activities				
	Water	Sewer	Electric	Landfill	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 297,216	\$ 217,238	\$ 2,577,681	\$ 406,507	\$ 3,498,642
Payments to suppliers	(87,568)	(94,550)	(2,043,404)	(336,684)	(2,562,206)
Payments to employees	(151,355)	(86,468)	(144,720)	(56,728)	(439,271)
Repayment of loans to other funds	-	-	3,851	-	3,851
Net cash provided (used) by operating activities	\$ 58,293	\$ 36,220	\$ 393,408	\$ 13,095	\$ 501,016
ACTIVITIES					
Transfer to other funds	\$ (63,859)	\$ (44,559)	\$ (227,717)	\$ (15,000)	\$ (351,135)
Net cash provided (used) by noncapital financing activities	\$ (63,859)	\$ (44,559)	\$ (227,717)	\$ (15,000)	\$ (351,135)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	\$ (5,839)	\$ (6,618)	\$ (77,300)	\$ (95,708)	\$ (185,465)
Proceeds from new debt	-	-	-	-	-
Principal paid on capital debt	(18,718)	-	(95,000)	(15,560)	(129,278)
Interest paid on capital debt	(16,977)	-	(31,340)	(10,759)	(59,076)
Net cash provided (used) by capital and related financing activities	\$ (41,534)	\$ (6,618)	\$ (203,640)	\$ (122,027)	\$ (373,819)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends received	\$ 456	\$ 2,346	\$ 1,169	\$ 6,297	\$ 10,268
Transfer to restricted assets account	-	-	-	-	-
Proceeds from Sales and Maturities of Investments	-	-	-	-	-
Net cash provided (used) by investing activities	\$ 456	\$ 2,346	\$ 1,169	\$ 6,297	\$ 10,268
Net increase in cash and cash equivalents	\$ (46,644)	\$ (12,611)	\$ (36,780)	\$ (117,635)	\$ (213,670)
Beginning cash and cash equivalents	88,083	72,851	8,625	(33,784)	135,775
Ending cash and cash equivalents	\$ 41,439	\$ 60,240	\$ (28,155)	\$ (151,419)	\$ (77,895)
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 21,213	\$ (55,485)	\$ 259,018	\$ 5,216	\$ 229,962
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	49,535	74,386	159,236	36,741	319,898
Amortization expense	-	-	1,752	-	1,752
Closure/Post-closure accrual	-	-	-	12,156	12,156
Bad-debt write-off	-	-	-	-	-
Change in assets and liabilities:					
Receivables, net	(26,790)	9,609	(17,881)	5,086	(29,976)
Inventories	6,142	-	(1,144)	-	4,998
Accounts and other payables	(2,998)	23,270	2,701	(42,555)	(19,582)
Accrued expenses	11,191	(15,560)	(10,274)	(3,549)	(18,192)
Net cash provided by operating activities	\$ 58,293	\$ 36,220	\$ 393,408	\$ 13,095	\$ 501,016

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2005

	Queen Jackson Memorial	Perpetual Care	Sales Tax	Time Capsule	Fines & Licenses	Total
ASSETS						
Cash and cash equivalents	\$ 57,080	\$ 133,876	\$ 12,675	\$ 9,490	\$ 4,576	\$ 217,697
Investments, at fair value	-	-	-	-	-	-
Total assets	<u>\$ 57,080</u>	<u>\$ 133,876</u>	<u>\$ 12,675</u>	<u>\$ 9,490</u>	<u>\$ 4,576</u>	<u>\$ 217,697</u>
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Investments	-	-	-	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS						
Held in trust for various purposes	<u>\$ 57,080</u>	<u>\$ 133,876</u>	<u>\$ 12,675</u>	<u>\$ 9,490</u>	<u>\$ 4,576</u>	<u>\$ 217,697</u>

See accompanying notes to the financial statements.

City of Valentine, Nebraska
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2005

	Queen Jackson Memorial	Perpetual Care	Sales Tax	Time Capsule	Fine & Licenses	Total
ADDITIONS						
Contributions:						
Endowment funds received	\$ 17,416	\$ -	\$ -	\$ -	\$ -	\$ 17,416
Perpetual care receipts	-	1,200	-	-	-	1,200
Sales tax collections	-	-	142,033	-	-	142,033
Licenses issued	-	-	-	-	2,765	2,765
Miscellaneous	-	-	384	-	-	384
Total contributions	<u>\$ 17,416</u>	<u>\$ 1,200</u>	<u>\$ 142,417</u>	<u>\$ -</u>	<u>\$ 2,765</u>	<u>\$ 163,798</u>
Investment income:						
Net appreciation (depreciation) in fair value of investments, interest and dividends	\$ -	\$ -	\$ -	\$ 282	\$ -	\$ 282
Total investment income	-	-	-	282	-	282
Less investment expense	-	-	-	-	-	-
Net investment income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282</u>	<u>\$ -</u>	<u>\$ 282</u>
Other additions-loan payments	-	-	-	-	-	-
Total additions	<u>\$ 17,416</u>	<u>\$ 1,200</u>	<u>\$ 142,417</u>	<u>\$ 282</u>	<u>\$ 2,765</u>	<u>\$ 164,080</u>
DEDUCTIONS						
Sales tax	\$ -	\$ -	\$ 140,845	\$ -	\$ -	\$ 140,845
Commissions	-	-	900	-	-	900
Payments to schools	-	-	-	-	2,825	2,825
Miscellaneous	-	-	-	-	190	190
Transfers out	-	-	-	-	-	-
Total deductions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,745</u>	<u>\$ -</u>	<u>\$ 3,015</u>	<u>\$ 144,760</u>
Net increase (decrease)	\$ 17,416	\$ 1,200	\$ 672	\$ 282	\$ (250)	\$ 19,320
Net assets-beginning of year	39,664	132,676	12,003	9,208	4,826	198,377
Net assets-end of year	<u>\$ 57,080</u>	<u>\$ 133,876</u>	<u>\$ 12,675</u>	<u>\$ 9,490</u>	<u>\$ 4,576</u>	<u>\$ 217,697</u>

See accompanying notes to the financial statements.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

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

A. Reporting entity

The City of Valentine, Nebraska operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and civil defense), highways and streets, health, planning and zoning, culture-recreation, parks, and general administrative services.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 1. **Summary of Significant Accounting Policies (continued)**

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated balances and claims and judgments, are recorded only when payment is due.

Property taxes, occupation taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *street fund* is used to account for the financing and construction of major street improvement projects.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 1. **Summary of Significant Accounting Policies (continued)**

The *airport fund* is used to account for the financing of the airport operations.

The *fire sinking fund* is used to account for the financing of the fire building and fire department pumper truck purchases.

The City reports the following major proprietary funds:

The *landfill fund* is used to account for the activities necessary for the provision of garbage disposal services to City residents.

The *electric fund* is used to account for all activities necessary for the provision of electrical services to City residents.

The *sewer fund* is used to account for all activities necessary for the provision of sewer services to City residents.

The *water fund* is used to account for all activities necessary for the provision of water services to City residents.

Additionally, the City reports the following fund types:

The *Queen Jackson Memorial fund* accounts for all investment monies received from Queen Jackson estate's trust for the direct benefit, welfare, and convenience of the public in projects and purposes such as improvements and maintenance of the City Park, library, cemetery and or any other public project.

The *Perpetual Care fund* accounts for the current and future improvements necessary for the upkeep of the cemetery.

The *sales tax fund* accounts for sales tax collections made on taxable sales on behalf of the State of Nebraska. The sales tax collections are held in this agency fund until transmitted to the State of Nebraska each month.

The *time capsule fund* accounts for the CD invested on its behalf to draw interest annually.

The *finest and licenses fund* accounts for the fines and licenses paid by the residents of the city.

CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS

Note 1. **Summary of Significant Accounting Policies (continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, sanitary sewer, solid waste disposal facility functions, and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues for the various functions concerned.

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

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

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in bonds and debentures issued by any of the twelve federal land banks, the twelve intermediate credit banks, or the thirteen banks for cooperatives under the supervision of the Farm Credit Administration, or in interest bearing bonds or the obligations of the United States.

Investments for the City, as well as for component units, are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 1. Summary of Significant Accounting Policies (continued)

All property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 1 percent of outstanding property taxes at September 30, 2005.

Property tax requirements are submitted to the Cherry County Clerk on or before September 20 of each year, to be levied by the Cherry County Board of Supervisors by October 15 on the property values assessed as of the same date. The tax levy notice is mailed in December with the first half payment due on May 1 and the second half payment due on September 1. Unpaid taxes at September 30 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recognized as expenditures in governmental funds and expenses in proprietary funds when consumed.

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.

4. Restricted assets

Certain resources of the City's water, sewer, and electric enterprise funds are set aside for the repayment of long-term debt and revenue bonds. The "restricted cash and cash equivalents" account is used to segregate resources accumulated for long-term debt and revenue bond payments.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 1. **Summary of Significant Accounting Policies (continued)**

5. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$250.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as the projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Improvements other than buildings	10-50
Equipment	3-20
Vehicles	5-10

6. Compensated absences

It is City's policy to permit employees to accumulate earned but unused vacation, compensation, and medical pay benefits. There is an estimate for a liability for unpaid accumulated vacation, compensation, and medical leave. At the beginning of each calendar year, employees are allowed to carry forward unused vacation hours. Upon resignation or retirement, this benefit is paid in full to the employee. All medical pay benefits are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported; however, these benefits cease upon resignation or retirement.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 1. **Summary of Significant Accounting Policies (continued)**

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Comparative data/reclassifications

Comparative data for the prior year has not been presented.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 2. **Reconciliation of government-wide and fund financial statements**

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund balance sheet includes reconciliation between fund balance – total government funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,002,246 difference are as follows:

Bond payable, long-term	\$ 1,002,246
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The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$228,043 difference are as follows:

Capital outlay	\$ 376,839
Depreciation expense	(147,571)
Amortization expense	<u>(1,225)</u>
 Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 228,043</u>

Another element of that reconciliation states “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of this \$0 difference are as follows:

In the statement of activities, only the *gain* on the sale of capital assets is reported. However, in the governmental funds, the proceeds from sales increase financial resources. No significant sales of assets occurred in the year ending September 30, 2005.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 2. **Reconciliation of government-wide and fund financial statements
(continued)**

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$103,662 difference are as follows:

Principal repayments:	
General obligation bond debt	\$ 141,230
Issuance of new bonds	-
Loan proceeds	<u>(37,568)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental funds	 <u>\$ 103,662</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$58,641 difference are as follows:

Compensated absences	\$ 55,643
Accrued interest	<u>2,998</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental funds	 <u>\$ 58,641</u>

Note 3. **Stewardship, compliance, and accountability**

A. Budgetary information

Annual budgets are adopted on a basis consistent with the Nebraska Budget Act. The Nebraska Budget Act requires that the City adopt its budget on a *cash basis*. All annual appropriations lapse at fiscal year end.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 3. Stewardship, compliance, and accountability (continued)

On or before mid-May of each year, all departments and divisions of the City submit requests for appropriation to the City administrator so that a budget may be prepared. Before July 31, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget must be prepared and adopted no later than September 20.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a fund with the City Manager's approval. Transfers of appropriations between funds require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Encumbrance accounting is employed in all funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Deficit fund equity

The General, Street, Airport, Fire Sinking, and Park & Recreation funds have deficit balances of \$79,874, \$31,837, \$127,647, \$90,772 and \$246,736. These fund balance deficits are expected to be covered from future fund revenues or transfers from other funds.

Note 4. Detailed notes on all funds

A. Deposits and investments

At year-end, the City's carrying amount of deposits was \$2,229,410 and the bank balance was \$2,861,236. All balances were covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

Investments are categorized into these categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

At year-end, the City's investment balances were as follows:

	Category			Reported
	1	2	3	Amount/ Fair Value
U.S. Government Securities	\$ -	\$ -	\$ -	\$ -
Checking & Savings	162,860	-	-	162,860
Certificates of deposit	2,138,400	-	-	2,138,400
Total investments	<u>\$ 2,301,260</u>	<u>-</u>	<u>-</u>	<u>\$ 2,301,260</u>

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

B. Receivables

Receivables as of year-end for the City's individual major funds, nonmajor funds, internal service funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Interest	Delinquent Faxes	County Treasurer	Special Assessments	Gross Receivables	Less: Allowance For Uncollectibles	Net Total Receivables
General	\$ -	\$ 37,053	\$ 30,399	\$ -	\$ 67,452	\$ -	\$ 67,452
Swimming Pool	-	3,655	2,701	-	6,356	-	6,356
Street	-	-	22,865	105,232	128,097	-	128,097
Library	18	8,189	6,718	-	14,925	-	14,925
Cemetery	51	-	-	-	51	-	51
Park and recreation	-	6,410	5,259	-	11,669	-	11,669
Airport	-	3,642	3,549	-	7,191	-	7,191
Library grant	-	-	-	-	-	-	-
CMS/TWX	-	-	-	-	-	-	-
Bookmobile	-	-	-	-	-	-	-
Fire sinking	-	5,280	4,331	-	9,611	-	9,611
Bookmobile reserve	244	-	-	-	244	-	244
Cemetery reserve	-	-	-	-	-	-	-
Street reserve	404	-	-	-	404	-	404
Library reserve	-	-	-	-	-	-	-
Swimming pool reserve	-	-	-	-	-	-	-
Queen Jackson Memorial	-	-	-	-	-	-	-
Perpetual Care	-	-	-	-	-	-	-
Sales Tax	-	-	-	-	-	-	-
Time Capsule	-	-	-	-	-	-	-
Fines and Licenses	-	-	-	-	-	-	-
Total	<u>\$ 717</u>	<u>\$ 64,229</u>	<u>\$ 75,822</u>	<u>\$ 105,232</u>	<u>\$ 246,000</u>	<u>\$ -</u>	<u>\$ 246,000</u>

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. **Detailed notes on all funds (continued)**

C. Capital assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	79,462	-	-	79,462
Total capital assets, not being depreciated	79,462	-	-	79,462
Capital assets, being depreciated:				
Buildings	2,214,713		-	2,214,713
Improvements other than buildings	67,272	289,610	-	356,882
Equipment	1,487,017	22,540		1,509,557
Vehicles	501,565	64,689		566,254
Infrastructure	3,778	-	-	3,778
Total capital assets being depreciated	4,274,345	376,839	-	4,651,184
Less accumulated depreciation for:				
Buildings	963,899	48,361	-	1,012,260
Improvements other than buildings	422	4,847	-	5,269
Equipment	1,130,580	51,972	-	1,182,552
Vehicles	330,881	42,202	-	373,083
Infrastructure	31	189	-	220
Total accumulated depreciation	2,425,813	147,571	-	2,573,384
Total capital assets, being depreciated, net	1,848,532	229,268	-	2,077,800
Governmental activities capital assets, net	1,927,994	229,268	-	2,157,262
Business-type activities:				
Capital assets, not being depreciated:				
Land	-	-	-	-
Total capital assets, not being depreciated	-	-	-	-
Capital assets, being depreciated:				
Buildings	3,476,229	-	-	3,476,229
Equipment	6,033,960	456,865	-	6,490,825
Total capital assets being depreciated	9,510,189	456,865	-	9,967,054
Less accumulated depreciation for:				
Buildings	776,874	63,486	-	840,360
Equipment	1,691,652	256,412	-	1,948,064
Total accumulated depreciation	2,468,526	319,898	-	2,788,424
Total capital assets, being depreciated, net	7,041,663	136,967	-	7,178,630
Business-type activities capital assets, net	7,041,663	136,967		7,178,630

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. **Detailed notes on all funds (continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 62,656
Swimming Pool	9,621
Street	29,501
Library	1,085
Cemetery	1,642
Park and recreation	9,040
Airport	31,985
Bookmobile	2,041
Total depreciation expense-governmental activities	<u>\$ 147,571</u>

Business-type activities:

Water	\$ 49,535
Sewer	74,386
Electric	159,236
Landfill	36,741
Total depreciation expense - business-type activities	<u>\$ 319,898</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2005 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Landfill	\$ 2,085
Electric	Landfill	73,713
Electric	Airport	66,000
		<u>\$ 141,798</u>

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

Interfund transfers:

Transfer in:	Transfer out:									
	Water Fund	Sewer Fund	Electric Fund	Landfill Fund	Street Fund	Pool Reserve Fund	Queen Moon Jackson	Library Reserve	Bookmobile Fund	Total Transfers In
General	\$ 63,859	\$ 44,559	\$ 227,717	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,135
Swimming Pool	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-	-	-
Park and recreation	-	-	-	-	-	-	-	-	-	-
Bookmobile Reserve	-	-	-	-	-	-	-	-	-	-
Total Transfers Out	\$ 63,859	\$ 44,559	\$ 227,717	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,135

E. Long-term debt

On October 14, 2003, the City issued \$735,000 refunded various purpose bonds. The proceeds of the bonds were used to refund the Series 1996 bonds totaling \$190,000 and to refund in advance of their maturity the November 1, 2000 through October 31, 2010 maturities, remaining total of \$490,000 of the City's various purpose bonds, Series 2000. This refunding was done to achieve interest cost savings. Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury Securities. The escrow securities and their earnings are structured to pay the principal and interest on the refunded 2000 bonds as such payments become due, until the call date of the respective refunded bonds, at which time the escrow payment will pay the principal of the refunded bonds at a price of par plus accrued interest. Since these bonds have been placed in an irrevocable trust, they are considered defeased for these financial statements.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4.

Detailed notes on all funds (continued)

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$55,000. Of this difference, \$14,700 was used for bond issuance costs (to be amortized over the life of the loan) and \$40,300 as interest payment on the various purpose bonds. Various Purpose Bonds currently outstanding are as follows:

Various Purpose Refunding Bonds, Series 2003

Original Issue Amount: \$735,000

Issue Date: 10/14/03

Interest Rate: 1.25-4.2%

Year Ended September 30,	Principal Payments
2006	\$ 55,000
2007	55,000
2008	55,000
2009	55,000
2010	60,000
2011 & thereafter	405,000
Total	<u>\$ 685,000</u>

The City entered into a Fire Station lease purchase agreement on June 18, 1998. The proceeds of the agreement were used for payment of an addition to the fire building. The lease is due in semi-annual payments of \$15,252, with the final payment due June 1, 2008. The lease bears interest at 4.85%.

The City entered into a loan agreement with the Department of Aeronautics State of Nebraska for the repayment of funds borrowed under the Department of Aeronautics State Fuel Storage program funds. The funds were advanced for 70% or \$50,000 maximum toward the construction of a Fuel Storage System. The repayment schedule is 1 payment at \$615 and 119 payments at \$415. Final payment will be made in December of 2007.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

The City entered into a lease purchase agreement for a Backhoe on March 1, 1999. The original cost is \$51,065 and repayment is due in semiannual payments of \$5,685 at 4% interest beginning September 15, 1999. The cost is being shared equally between the street, electric, water, and sewer funds. The final payment was made in March 2005.

The City entered into a tax anticipation note covering the cost of the Fire Department Pumper truck for \$180,000. The final payment is due November 15, 2009. Interest rates range from 4.35% to 5.45%.

The City also issued \$1,100,000 in Combined Utility Revenue Bonds. Of that amount, \$1,000,000 is for the electric fund and includes farther details in the business activity long-term debt note. \$100,000 of the bond issue was to cover the cost of the airport runway improvements. Final payment on the airport portion is due November 15, 2009. Interest rates range from 4.25% to 5.35%.

The City entered into a loan agreement with the Department of Aeronautics State of Nebraska for the repayment of funds borrowed under the Department of Aeronautics State of Nebraska Revolving Hangar Loan Program. The total project cost was \$233,090. \$137,114.60 was loaned by the State to be repaid over a period of 180 months at \$760.00 per month.

On April 27, 2003, the City entered into a loan covering the cost of a New Holland tractor with the water fund. Loan payments of \$2,768 are due annually beginning April 28, 2005, with the final payment due April 28, 2008. The loan bears an interest rate of 2.9%.

The City entered into a loan covering the purchase of two new 2005 Ford Crown Victoria police cruisers in the general fund. Loan payments of \$1,106.18 are due monthly beginning August 1, 2005, with the final payment due July 1, 2008. The loan bears an interest rate of 3.75%.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

Five-year maturities are as follows:

September 30,	2003 Various Purpose Refunding	1993 Dept. of Aeronautics	2002 Dept. of Aeronautics	Fire Building 6/18/1998	New Holland Tractor 4/27/2003
2006	\$ 55,000	\$ 4,980	\$ 9,120	\$ 26,740	\$ 1,271
2007	55,000	4,980	9,120	28,052	1,307
2008	55,000	1,660	9,120	29,430	1,345
2009	55,000	-	9,120	-	-
2010	60,000	-	9,120	-	-
following years	405,000	-	60,040	-	-
	<u>\$ 685,000</u>	<u>\$ 11,620</u>	<u>\$ 105,640</u>	<u>\$ 84,222</u>	<u>\$ 3,923</u>

September 30,	Airport Runway 11/15/1999	Hangar Loan-Due to Electric Fund	Fire Department Pumper Truck	2005 Police Cruisers	Total
2006	\$ 10,000	\$ 5,497	\$ 20,000	\$ 13,272	\$ 145,880
2007	10,000	5,717	20,000	13,272	147,448
2008	10,000	5,946	20,000	9,051	141,552
2009	10,000	6,184	20,000	-	100,304
2010	10,000	6,431	25,000	-	110,551
following years	-	36,225	-	-	501,265
	<u>\$ 50,000</u>	<u>\$ 66,000</u>	<u>\$ 105,000</u>	<u>\$ 35,595</u>	<u>\$ 1,147,000</u>

Business-Type Activity Debt

On November 15, 1999, the City issued \$1,100,000 of Combined Utilities Revenue Bonds. Of that amount, \$1,000,000 is for electric realignment and \$100,000 of the bond issue was for the airport fund, see governmental activities long-term debt notes.

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%.

The City entered into a lease purchase agreement for a Backhoe on March 1, 1999. The original cost is \$51,065 and repayment is due in semiannual payments of \$5,685 at 4% interest beginning September 15, 1999. The cost is being shared equally between the street, electric, water, and sewer funds. The final payment was made in March 2005.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

On April 27, 2003, the City entered into a loan covering the cost of a New Holland tractor with the street fund. Loan payments of \$1,384 are due annually beginning April 28, 2005, with the final payment due April 28, 2008. The loan bears an interest rate of 2.9%.

F. Loan Payable, Nebraska Department of Environmental Quality

During the year ending 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 fiscal year 2003, and funds borrowed were \$450,000. The term of the loan is twenty years and bears interest at 3% and 1% fee for a total carryover cost of 4%. Payments are semiannual in June and December. The first payment was June 15, 2003 and the last payment is December 2022. The loan balance at September 30, 2005 was \$425,029.

Five-year maturities are as follows:

<u>September 30,</u>	<u>1999</u>	<u>2003</u>		
	<u>Electric Combined Utilities</u>	<u>Nebraska Dept. of Environmental Quality</u>	<u>New Holland Tractor</u>	
2006	\$ 100,000	\$ 18,012	\$ 1,271	
2007	105,000	18,556	1,307	
2008	115,000	19,117	1,345	
2009	120,000	19,695	-	
2010	125,000	20,290	-	
following years	-	311,876	-	
	<u>\$ 565,000</u>	<u>\$ 407,546</u>	<u>\$ 3,923</u>	

<u>September 30,</u>	<u>2000</u>	<u>2001</u>		
	<u>United States Dept. of Agriculture</u>	<u>Landfill Fund Due to Electric Fund</u>	<u>Landfill Fund Due to Electric Fund</u>	<u>Total</u>
2006	\$ 12,236	\$ 2,085	\$ 6,617	\$ 140,221
2007	12,786	-	6,964	144,613
2008	13,362	-	7,330	156,154
2009	13,963	-	7,714	161,372
2010	14,592	-	8,119	168,001
following years	148,219	-	36,969	497,064
	<u>\$ 215,158</u>	<u>\$ 2,085</u>	<u>\$ 73,713</u>	<u>\$ 1,267,425</u>

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. **Detailed notes on all funds (continued)**

G. Deferred Bond Issue Costs

The City has capitalized expenditures relating to the issuance of long-term bonds, which are amortized over the life of the bond issue. Included in deferred bond costs are fiscal agent fees, bond rating fees, accounting, printing and other related expenditures. The costs (\$17,517) associated with the 1999 Electric Combined Revenue bonds are being amortized over a period of 120 months. The amortization expense for the year ended September 30, 2005 is \$1,752. The costs (\$14,700) associated with the October 14, 2003 Street fund Various Purpose Refunding Bonds issues are being amortized over 144 months. The amortization expense for the year ended September 30, 2005 is \$1,225.

H. Employee retirement systems and pension plans

The defined contribution plan calls for employees to contribute 3% of gross salaries to the plan. The City's share of contributions is a matching 3% of gross salaries paid to qualified participants.

Employee contributions are fully vested. The employers matching contribution is vested on a graduated basis determined by the number of years of employment. Full vesting occurs after 7 years.

Beginning January 1, 2003 the City of Valentine established a 457 plan allowing pre-tax employee contributions above the mandatory 3%. At September 30, 2005 the city maintains both plans.

Combined contributions to both retirement plan savings accounts for the twelve months ended September 30, 2005 total \$27,813. Employee contributions were \$17,666 and the employers' required matching share was \$10,147, after reductions for forfeitures used.

Summary of both plan assets, September 30, 2005

Total assets – Employee account balances	<u>\$255,107</u>
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Fully vested portion

Of employee account balance	<u>\$251,579</u>
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**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. Detailed notes on all funds (continued)

Ameritas holds the investments of the plans. The market value of the defined contribution plan investments as of September 30, 2005 was \$246,181 and the 457 plan investments were \$8,926.

Ameritas-Defined contribution plan:

Guaranteed Investment Account	\$ 73,601
Retirement Equity Account	13,027
Asset Manager Account	24,873
VIP II Contrafund Account	-
VIP II Index 500 Account	19,820
VIP Money Market Account	5,366
Invesco Small Company Growth	-
Income and Growth Account	17,276
Ultra Account	34,577
American Century Equity Income	5,303
Wellington Account	9,814
Value Fund	17,231
MFS Total Return	536
Growth Fund	24,757
Total Ameritas-Defined contribution plan account	<u>\$ 246,181</u>

Ameritas-457 Plan:

Guaranteed Investment Account	\$ 1,026
VIP II Asset Manager Account	288
VIP II Contrafund Account	234
VIP Money Market Account	2,012
Dynamics Account	-
Invesco Small Company Growth	-
Income and Growth Account	-
Ultra Account	2,215
American Century Equity Income	-
Wellington Account	1,357
Small Cap Value	-
Value Fund	363
Total Return	-
American Growth Account	-
Growth Fund	1,431
American Mid Cap Growth	-
	<u>\$ 8,926</u>

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 4. **Detailed notes on all funds (continued)**

I. Special Assessments – Governmental Funds

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. Payments on this assessment totaled \$7,416 for the year ending September 30, 2005.

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 2005, additional assessments of \$41,045 were assessed to property owners for recently developed land. Payments on this assessment totaled \$10,318 for the year ending September 30, 2005.

Principal collections from various special assessments outstanding are reported in the street fund. Special assessments receivable are comprised of the following assessments at September 30, 2005. We have not audited the following special assessments receivable balances.

<u>2005</u>
S 43,147
<u>62,085</u>
<u>\$ 105,232</u>

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 5. Closure and Post-Closure Care Costs – Landfill Fund

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 post-closure 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 post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$395,958 reported as landfill closure and post-closure care liability at September 30, 2005, represents the cumulative amount reported to date based on the use of approximately 21.0 percent of the estimated capacity of the landfill. The Valentine Landfill will recognize the remaining estimated cost of closure and post-closure care of \$1,096,142 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2005. 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 (F.A.M.). During the year ending September 30, 1996, the City Council passed Resolution 96-13 to make annual contributions to a special fund to finance closure and post-closure care. The Valentine Landfill is in compliance with these requirements, and, at September 30, 2005 investments totaled \$227,962 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 post-closure 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.

**CITY OF VALENTINE, NEBRASKA
NOTES TO FINANCIAL STATEMENTS**

Note 6. Due To Utility Fund

In 2000, the Electric Fund loaned \$12,503 to the Landfill Fund for general obligations incurred during the year. This loan will be repaid over a term of 7 years at an interest rate of 5.50%. At September 30, 2005 the balance of the loan was \$2,085.

In 2001, the Electric Fund loaned \$80,000 to the Landfill Fund for payment of the loader loan. This loan will be repaid over a term of 10 years at an interest rate of 5.25%. At September 30, 2005 the balance of the loan was \$73,713.

In 2002, the Electric Fund loaned \$66,000 to the Airport Fund as part of a hangar project. This loan will be repaid over a term of 7 years at an interest rate of 5.50%. At September 30, 2005 the balance of the loan was \$66,000.

Note 7. Outstanding Warrants

There were no outstanding warrants as of September 30, 2005.



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

The Honorable Mayor and City Council
City of Valentine, Nebraska

We have audited the financial statements of the City of Valentine, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Valentine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City of Valentine's ability to record, process, summarize, and report financial data consistent with the assertions of Administration in the financial statements.

1. One of the primary characteristics of any system of internal accounting control is that no person should be allowed to control a transaction from its inception to its recording in the accounting records. Although this division of duties is not always possible within your organization because of the limited number of employees, we feel you should be aware of the situation.

It is our recommendation that management implement procedures to segregate duties in several areas throughout the entity whenever possible.

Management concurs with the recommendation and will review the current system and segregate duties where it is possible to do so. Adding personnel to segregate duties is cost prohibitive due to budget restraints.

A material weakness is a condition in which the design or operation of one or more of the internal control structure components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of audit committee, management 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.

McDERMOTT AND MILLER, P.C.

McDermott & Miller, P.C.

Kearney, Nebraska
December 7, 2005