

CITY OF MCCOOK, NEBRASKA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

September 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of McCook, Nebraska

We have audited the accompanying financial statements of the governmental activities - modified cash basis, the business-type activities - accrual basis, the aggregate discretely presented component units - accrual basis, each major fund - modified cash basis for the governmental funds and accrual basis for the proprietary funds, the aggregate remaining fund information - modified cash basis, and the fiduciary funds - modified cash basis of the City of McCook, 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.

As described in Note A, the City prepares its governmental and fiduciary financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities - modified cash basis, the business-type activities - accrual basis, the aggregate discretely presented component units - accrual basis, each major fund - modified cash basis for the governmental funds and accrual basis for the proprietary funds, the aggregate remaining fund information - modified cash basis, and the fiduciary funds - modified cash basis of the City of McCook, 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 the bases of accounting described in Note A.

SHAREHOLDERS

Robert D. Almquist
Phillip D. Maltzahn
Terry T. Galloway
Marcy J. Luth
Heidi A. Ashby
Christine R. Shenk

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2013, on our consideration of the City of McCook'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 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 5 through 15 and 64 through 69 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 City's basic financial statements as a whole. The accompanying other supplementary information and the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, 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 and the schedule of expenditures of federal awards, 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.

*Amquist, Malthahn,
Galloway & Luth, P.C.*

Grand Island, Nebraska
February 26, 2013

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

This discussion and analysis of the City of McCook's financial performance provides an overall review of the City's financial activities for the fiscal year ended September 30, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

The City has maintained a General Fund levy of \$.319044 since 2002 and does not have a levy for bonded debt.

Sales and use tax receipts generated \$878,800 for property tax relief to homeowners in the City of McCook and \$878,800 for infrastructure improvements. The taxable sales for the City of McCook were up 8.3 percent from last year. Sales tax revenues were used for park renovations, for the City's match to an Energy Grant for replacement of the boiler at the Library, \$120,755 to buy down the State Revolving Loan for water improvements, and \$50,000 to buy down the State Revolving Loan for sewer improvements. The Council maintained the annual commitment of \$250,000 for the One & Six Year Street Plan Improvements. This year's street improvements completed were East "O" Street, Kelley Park Drive, and West 10th Street Drainage.

The City was funded \$30,000 through the Community Development Block Grant program for the development of a Downtown Revitalization Plan. The funds will be used to outline the needed steps to stabilize and revitalize the downtown district, expand the community's economic opportunities, and eliminate substandard and blighted structures in the downtown area. This plan is scheduled for completion in early 2013. The City's match of \$9,300 was funded through sales tax revenues.

The McCook Economic Development Corporation (MEDC) was funded \$50,000 through the Nebraska Investment Finance Authority (NIFA) for both an update to the community's Housing Study and the City's Comprehensive Plan. This funding will enable the City to obtain professional help to update our community development tools. The City's match of \$25,000 was funded through sales tax revenues.

In November 2010, the voters approved pledging sales tax revenue for a period of seven years for a \$3,750,000 bond to pay for the cost of constructing a new municipal fire, police, and administrative facility. The annual bond payments will average around \$600,000. The Council elected to use the construction manager process for completion of the facility. Sampson Construction was selected as construction manager. Their guaranteed maximum price is \$4,641,556 and the City's soft costs are \$713,444, for a total project cost of \$5,355,000. Funding for the project includes the \$3,750,000 bond, sales tax dollars of \$1,500,000, an estimated \$30,000 in interest received from the bond dollars, and \$75,000 from the LB840 Fund. This project is scheduled for completion in December 2012. The first annual bond payment of \$552,770 was made using sales tax revenues.

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

An additional 0.5 percent City sales and use tax with half of the receipts to be used for infrastructure improvements and half of the receipts to be used to fund an LB840 plan was enacted in July 2008. The 0.5 percent generated \$878,800 in revenue. A portion of the LB840 fund has been committed for funding of a \$1,120,000 bond use for development of the Keystone Business Center. A Tax Increment Financing (TIF) Bond in the amount of \$340,000 was approved with the McCook Economic Development Corporation (MEDC). The Council approved loans from the LB840 Revolving Loan Fund Program in the amount of \$75,000 to Amanda and Brian Warren and \$35,000 to Douglas and Shellie Winder. Through the newly created Façade Improvement Grant and Loan Program, a grant of \$1,950 and a loan of \$10,000 were issued to Linda Maiden.

At the May 15, 2006 meeting, the Council approved a six-year agreement with McCook Keno, LLC for the operation of Keno within the City of McCook. This action revived keno lottery operations in McCook that had been terminated in 1999. The first location was up and running by the end of September 2006. Annual revenue for FY 11/12 was \$52,046. Revenues derived from the keno operation are to be used for "community betterment purposes." No projects were committed to by the Council during the year.

The City's Professional Retail Operations Agreement with Nebraska Public Power leases its electric system to them for a term of not less than fifteen years and not more than twenty-five years with the City being paid 12 percent of the retail revenues. The current year's lease generated \$1,286,937. Of this amount, the City transferred \$375,000 to the Self-Insured Health Insurance Fund and \$911,937 was transferred to the General Fund.

The natural gas franchise agreement with Source Gas, Inc. is for a term of 10 years with the franchise fee paid to the City quarterly. The franchise fee is \$0.0090 per therm delivered. The annual revenue received was \$25-629.

The City provides medical and dental insurance for eligible employees using a self-insurance fund. The fund is financed by operating transfers from the Governmental and Proprietary Fund of an average amount per employee, which is based on management's previous experience. Employee premiums per two-week period are \$15.00 for a single member, \$35.00 for an employee and spouse, \$30.00 for an employee and children, and \$60.00 for an employee and family. The fund covers up to \$35,000 in costs per employee. Any expenses over that amount are covered by an insurance carrier. The City uses a claims service to handle the insurance claims.

For the current fiscal year the City estimated the cost per employee at \$1,235 per month. With fewer claims being over the \$35,000 threshold, the monthly cost per employee did not change. With the ever present risk of an increase in costs, a projected reserve of \$80,000 remains to cover a "worst case year." The City continues to work with Hays Company to monitor these costs and for assistance in developing options to help contain these costs. To help maintain costs deductibles were increased in FY 09/10 and in FY 11/12 employee premiums per two-week period were changed to \$15.00 for a single member, \$35.00 for an employee and spouse, \$30.00 for an employee and children, and \$60.00 for an employee and family. This was an increase from \$20 for family coverage or \$10 for single coverage per pay period.

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

In 2006, the Water Department received a Nebraska Department of Environmental Quality Safe Water State Revolving Loan for \$9,922,000 to construct an Ion Exchange drinking water treatment facility to remove unsafe levels of Arsenic, Uranium, and Nitrate from the municipal water supply. This loan is to be repaid over thirty years. In July 2012, the Clean Water State Revolving Loan for \$400,000 for the purchase of land for a new well field with repayment over twenty years was paid in full. This loan was paid off fifteen years early utilizing sales tax dollars, for over a \$50,000 savings in interest to the City.

In 2006, the Wastewater Treatment Department received a Nebraska Department of Environmental Quality Clean Water State Revolving Loan for \$3,930,000 for construction and improvements to the Wastewater Treatment Plant to meet ammonia limits required by the National Pollutant Discharge Elimination System (NPDES) Permit. This loan is to be repaid over twenty years.

In October 2011, the sewer minimum charge (base fee) and rates were increased by 5 percent for all users and the water minimum charge (base fee) and rates were increased by 3 percent for all users. These rates are monitored and adjusted annually if necessary, to insure funds are available for payment of the State Revolving Loans for the sewer and water improvements and to offset any increases in operating costs.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of McCook's basic financial statements. The City's basic financial statements comprise:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information
- Other supplementary information which further explains and supports the information in the financial statements

Government-wide Financial Statements. The *government-wide financial statements* report information about the City as a whole using accounting methods similar to those used by a private-sector business.

The government-wide financial statements distinguish the following functions of the City:

- *Governmental activities* are primarily supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, economic development, public safety, public works, parks, cultural activities, and human service.

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

- *Business-type activities* are supported by user fees and charges which are intended to recover all or a significant portion of their costs. The City's electric, water, wastewater, and solid waste collection services are all included as business-type activities.

Fund Financial Statements. The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives. All of the funds of the City of McCook can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental Funds.* The governmental funds are used to account for the financial activity of the City's basic services, similar to that described for the governmental activities in the government-wide financial statements. However, unlike the government-wide statements, which provide a long-term focus of the City, the fund financial statements focus on a short-term view of the inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year.
- *Proprietary Funds.* The proprietary funds are used to account for the financial activity of the City's operations for which customers are charged a user fee; they provide both a long- and short-term view of financial information. The City maintains four enterprise funds which are a type of proprietary fund - the electric, water, wastewater, and solid waste operations. These enterprise funds are the same as the business-type activities in the government-wide financial statements.
- *Fiduciary Funds.* The City maintains fiduciary funds, which are used to account for resources held by the City in a trustee capacity or as an agent for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

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

Government-wide Financial Analysis

City of McCook's Net Assets

	Year Ended September 30, 2012			Year Ended September 30, 2011		
	Governmental Activities (Modified Cash Basis)	Business-type Activities (Accrual Basis)	Total	Governmental Activities (Modified Cash Basis)	Business-type Activities (Accrual Basis)	Total
Current and Other Assets	\$ 7,825,671	\$ 6,806,633	\$ 14,632,304	\$ 5,713,992	\$ 6,436,389	\$ 12,150,381
Capital Assets	13,485,004	21,397,387	34,882,391	10,382,154	22,228,584	32,610,738
Total Assets	21,310,675	28,204,020	49,514,695	16,096,146	28,664,973	44,761,119
Long-term Liabilities:						
Outstanding	3,444,517	11,566,174	15,010,691	720,000	12,426,899	13,146,899
Other Liabilities	727,020	975,977	1,702,997	220,000	942,467	1,162,467
Total Liabilities	4,171,537	12,542,151	16,713,688	940,000	13,369,366	14,309,366
Net Assets:						
Invested in Capital Assets, Net of Related Debt	12,056,243	10,021,049	22,077,292	9,552,154	9,987,411	19,539,565
Restricted	3,722,433	437,274	4,159,707	4,368,109	443,559	4,811,668
Unrestricted	1,360,462	5,203,546	6,564,008	1,235,883	4,864,637	6,100,520
Total Net Assets	\$ 17,139,138	\$ 15,661,869	\$ 32,801,007	\$ 15,156,146	\$ 15,295,607	\$ 30,451,753

Net assets may serve over time as a useful indicator of a government's financial position. At the close of the current fiscal year, the City of McCook's assets exceeded its liabilities by \$32,801,007.

Capital assets (land, infrastructure, buildings, streets, improvements, and equipment), less any debt issued to acquire these assets, comprise 67.3 percent of the City's net assets. Although these capital assets assist the City in providing services to its citizens, they are generally not available to fund the operations of future periods.

An additional 12.6 percent of the City's net assets are subject to external restrictions as to how they may be used. The remaining component of net assets (\$6,564,008) is the unrestricted net assets.

Changes in Net Assets

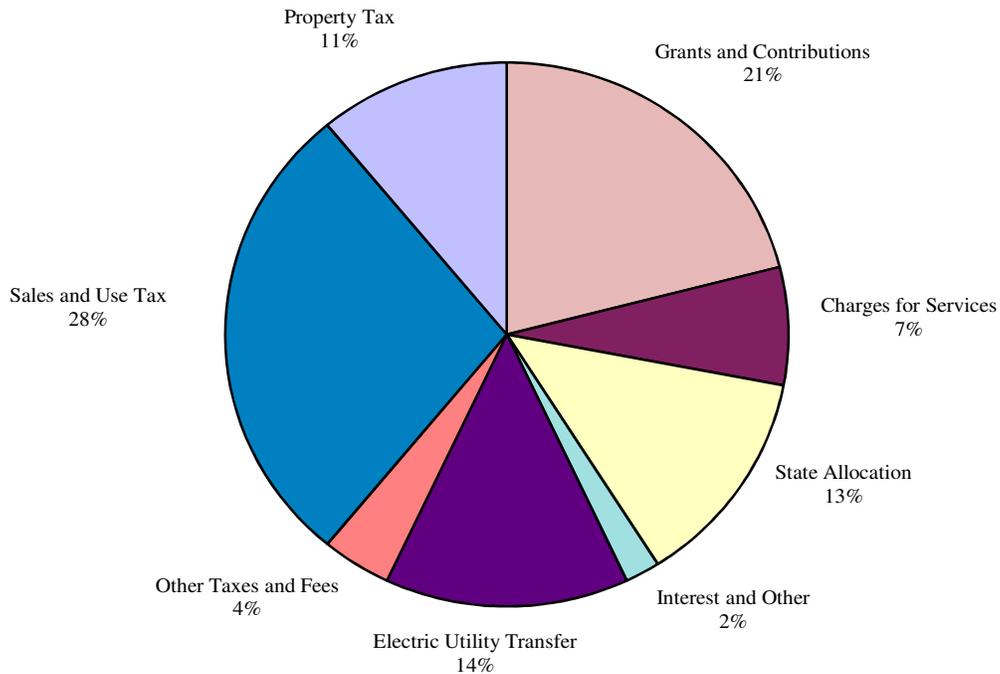
The following table presents a summary of revenues and expenses of the governmental and business-type activities:

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

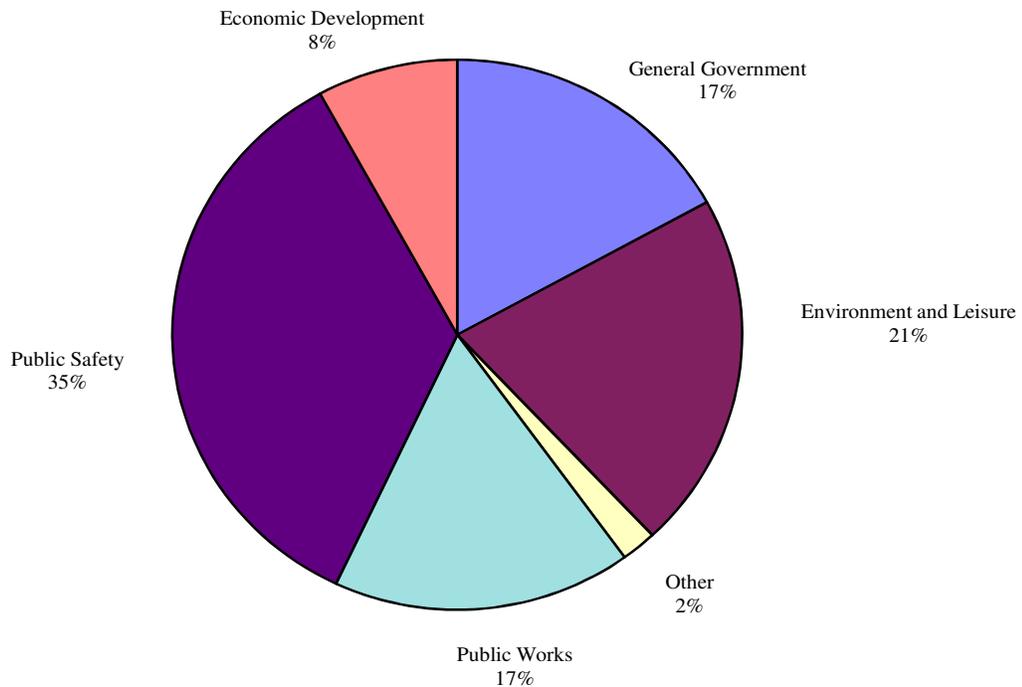
	<u>September 30, 2012</u>			<u>September 30, 2011</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 633,687	\$ 6,446,505	\$ 7,080,192	\$ 537,614	\$ 5,920,947	\$ 6,458,561
Operating Grants and Contributions	1,158,153	-	1,158,153	1,038,574	-	1,038,574
Capital Grants and Contributions	762,143	-	762,143	60,666	-	60,666
General Revenues:						
Property Taxes	1,007,616	-	1,007,616	995,926	-	995,926
Sales and Use Taxes	2,636,494	-	2,636,494	2,248,754	-	2,248,754
Other Taxes and Fees	363,279	-	363,279	524,455	-	524,455
State Allocation	1,239,852	-	1,239,852	1,193,943	-	1,193,943
Interest Income	62,842	67,078	129,920	74,380	57,585	131,965
Other	79,181	-	79,181	141,517	-	141,517
Total Revenues	<u>7,943,247</u>	<u>6,513,583</u>	<u>14,456,830</u>	<u>6,815,829</u>	<u>5,978,532</u>	<u>12,794,361</u>
Expenses						
General Government	1,217,615	-	1,217,615	1,627,532	-	1,627,532
Economic Development	599,962	-	599,962	119,000	-	119,000
Public Safety	2,557,674	-	2,557,674	2,529,305	-	2,529,305
Public Works	1,235,775	-	1,235,775	1,252,467	-	1,252,467
Environmental and Leisure	1,505,346	-	1,505,346	1,558,279	-	1,558,279
Interest Expense	111,979	-	111,979	31,193	-	31,193
Electric Utility	-	3,539	3,539	-	3,835	3,835
Water	-	2,224,006	2,224,006	-	2,196,169	2,196,169
Sewer	-	1,135,194	1,135,194	-	1,161,389	1,161,389
Solid Waste	-	1,516,486	1,516,486	-	1,368,056	1,368,056
Total Expenses	<u>7,228,351</u>	<u>4,879,225</u>	<u>12,107,576</u>	<u>7,117,776</u>	<u>4,729,449</u>	<u>11,847,225</u>
Increase in Net Assets						
Before Transfers	714,896	1,634,358	2,349,254	(301,947)	1,249,083	947,136
Net Transfers	<u>1,268,096</u>	<u>(1,268,096)</u>	<u>-</u>	<u>1,138,830</u>	<u>(1,138,830)</u>	<u>-</u>
Increase in Net Assets	<u>\$ 1,982,992</u>	<u>\$ 366,262</u>	<u>\$ 2,349,254</u>	<u>\$ 836,883</u>	<u>\$ 110,253</u>	<u>\$ 947,136</u>

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

2012 Revenues by Source - Governmental Activities

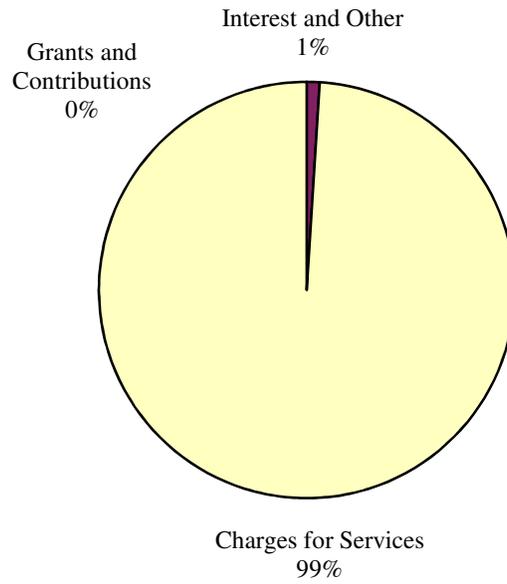


2012 Expenses - Governmental Activities

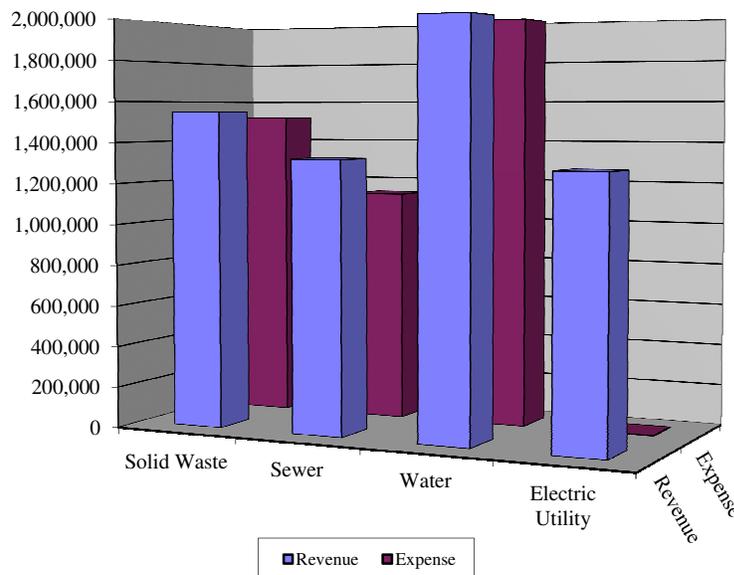


CITY OF MCCOOK, NEBRASKA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED), Continued
For The Year Ended September 30, 2012

2012 Revenues by Source - Business-type Activities



2012 Expenses and Program Revenues - Business-type Activities



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

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City of McCook'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 McCook'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 McCook's governmental funds reported combined ending fund balances of \$4,871,352. Approximately 19.2 percent of this total amount (\$936,411) 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 street projects (\$900,542), 2) restricted to pay debt service (\$414,500), 3) restricted to fund capital projects (\$1,452,217), 4) endowed as nonspendable to fund perpetual care (\$102,665), 5) restricted for community betterment (\$54,791), 6) restricted to fund economic development projects (\$452,440), 7) restricted for federal projects (\$298,605), 8) restricted for library renovations (\$46,673), or 9) committed for capital projects (\$212,508).

The General Fund is the chief operating fund of the City of McCook. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$218,155, while total fund balance reached \$580,001. As a measure of the General Fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 4.5 percent of General Fund total expenditures, while total fund balance represents 11.9 percent of General Fund total expenditures.

The fund balance of the City of McCook's General Fund decreased by \$420,897 during the current fiscal year.

Proprietary funds. The City of McCook'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 and Emergency Fund - \$0, Water Fund - \$4,330,258, Sewer Fund - \$1,010,169, and Solid Waste Fund - deficit of \$(136,881). The growth (decrease) in net assets for the proprietary funds was as follows: Electric and Emergency Fund - decrease of \$(3,539), Water Fund -\$179,580, Sewer Fund - \$194,145, and Solid Waste Fund - \$(3,924). Other factors concerning the finances of these four funds have already been addressed in the discussion of the City of McCook's business-type activities.

Budgetary Highlights

No amendments to the Fiscal Year 2011-2012 budget were made.

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

Capital Asset and Debt Administration

Capital Assets. The City of McCook's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$34,882,391 (net of accumulated depreciation). This investment in capital assets includes land, distribution systems, buildings and improvements, machinery and equipment, office furniture and equipment, and vehicles.

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

- East O Street paving - \$158,812
- West 10th Street drainage - \$59,599
- East C Street water main replacement - \$57,859
- Library boiler replacement - \$127,776
- Airport wildlife fence - \$513,295
- Deep injection well workover - \$67,148
- Construction in progress on Municipal Center - \$2,509,862
- Municipal Center sewer line relocation - \$32,908
- Fire rescue Dodge 5500 - \$147,111 (\$60,000 finances with lease purchase agreement)
- SCADA motor controls - \$35,258
- 2012 meter replacement - \$46,739
- 2006 Freightliner - \$34,900
- 2006 Freightliner - \$34,900
- H Street project (Norris Avenue to Airport Road) - \$38,090
- Bus - \$33,652 (funded by a federal grant)

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

	<u>Year Ended September 30, 2012</u>			<u>Year Ended September 30, 2011</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 768,700	\$ 485,735	\$ 1,254,435	\$ 768,700	\$ 485,735	\$ 1,254,435
Construction in Progress	2,795,462	-	2,795,462	232,107	-	232,107
Infrastructure	5,140,684	-	5,140,684	5,127,272	-	5,127,272
Buildings and Improvements	3,251,736	3,921,487	7,173,223	2,692,412	4,049,429	6,741,841
Machinery and Equipment	44,019	918,063	962,082	63,973	950,911	1,014,884
Distribution Systems	-	16,072,102	16,072,102	-	16,742,509	16,742,509
Office Furniture and Equipment	529,124	-	529,124	627,983	-	627,983
Vehicles	955,279	-	955,279	869,707	-	869,707
Total	<u>\$ 13,485,004</u>	<u>\$ 21,397,387</u>	<u>\$ 34,882,391</u>	<u>\$ 10,382,154</u>	<u>\$ 22,228,584</u>	<u>\$ 32,610,738</u>

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

Additional information on the City of McCook's capital assets can be found in Note C4 on pages 47-49 of this report.

Long-term Debt

Outstanding Long-term 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>	
Loader						
Note Payable	\$ -	\$ 41,316	\$ 41,316	\$ -	\$ 61,000	\$ 61,000
Economic Development						
Bonds	720,000	-	720,000	830,000	-	830,000
Capital Leases	3,326,537	-	3,326,537	-	-	-
Sewer 2000 SRF Loan	-	770,073	770,073	-	932,659	932,659
Sewer 2005 SRF Loan	-	2,877,531	2,877,531	-	3,337,967	3,337,967
Water 2005 SRF Loan	-	7,687,418	7,687,418	-	7,909,547	7,909,547
Total Long-term						
Outstanding Debt	<u>\$ 4,046,537</u>	<u>\$ 11,376,338</u>	<u>\$ 15,422,875</u>	<u>\$ 830,000</u>	<u>\$ 12,241,173</u>	<u>\$ 13,071,173</u>

The City's long-term debt increased \$2,351,702 (18.0 percent) during the year ended September 30, 2012, due primarily to the issuance of a \$3,750,000 capital lease obligation for the Municipal Center.

Additional information on the City of McCook's long-term debt can be found in Note C5 on pages 49-55 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of McCook compares favorably to the State's average unemployment and the national average rate.
- Inflationary trends in the region compare favorably to national indices.
- Property tax asking for the year ending September 30, 2013, is \$1,007,768, an \$8,893 (0.9 percent) increase over the prior year.

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

Financial Contact

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of the City of McCook's finances and to demonstrate the City's accountability for the money with which the City is entrusted. If you have questions concerning any of the information presented in this report or requests for additional information, contact the City of McCook, 302 West 5th Street, P.O. Box 1059, McCook, NE 69001-1059, or call (308) 345-2022.

CITY OF MCCOOK, NEBRASKA

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government			Component Units (Accrual Basis)
	Governmental Activities (Modified Cash Basis)	Business-type Activities (Accrual Basis)	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,048,597	\$ 5,579,914	\$ 10,628,511	\$ 2,669,112
County treasurer cash	45,069	-	45,069	-
Current portion of notes receivable	19,295	-	19,295	-
Current portion of TIF receivables	-	-	-	485,022
Accounts receivable	-	79,508	79,508	-
Unbilled revenue	-	605,232	605,232	-
Due (to) from other funds	(880)	880	-	-
Due from McCook Leasing Corporation	2,617,776	-	2,617,776	-
Inventory	-	103,825	103,825	-
Total current assets	7,729,857	6,369,359	14,099,216	3,154,134
Noncurrent assets:				
Restricted cash and cash equivalents	-	437,274	437,274	-
Unamortized bond discount	-	-	-	52,632
Noncurrent portion of notes receivable	95,814	-	95,814	-
Noncurrent portion of TIF receivables	-	-	-	2,800,000
Capital assets:				
Land	768,700	485,735	1,254,435	-
Construction in progress	2,795,462	-	2,795,462	-
Other capital assets, net of depreciation	9,920,842	20,911,652	30,832,494	-
Net capital assets	<u>13,485,004</u>	<u>21,397,387</u>	<u>34,882,391</u>	<u>-</u>
Total noncurrent assets	13,580,818	21,834,661	35,415,479	2,852,632
Total assets	21,310,675	28,204,020	49,514,695	6,006,766
LIABILITIES				
Current liabilities:				
Accounts payable	-	121,065	121,065	-
Accrued expenses	-	148,866	148,866	-
Customer deposits	-	74,192	74,192	-
Accrued interest	-	91,690	91,690	-
Claims incurred not paid	125,000	-	125,000	-
Due to City of McCook	-	-	-	2,617,776
Current portion of long-term obligations	602,020	540,164	1,142,184	485,022
Total current liabilities	727,020	975,977	1,702,997	3,102,798
Noncurrent liabilities:				
Accrued landfill closure costs	-	715,000	715,000	-
Accrued deep well abandonment costs	-	15,000	15,000	-
Noncurrent portion of long-term obligations	3,444,517	10,836,174	14,280,691	2,800,000
Total noncurrent liabilities	3,444,517	11,566,174	15,010,691	2,800,000
Total liabilities	4,171,537	12,542,151	16,713,688	5,902,798
NET ASSETS				
Invested in capital assets, net of related debt	12,056,243	10,021,049	22,077,292	-
Restricted for:				
Street improvements	900,542	-	900,542	-
Landfill postclosure	-	90,956	90,956	-
Deep injection well closure	-	72,139	72,139	-
Debt service	414,500	274,179	688,679	-
Economic development	452,440	-	452,440	-
Perpetual care	102,665	-	102,665	-
Capital projects	1,452,217	-	1,452,217	-
Federal projects	298,605	-	298,605	-
Community betterment	54,791	-	54,791	-
Library renovations	46,673	-	46,673	-
Unrestricted	1,360,462	5,203,546	6,564,008	103,968
Total net assets	\$ 17,139,138	\$ 15,661,869	\$ 32,801,007	\$ 103,968

See notes to financial statements.

CITY OF MCCOOK, 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			
(modified cash basis):			
General government	\$ 1,203,392	\$ 72,194	\$ 783,950
Economic development	599,962	-	-
Public safety	2,315,681	347,754	18,802
Public works	978,831	69,664	440
Environment and leisure	1,286,242	144,075	354,961
Depreciation - unallocated	732,264	-	-
Interest and fees on long-term debt	111,979	-	-
Total governmental activities	7,228,351	633,687	1,158,153
Business-type activities			
(accrual basis):			
Electric and emergency	3,539	1,286,937	-
Water	2,224,006	2,286,615	-
Sewer	1,135,194	1,323,953	-
Solid waste	1,516,486	1,549,000	-
Total business-type activities	4,879,225	6,446,505	-
Total primary government	\$ 12,107,576	\$ 7,080,192	\$ 1,158,153
Component units:			
Community Development Agency	\$ 196,227	\$ -	\$ -
Municipal Facilities Corporation	90,018	81,185	-
Total component units	\$ 286,245	\$ 81,185	\$ -

See notes to financial statements.

Net (Expenses) Revenues and Changes in Net Assets				
Primary Government				
<u>Capital Grants and Contributions</u>	<u>Governmental Activities (Modified Cash Basis)</u>	<u>Business-type Activities (Accrual Basis)</u>	<u>Total</u>	<u>Component Units (Accrual Basis)</u>
\$ 28,130	\$ (319,118)		\$ (319,118)	
-	(599,962)		(599,962)	
-	(1,949,125)		(1,949,125)	
93,080	(815,647)		(815,647)	
640,933	(146,273)		(146,273)	
-	(732,264)		(732,264)	
-	(111,979)		(111,979)	
<u>762,143</u>	<u>(4,674,368)</u>	<u>\$ -</u>	<u>(4,674,368)</u>	
-	-	1,283,398	1,283,398	
-	-	62,609	62,609	
-	-	188,759	188,759	
-	-	32,514	32,514	
<u>-</u>	<u>-</u>	<u>1,567,280</u>	<u>1,567,280</u>	
<u>\$ 762,143</u>	<u>(4,674,368)</u>	<u>1,567,280</u>	<u>(3,107,088)</u>	
\$ -				\$ (196,227)
<u>-</u>				<u>(8,833)</u>
<u>\$ -</u>				<u>(205,060)</u>
General revenues:				
Taxes:				
Property	1,007,616	-	1,007,616	-
Motor vehicle	160,377	-	160,377	-
Payments in lieu of taxes	90,508	-	90,508	-
Occupation	35,609	-	35,609	-
Sales tax	2,636,494	-	2,636,494	-
Franchise	68,057	-	68,057	-
Special assessments	8,728	-	8,728	-
State allocation	1,239,852	-	1,239,852	-
TIF proceeds	-	-	-	196,227
Keno proceeds	52,046	-	52,046	-
Miscellaneous	27,135	-	27,135	-
Interest income	62,842	67,078	129,920	35,677
Net transfers	1,268,096	(1,268,096)	-	-
Total general revenues	<u>6,657,360</u>	<u>(1,201,018)</u>	<u>5,456,342</u>	<u>231,904</u>
Change in net assets	1,982,992	366,262	2,349,254	26,844
Net assets - September 30, 2011	<u>15,156,146</u>	<u>15,295,607</u>	<u>30,451,753</u>	<u>77,124</u>
Net assets - September 30, 2012	<u>\$ 17,139,138</u>	<u>\$ 15,661,869</u>	<u>\$ 32,801,007</u>	<u>\$ 103,968</u>

CITY OF MCCOOK, NEBRASKA

**BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS**

September 30, 2012

	<u>General Fund</u>	<u>Street Fund</u>	<u>Economic Development Fund</u>
ASSETS			
Cash and cash equivalents	\$ 534,932	\$ 1,618,798	\$ 452,440
County treasurer cash	45,069	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 580,001	\$ 1,618,798	\$ 452,440
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ -	\$ -	\$ -
Fund balances:			
Nonspendable:			
Perpetual care	102,665	-	-
Restricted for:			
Capital projects	-	-	-
Street improvements	-	900,542	-
Economic development	-	-	452,440
Debt service	-	-	-
Federal projects	-	-	-
Community betterment	-	-	-
Library renovations	46,673	-	-
Committed for:			
Capital projects	212,508	-	-
Unassigned	218,155	718,256	-
	<hr/>	<hr/>	<hr/>
Total fund balances	580,001	1,618,798	452,440
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 580,001	\$ 1,618,798	\$ 452,440
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Grant Fund</u>	<u>Other Governmental Fund (Keno)</u>	<u>Total Governmental Funds</u>
\$ 415,380	\$ 1,452,217	\$ 298,605	\$ 54,791	\$ 4,827,163
-	-	-	-	45,069
<u>\$ 415,380</u>	<u>\$ 1,452,217</u>	<u>\$ 298,605</u>	<u>\$ 54,791</u>	<u>\$ 4,872,232</u>
\$ 880	\$ -	\$ -	\$ -	\$ 880
-	-	-	-	102,665
-	1,452,217	-	-	1,452,217
-	-	-	-	900,542
-	-	-	-	452,440
414,500	-	-	-	414,500
-	-	298,605	-	298,605
-	-	-	54,791	54,791
-	-	-	-	46,673
-	-	-	-	212,508
-	-	-	-	936,411
<u>414,500</u>	<u>1,452,217</u>	<u>298,605</u>	<u>54,791</u>	<u>4,871,352</u>
<u>\$ 415,380</u>	<u>\$ 1,452,217</u>	<u>\$ 298,605</u>	<u>\$ 54,791</u>	<u>\$ 4,872,232</u>

CITY OF MCCOOK, NEBRASKA

**RECONCILIATION OF THE BALANCE SHEET - MODIFIED
CASH BASIS - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

September 30, 2012

Total fund balances - governmental funds	\$ 4,871,352
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
The Internal Service Fund is included as a governmental activity in the statement of changes in net assets.	96,434
LB840 notes receivables are not due in the current period and therefore are not reported as assets in the governmental funds.	115,109
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 \$27,593,828 and the accumulated depreciation is \$14,108,824.	13,485,004
Amounts due from the McCook Leasing Corporation are not reported as assets in the governmental funds. This due from amount relates to bond proceeds that have not yet been spent on the construction project and are reported as asset in the government-wide statements.	2,617,776
Long-term liabilities, including 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:	
Capital lease obligations	\$ (3,326,537)
Bonds payable	<u>(720,000)</u>
	<u>(4,046,537)</u>
Total net assets - governmental activities	<u><u>\$ 17,139,138</u></u>

See notes to financial statements.

CITY OF MCCOOK, NEBRASKA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**

For the year ended September 30, 2012

	<u>General Fund</u>	<u>Street Fund</u>	<u>Economic Development Fund</u>
REVENUES			
Taxes:			
Property	\$ 1,007,572	\$ -	\$ -
Motor vehicle	160,377	203,068	-
Payments in lieu of taxes	90,464	-	-
Occupation	35,609	-	-
Sales tax	675,763	-	439,416
Franchise	68,057	-	-
Special assessments	-	-	-
Intergovernmental	459,620	780,232	-
Grants	161,848	440	-
Keno proceeds	-	-	-
Charges for services	545,492	-	-
Contributions	155,787	-	-
Interest income	24,357	-	2,281
Loan collections	-	-	5,895
Insurance proceeds	-	-	-
Transfer from McCook Facilities Corp	-	-	-
Other revenue	19,322	-	-
Total revenues	<u>3,404,268</u>	<u>983,740</u>	<u>447,592</u>
EXPENDITURES			
General government	1,014,116	-	-
Economic development	-	-	345,131
Public safety	2,145,874	-	-
Public works	363,680	589,047	-
Environment and leisure	1,118,191	-	-
Capital outlay	237,491	25,470	-
Principal payments on debt	13,463	-	110,000
Interest on long-term debt	37	-	28,533
Bond fees	-	-	350
Total expenditures	<u>4,892,852</u>	<u>614,517</u>	<u>484,014</u>
Excess (deficiency) of revenues over expenditures	(1,488,584)	369,223	(36,422)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,073,937	-	-
Transfers out	(6,250)	-	-
Net transfers	<u>1,067,687</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(420,897)	369,223	(36,422)
Fund balances - September 30, 2011	<u>1,000,898</u>	<u>1,249,575</u>	<u>488,862</u>
Fund balances - September 30, 2012	<u>\$ 580,001</u>	<u>\$ 1,618,798</u>	<u>\$ 452,440</u>

See notes to financial statements.

Debt Service Fund	Capital Projects Fund	Grant Fund	Other Governmental Funds (Keno)	Total Governmental Funds
\$ 44	\$ -	\$ -	\$ -	\$ 1,007,616
-	-	-	-	363,445
44	-	-	-	90,508
-	-	-	-	35,609
-	1,318,247	-	-	2,433,426
-	-	-	-	68,057
8,728	-	-	-	8,728
-	-	132,531	-	1,372,383
-	-	719,914	-	882,202
-	-	-	52,046	52,046
-	-	55,322	-	600,814
-	-	30,823	-	186,610
4,928	21,394	7,539	619	61,118
-	-	-	-	5,895
-	-	649,528	-	649,528
-	-	1,132,225	-	1,132,225
-	-	7,813	-	27,135
<u>13,744</u>	<u>1,339,641</u>	<u>2,735,695</u>	<u>52,665</u>	<u>8,977,345</u>
-	-	129,479	9,963	1,153,558
-	-	-	-	345,131
-	-	53,494	-	2,199,368
-	-	-	-	952,727
-	911	93,023	-	1,212,125
-	1,078,475	2,360,412	-	3,701,848
-	470,000	-	-	593,463
-	81,185	-	-	109,755
-	1,912	-	-	2,262
<u>-</u>	<u>1,632,483</u>	<u>2,636,408</u>	<u>9,963</u>	<u>10,270,237</u>
13,744	(292,842)	99,287	42,702	(1,292,892)
-	-	-	-	1,073,937
-	(170,755)	(3,836)	-	(180,841)
<u>-</u>	<u>(170,755)</u>	<u>(3,836)</u>	<u>-</u>	<u>893,096</u>
13,744	(463,597)	95,451	42,702	(399,796)
<u>400,756</u>	<u>1,915,814</u>	<u>203,154</u>	<u>12,089</u>	<u>5,271,148</u>
<u>\$ 414,500</u>	<u>\$ 1,452,217</u>	<u>\$ 298,605</u>	<u>\$ 54,791</u>	<u>\$ 4,871,352</u>

CITY OF MCCOOK, NEBRASKA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended September 30, 2012

Total net change in fund balances - governmental funds \$ (399,796)

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

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 (\$3,835,114) exceeded depreciation expense (\$732,264) and capital lease proceeds spent on capital assets (\$1,192,224) in the period.

1,910,626

The TIF receivable note was written off, as TIF proceeds are not being collected by the City. This write off of the TIF note is not recognized in the governmental funds, but is recognized as an expense in the statement of activities.

(374,831)

The issuance of LB840 loans is reported as a governmental fund expense.

However, in the statement of activities, the issuance of notes receivable increased assets.

120,000

Principal payments received on LB840 loans are reported as revenue in the governmental fund statements, but these payments decrease the note receivable balance in the statement of activities.

(4,891)

The increase in net assets of the Internal Service Fund is included as a governmental activity in the government wide statements.

138,421

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

593,463

Change in net assets of governmental activities

\$ 1,982,992

See notes to financial statements.

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

	Electric and Emergency <u>Fund</u>	Water <u>Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ 4,099,033
Accounts receivable	-	16,852
Unbilled revenue	-	353,970
Due from other funds	-	-
Prepaid expenses	-	-
Inventory	-	103,825
Total current assets	-	4,573,680
Noncurrent assets:		
Restricted cash and cash equivalents	-	223,492
Capital assets:		
Land	-	295,625
Distribution systems	170,000	19,176,564
Buildings and improvements	-	542,859
Tools and equipment	-	643,738
Accumulated depreciation	(116,019)	(8,085,177)
Net capital assets	53,981	12,573,609
Total noncurrent assets	53,981	12,797,101
Total assets	53,981	17,370,781
LIABILITIES		
Current liabilities:		
Accounts payable	-	37,500
Sales tax payable	-	14,732
Claims incurred not paid	-	-
Accrued payroll	-	12,491
Accrued vacation	-	15,984
Accrued sick leave	-	10,742
Customer deposits	-	74,192
Accrued interest	-	62,781
Current portion of long-term obligations	-	228,392
Total current liabilities	-	456,814
Noncurrent liabilities:		
Accrued landfill postclosure costs	-	-
Accrued deep well abandonment costs	-	15,000
Noncurrent portion of long-term obligations	-	7,459,026
Total noncurrent liabilities	-	7,474,026
Total liabilities	-	7,930,840
NET ASSETS		
Invested in capital assets, net of related debt	53,981	4,886,191
Restricted for:		
Landfill postclosure	-	-
Deep injection well closure	-	72,139
Debt service	-	151,353
Unrestricted	-	4,330,258
Total net assets	\$ 53,981	\$ 9,439,941

See notes to financial statements.

Business-type Activities - Enterprise Funds

<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>	Governmental Activities - Internal Service <u>Fund</u>
\$ 903,544	\$ 577,337	\$ 5,579,914	\$ 221,434
18,852	43,804	79,508	-
165,979	85,283	605,232	-
880	-	880	-
-	-	-	-
-	-	103,825	-
<u>1,089,255</u>	<u>706,424</u>	<u>6,369,359</u>	<u>221,434</u>
122,826	90,956	437,274	-
-	190,110	485,735	-
8,180,816	-	27,527,380	-
3,909,751	874,821	5,327,431	-
871,838	1,634,905	3,150,481	-
(5,401,677)	(1,490,767)	(15,093,640)	-
<u>7,560,728</u>	<u>1,209,069</u>	<u>21,397,387</u>	<u>-</u>
<u>7,683,554</u>	<u>1,300,025</u>	<u>21,834,661</u>	<u>-</u>
8,772,809	2,006,449	28,204,020	221,434
11,962	71,603	121,065	-
6,505	-	21,237	-
-	-	-	125,000
6,713	13,014	32,218	-
14,788	26,180	56,952	-
11,359	16,358	38,459	-
-	-	74,192	-
27,759	1,150	91,690	-
291,445	20,327	540,164	-
<u>370,531</u>	<u>148,632</u>	<u>975,977</u>	<u>125,000</u>
-	715,000	715,000	-
-	-	15,000	-
3,356,159	20,989	10,836,174	-
<u>3,356,159</u>	<u>735,989</u>	<u>11,566,174</u>	<u>-</u>
<u>3,726,690</u>	<u>884,621</u>	<u>12,542,151</u>	<u>125,000</u>
3,913,124	1,167,753	10,021,049	-
-	90,956	90,956	-
-	-	72,139	-
122,826	-	274,179	-
1,010,169	(136,881)	5,203,546	96,434
<u>\$ 5,046,119</u>	<u>\$ 1,121,828</u>	<u>\$ 15,661,869</u>	<u>\$ 96,434</u>

CITY OF MCCOOK, NEBRASKA

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

For the year ended September 30, 2012

	Electric and Emergency Fund	Water Fund
Operating revenues:		
Charges for services	\$ 1,286,937	\$ 2,250,158
Miscellaneous revenues	-	36,457
Total operating revenues	1,286,937	2,286,615
Operating expenses:		
Salaries and benefits	-	359,676
Insurance and bonds	-	40,807
Utilities and telephone	-	173,069
Repairs and maintenance	-	126,759
Contracted services	-	16,627
Supplies	-	10,661
Plant chemicals	-	232,300
Transportation	-	13,776
Professional fees	-	14,641
Sales tax	-	113,420
Miscellaneous	-	46,312
Depreciation	3,539	770,999
Insurance claims and health premiums	-	-
Total operating expenses	3,539	1,919,047
Operating income (loss)	1,283,398	367,568
Nonoperating revenues (expenses):		
Interest income	-	48,093
Interest expense	-	(223,545)
Loan fees	-	(81,414)
Total nonoperating revenues (expenses)	-	(256,866)
Income (loss) before transfers	1,283,398	110,702
Interfund transfers:		
Transfers in	-	127,005
Transfers out	(1,286,937)	(58,127)
Net transfers	(1,286,937)	68,878
Change in net assets	(3,539)	179,580
Net assets - September 30, 2011	57,520	9,260,361
Net assets - September 30, 2012	\$ 53,981	\$ 9,439,941

See notes to financial statements.

Business-type Activities - Enterprise Funds

<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 1,323,713	\$ 1,547,650	\$ 6,408,458	\$ 933,968
240	1,350	38,047	-
<u>1,323,953</u>	<u>1,549,000</u>	<u>6,446,505</u>	<u>933,968</u>
342,421	481,309	1,183,406	-
25,726	32,769	99,302	-
109,173	6,982	289,224	-
53,638	52,013	232,410	-
11,895	727,076	755,598	-
14,915	9,285	34,861	-
-	-	232,300	-
7,513	54,926	76,215	-
7,268	4,835	26,744	-
77,025	-	190,445	-
10,828	6,909	64,049	-
336,046	139,051	1,249,635	-
-	-	-	1,171,268
<u>996,448</u>	<u>1,515,155</u>	<u>4,434,189</u>	<u>1,171,268</u>
327,505	33,845	2,012,316	(237,300)
11,144	7,841	67,078	721
(99,648)	(1,331)	(324,524)	-
(39,098)	-	(120,512)	-
<u>(127,602)</u>	<u>6,510</u>	<u>(377,958)</u>	<u>721</u>
199,903	40,355	1,634,358	(236,579)
53,242	6,221	186,468	375,000
(59,000)	(50,500)	(1,454,564)	-
<u>(5,758)</u>	<u>(44,279)</u>	<u>(1,268,096)</u>	<u>375,000</u>
194,145	(3,924)	366,262	138,421
<u>4,851,974</u>	<u>1,125,752</u>	<u>15,295,607</u>	<u>(41,987)</u>
<u>\$ 5,046,119</u>	<u>\$ 1,121,828</u>	<u>\$ 15,661,869</u>	<u>\$ 96,434</u>

CITY OF MCCOOK, NEBRASKA

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS**

For the year ended September 30, 2012

	<u>Electric and Emergency Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,286,937
Receipts from other funds	-
Payments to suppliers	-
Payments to employees	-
Net cash provided (used) by operating activities	<u>1,286,937</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers from other funds	-
Transfers to other funds	(1,286,937)
Change in due from/to other funds	-
Net cash provided (used) by noncapital financing activities	<u>(1,286,937)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of property and equipment	-
Increase in accrued deep well abandonment costs	-
Principal payments on capital debt	-
Interest paid on capital debt	-
Loan fees paid	-
Net cash used by capital and related financing activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	-
Increase in cash and cash equivalents	<u>-</u>
Cash and cash equivalents - beginning of the year	<u>-</u>
Cash and cash equivalents - end of the year	<u><u>\$ -</u></u>
Composition of cash and cash equivalents:	
Cash and cash equivalents	\$ -
Restricted cash and cash equivalents	-
Total cash and cash equivalents	<u><u>\$ -</u></u>

See notes to financial statements.

Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>	
\$ 2,224,986	\$ 1,317,864	\$ 1,530,554	\$ 6,360,341	\$ -
-	-	-	-	933,968
(764,763)	(315,914)	(900,945)	(1,981,622)	(1,156,268)
(341,177)	(336,144)	(470,135)	(1,147,456)	-
<u>1,119,046</u>	<u>665,806</u>	<u>159,474</u>	<u>3,231,263</u>	<u>(222,300)</u>
127,005	53,242	6,221	186,468	375,000
(58,127)	(59,000)	(50,500)	(1,454,564)	-
8,815	(2,220)	-	6,595	-
<u>77,693</u>	<u>(7,978)</u>	<u>(44,279)</u>	<u>(1,261,501)</u>	<u>375,000</u>
(196,154)	(127,121)	(95,163)	(418,438)	-
5,100	-	-	5,100	-
(512,822)	(332,329)	(19,684)	(864,835)	-
(227,478)	(102,269)	(1,881)	(331,628)	-
(81,414)	(39,098)	-	(120,512)	-
<u>(1,012,768)</u>	<u>(600,817)</u>	<u>(116,728)</u>	<u>(1,730,313)</u>	<u>-</u>
48,093	11,144	7,841	67,078	721
<u>232,064</u>	<u>68,155</u>	<u>6,308</u>	<u>306,527</u>	<u>153,421</u>
4,090,461	958,215	661,985	5,710,661	68,013
<u>\$ 4,322,525</u>	<u>\$ 1,026,370</u>	<u>\$ 668,293</u>	<u>\$ 6,017,188</u>	<u>\$ 221,434</u>
\$ 4,099,033	\$ 903,544	\$ 577,337	\$ 5,579,914	\$ 221,434
223,492	122,826	90,956	437,274	-
<u>\$ 4,322,525</u>	<u>\$ 1,026,370</u>	<u>\$ 668,293</u>	<u>\$ 6,017,188</u>	<u>\$ 221,434</u>

CITY OF MCCOOK, NEBRASKA

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

For the year ended September 30, 2012

	<u>Electric and Emergency Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 1,283,398
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	3,539
Change in assets and liabilities:	
Accounts receivable	-
Inventories	-
Prepaid expenses	-
Customer deposits	-
Accounts payable	-
Claims incurred not paid	-
Accrued expenses	-
Net cash provided (used) by operating activities	<u>\$ 1,286,937</u>

See notes to financial statements.

<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>	
\$ 367,568	\$ 327,505	\$ 33,845	\$ 2,012,316	\$ (237,300)
770,999	336,046	139,051	1,249,635	-
(64,143)	(6,089)	(18,446)	(88,678)	-
15,059	-	-	15,059	-
1,154	1,043	1,110	3,307	-
2,514	-	-	2,514	-
17,396	1,024	(7,260)	11,160	-
-	-	-	-	15,000
8,499	6,277	11,174	25,950	-
<u>\$ 1,119,046</u>	<u>\$ 665,806</u>	<u>\$ 159,474</u>	<u>\$ 3,231,263</u>	<u>\$ (222,300)</u>

CITY OF MCCOOK, NEBRASKA

**STATEMENT OF ASSETS AND LIABILITIES - MODIFIED CASH BASIS -
FIDUCIARY FUNDS**

September 30, 2012

	Agency Funds
ASSETS	
Cash	\$ <u>58,828</u>
LIABILITIES HELD FOR OTHERS	
Held for other purposes	\$ <u>58,828</u>

See notes to financial statements.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

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CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of McCook, Nebraska (City) are prepared in accordance with the modified cash basis of accounting for governmental and fiduciary funds and the accrual basis for the proprietary funds and discretely presented component unit. 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 McCook, Nebraska, was incorporated as a City of the first class in 1933. The City operates under a City Manager form of government. The Mayor is elected by the Council. All members of the City Council are elected on 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, parks, recreation, water and sanitary sewer systems, garbage collection, and general administrative services.

The City's financial reporting entity comprises the following:

Primary Government:	City of McCook
Discretely Presented Component Units:	Community Redevelopment Authority McCook Leasing Corporation

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.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

1. Financial Reporting Entity, continued

- (2) Organizations which 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.

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. The following is the discretely presented component unit:

**Brief Description of Activities
and Relationship to the City**

McCook Community

Development Agency

On February 20, 2006, the City Council passed an ordinance repealing the CRA and creating a CDA for the City of McCook. The Mayor and the members of the City Council shall constitute the Agency and the City Manager shall serve as the director of the CDA.

McCook Leasing Corporation

Created in 2011 to provide for the construction and issuance of bonds for the construction of the combined Administration and Public Safety building.

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. 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.

CITY OF MCCOOK, 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

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 10 percent of the corresponding total for all funds of that category or type.
- 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 is 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.

Capital Project Funds

Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

2. Basis of Presentation, continued

Governmental Funds, continued

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City other than debt-service payments made by enterprise funds. Ad valorem taxes are used for the payment of principal and interest on the City's general obligation bonds.

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.

Internal Service Fund

The Internal Service Fund accounts for activities that provide goods and services to other funds, departments or agencies of the primary government and its component units on a cost-reimbursement basis.

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes eight agency funds. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

CITY OF MCCOOK, 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 Fund	See above for description.
Street Fund	The Street Fund is a Special Revenue Fund that accounts for the City's share of highway allocation from the State of Nebraska.
Debt Service Fund	See above for description.
Capital Projects Fund	See above for description.
Grant Fund	The Grant Fund is a Special Revenue Fund that accounts for grant revenue and expenditures.
Economic Development Fund	The Economic Development Fund is a Special Revenue Fund that accounts for sales tax proceeds to be used for LB840 economic development.
Proprietary:	
Enterprise:	
Electric and Emergency, Water, Sewer, and Solid Waste	See above for description.
<i>Nonmajor:</i>	
Governmental:	
Keno Fund	The Keno Fund is a Special Revenue Fund that accounts for Keno proceeds and community betterment expenditures.

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-type activities are presented using the economic resources measurement focus as defined in item b, below.

CITY OF MCCOOK, 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

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.
- 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.
- c. Fiduciary funds are not involved in the measurement of results of operations; therefore, the measurement focus is not applied to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Under the modified cash basis of accounting, proceeds from the issuance of long-term debt increase liabilities and payment of long-term debt reduces liabilities. Capital assets are capitalized and depreciation is recognized over the estimated lives of the related assets.

CITY OF MCCOOK, 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

Basis of Accounting, continued

Business-type 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 are presented on the modified cash basis of accounting using a flow of current financial resources measurement focus. Proceeds from issuance of long-term debt are recognized as revenue when received and payment of long-term debt principal is reported as an expenditure when paid. Capital asset purchases are recorded as expenditures and depreciation is not recognized.

All proprietary funds and the discretely presented component unit 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.

4. Assets, Liabilities, and Equity

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and the modified cash basis of accounting 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.

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.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

4. Assets, Liabilities, and Equity, continued

Cash and Investments, continued

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. Business-type activities report utility billings as their major receivables.

In the fund financial statements, 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.

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to debt service and 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.

CITY OF MCCOOK, 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

Government-wide Statements

In the government-wide financial statements, property and equipment are accounted for as capital 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 for 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	25-50 years
Improvements	10-50 years
Machinery and Equipment	3-20 years
Utility System	25-50 years

Beginning October 1, 2003, governmental funds' infrastructure assets were capitalized under the retroactive capitalization method. These assets have been 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.

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.

Compensated Absences

The City's policies regarding vacation time and sick leave permit employees to accumulate earned but unused leave. In the event of termination, an employee is paid for all unused accumulated vacation time, accumulated holiday leave, and one-fourth of accumulated sick leave. Accumulated leave is accrued in the accompanying proprietary funds financial statement but not in the governmental funds.

CITY OF MCCOOK, 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

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 notes payable.

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.

CITY OF MCCOOK, 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

Government-wide Statements, continued

- 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. See Note C9 for additional disclosures.

Effective October 1, 2010, the City 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 18). 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 MCCOOK, 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-cent sales tax on taxable sales within the City. 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. The sales tax is recorded in the General Fund and Capital Projects Fund and used for budgeted General Fund appropriations and capital projects. 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 Red Willow 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.

Property taxes levied for 2011-2012 are recorded as revenue when received by the County.

Electrical Distribution System Lease and Wholesale Power Contract

The City of McCook, Nebraska, recognizes revenue under a net lease of the electric distribution system. Rental payments are equal to 12 percent of retail revenues from the distribution system, adjusted to eliminate revenues from tax-supported agencies and fuel cost and similar adjustments for the initial 15-year period, and 10 percent as adjusted thereafter. The lessee will maintain the electric distribution system pursuant to prudent utility practice and provide insurance thereon.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

5. Revenues, Expenditures, and Expenses, continued

Electrical Distribution System Lease and Wholesale Power Contract, continued

The lease, entered into on January 1, 1990, is for a 25-year period and is non-cancelable through January 1, 2015. The lease is annually renewable thereafter, unless terminated by a minimum of five years prior written notice.

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. It also includes 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 MCCOOK, 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 and its component unit are 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 Special Revenue, Debt Service, Capital Projects, and Agency 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 interest-bearing time deposits/savings, and all non-interest-bearing deposits are insured. Any cash deposits or 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 MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

4. Debt Restrictions and Covenants, continued

Sewer Loans

The City has established the following accounts to comply with the covenants listed in the sewer loan agreements.

1. Dedicated Source of Revenue for Repayment of the Loans – The City pledges the sewer user charge as the dedicated source of revenue for repayment of the loans.
2. Loan Principal and Interest Redemption Account - Out of the McCook Sewer Fund there shall be credited monthly, on or before the 15th day of each month to the Loan Principal and Interest Redemption Account, the following amounts:
 - a) An amount equal to 1/6th of the next maturing semi-annual interest payments. The loan interest reserve was \$38,411 at September 30, 2012.
 - b) An amount equal to 1/6th of the next maturing semi-annual principal payments. The loan principal reserve was \$84,415 at September 30, 2012.

Water Loans

The City has established the following accounts to comply with the covenants listed in the water loan agreements.

1. Dedicated Source of Revenue for Repayment of the Loans – The City pledges the water user charge as the dedicated source of revenue for repayment of the loans.
2. Loan Principal and Interest Redemption Account - Out of the McCook Water Fund there shall be credited monthly, on or before the 15th day of each month to the Loan Principal and Interest Redemption Account, the following amounts:
 - a) An amount equal to 1/6th of the next maturing semi-annual interest payments. The loan interest reserve was \$85,202 at September 30, 2012.
 - b) An amount equal to 1/6th of the next maturing semi-annual principal payments. The loan principal reserve was \$66,151 at September 30, 2012.

CITY OF MCCOOK, 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. Appropriations lapse at the end of the fiscal year, except for capital improvement appropriations and certain encumbrances against operating budgets.
- f. 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.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

5. Budgetary Data, continued

- g. 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 November 1. 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.
- h. The City of McCook adopts a budget by ordinance for all funds.

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

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.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

1. Cash, continued

Deposits, continued

<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	\$ 14,033,161	\$ 297,710	\$ 13,735,451	\$ -	\$ <u>13,793,725</u>

Reconciliation to Government-wide Statement of Net Assets:

Primary Government –	
Unrestricted cash and cash equivalents	\$ 10,628,511
Restricted cash and cash equivalents	437,274
Fiduciary Funds –	
Agency Funds cash	58,828
Component Unit –	
Unrestricted cash and cash equivalents	<u>2,669,112</u>
	<u>\$ 13,793,725</u>

2. Restricted Assets

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

Type of Restricted Assets:	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ <u>-</u>	\$ <u>437,274</u>	\$ <u>437,274</u>

The Water Fund has a \$72,139 escrow account that holds funds restricted for future closure costs on the deep injection well. The Solid Waste Fund has funds of \$90,956 that are restricted for the future landfill postclosure costs. Funds of \$122,826 are restricted in the Sewer Fund for future principal and interest payments. Funds of \$151,353 are restricted in the Water Fund for future principal and interest payments. See Note B4 for additional disclosures.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

3. Accounts and Notes Receivable

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

	<u>Business-type Activities</u>
Accounts receivable	\$ 79,508
Unbilled revenue	<u>605,232</u>
Total accounts receivable	<u>\$ 684,740</u>

As of September 30, 2012, the City had the following LB840 notes receivable:

	<u>Balance</u>	<u>Terms</u>
Douglas & Shellie Winder d/b/a Purple Moon Cookery	\$ 34,086	3%; 120 monthly payments of \$337.96 due 6/15/12 - 5/15/22
Linda Maiden d/b/a KDS Professional Building	9,500	0%; 60 monthly payments of \$166.67 due 7/10/12 - 6/10/17
Brian & Amanda Warren d/b/a Critterville Rentals, LLC	<u>71,523</u>	3%; 60 monthly payments of \$1,347.65 due 7/15/12 - 6/15/17
	<u>\$ 115,109</u>	

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

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

4. Capital Assets

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

	Balance at October 1, <u>2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance at September 30, <u>2012</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 768,700	\$ -	\$ -	\$ 768,700
Construction in progress	232,107	2,563,355	-	2,795,462
Total capital assets not being depreciated	<u>1,000,807</u>	<u>2,563,355</u>	<u>-</u>	<u>3,564,162</u>
Other capital assets being depreciated:				
Infrastructure	7,578,543	218,410	-	7,796,953
Buildings and improvements	9,867,047	724,238	-	10,591,285
Machinery and equipment	582,020	-	-	582,020
Furniture and equipment	2,117,122	78,947	-	2,196,069
Vehicles	2,613,174	250,164	-	2,863,338
Total other capital assets at historical cost	<u>22,757,906</u>	<u>1,271,759</u>	<u>-</u>	<u>24,029,665</u>
Less accumulated depreciation for:				
Infrastructure	(2,451,271)	(204,998)	-	(2,656,269)
Buildings and improvements	(7,174,635)	(164,914)	-	(7,339,549)
Machinery and equipment	(518,047)	(19,954)	-	(538,001)
Furniture and equipment	(1,489,139)	(177,806)	-	(1,666,945)
Vehicles	(1,743,467)	(164,592)	-	(1,908,059)
Total accumulated depreciation	<u>(13,376,559)</u>	<u>(732,264) *</u>	<u>-</u>	<u>(14,108,823)</u>
Other capital assets, net	<u>9,381,347</u>	<u>539,495</u>	<u>-</u>	<u>9,920,842</u>
Governmental activities capital assets, net	<u>\$ 10,382,154</u>	<u>\$ 3,102,850</u>	<u>\$ -</u>	<u>\$ 13,485,004</u>

* Depreciation expense was incurred by the following governmental activities:

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

4. Capital Assets, continued

General Fund:

General government:

Administration \$ 14,223

Public safety:

Fire 74,830
Civil defense 3,818
Ambulance 66,302
Police 97,043
Total public safety 241,993

Public works:

Cemetery 16,954

Environment and leisure:

Airport 66,303
Library 14,061
Parks 54,928
Ball Park 22,185
Pool 9,802
Auditorium 11,446
Senior Center 40,379
Total environment and leisure 219,104

Total General Fund 492,274

Special Revenue Funds:

Street 239,990

Total Governmental Activities depreciation expense \$ 732,264

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

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

4. Capital Assets, continued

	Balance at October 1, <u>2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance at September 30, <u>2012</u>
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 485,735	\$ -	\$ -	\$ 485,735
Other capital assets being depreciated:				
Distribution systems	27,284,922	242,458	-	27,527,380
Buildings and improvements	5,315,295	12,136	-	5,327,431
Machinery and equipment	2,986,639	163,842	-	3,150,481
Total other capital assets at historical cost	<u>35,586,856</u>	<u>418,436</u>	-	<u>36,005,292</u>
Less accumulated depreciation for:				
Distribution systems	(10,542,413)	(912,866)	1	(11,455,278)
Buildings and improvements	(1,265,866)	(140,078)	-	(1,405,944)
Machinery and equipment	(2,035,728)	(196,691)	1	(2,232,418)
Total accumulated depreciation	<u>(13,844,007)</u>	<u>(1,249,635) *</u>	<u>2</u>	<u>(15,093,640)</u>
Other capital assets, net	<u>21,742,849</u>	<u>(831,199)</u>	<u>2</u>	<u>20,911,652</u>
Business-type capital assets, net	<u>\$ 22,228,584</u>	<u>\$ (831,199)</u>	<u>\$ 2</u>	<u>\$ 21,397,387</u>

* Depreciation expense was charged to functions as follows:

Electric and Emergency	\$ 3,539
Water	770,999
Sewer	336,046
Solid Waste	<u>139,051</u>
Total Business-type Activities depreciation expense	<u>\$ 1,249,635</u>

5. 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.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

5. Long-term Debt, continued

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>	Balance October 1, 2011	<u>Additions</u>	<u>Deductions</u>	Balance September 30, 2012	Amounts Due Within <u>One Year</u>
Governmental Activities:					
Bonds payable	\$ 830,000	\$ -	\$ (110,000)	\$ 720,000	\$ 110,000
Capital lease obligations	-	3,810,000	(483,463)	3,326,537	492,020
Total Governmental-type Activities	<u>\$ 830,000</u>	<u>\$ 3,810,000</u>	<u>\$ (593,463)</u>	<u>\$ 4,046,537</u>	<u>\$ 602,020</u>
Business-type Activities:					
Notes payable	\$ 12,241,173	\$ -	\$ (864,835)	\$ 11,376,338	\$ 540,164
Deep well abandonment costs	9,900	5,100	-	15,000	-
Landfill closure costs	715,000	-	-	715,000	-
Total Business-type Activities	<u>\$ 12,966,073</u>	<u>\$ 5,100</u>	<u>\$ (864,835)</u>	<u>\$ 12,106,338</u>	<u>\$ 540,164</u>
Component Units:					
CRA notes payable	\$ 130,734	\$ -	\$ (125,712)	\$ 5,022	\$ 5,022
McCook Leasing Corp bonds	3,750,000	-	(470,000)	3,280,000	480,000
Total Component Units	<u>\$ 3,880,734</u>	<u>\$ -</u>	<u>\$ (595,712)</u>	<u>\$ 3,285,022</u>	<u>\$ 485,022</u>

Governmental Activities

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

Bonds payable:

\$1,120,000 of Economic Development Fund Bonds, due in annual principal payments commencing September 15, 2009, to September 15, 2018. Interest ranging from 1.0 percent to 4.1 percent is due in semi-annual payments on September 15 and March 15.

\$ 720,000

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

5. Long-term Debt, continued

Governmental Activities, continued

Capital lease obligations:

Capital lease of \$3,750,000 due to McCook Leasing Corporation, with interest ranging from 1.0 to 3.20 percent. Semi-annual interest payments are due commencing September 15, 2011, through September 15, 2018. Principal is also due semi-annually, commencing September 15, 2012, through September 15, 2018. 3,280,000

Capital lease of \$60,000 for a fire truck through Wells Fargo Equipment Finance, bearing interest of 3.18 percent. Annual principal and interest payments of \$13,500 are due commencing September 26, 2012, through September 26, 2016. 46,537
\$ 4,046,537

Current portion \$ 602,020
Noncurrent portion 3,444,517
Total \$ 4,046,537

Business-type Activities

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

Notes payable:

Solid Waste Note Payable:

On October 26, 2010, the Solid Waste Fund borrowed \$86,000 from McCook National Bank. The note is due in three annual principal and interest payments of \$21,565, through October 26, 2013. The note bears interest of 3.0 percent. \$ 41,316

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

5. Long-term Debt, continued

Business-type Activities, continued

Notes payable, continued:

Sewer Notes Payable:

\$1,712,600 of Sewer DEQ Notes Payable, due in semi-annual principal and interest payments of \$69,864 commencing June 15, 2001, through December 15, 2018. The notes bear interest of 3.0 percent.

770,073

\$4,200,000 of Sewer DEQ Notes Payable, due in semi-annual principal and interest payments of \$134,909 commencing December 15, 2007, through June 15, 2027. The note bears interest of 2.50 percent. (\$400,000 of these loan proceeds were used for the water project and will be repaid by the Water Fund.)

2,877,531

Water Notes Payable:

\$9,922,000 of Water DEQ Notes Payable. The notes will be due in semi-annual principal and interest payments of \$221,026 commencing December 15, 2006, through June 15, 2036. The notes bear interest of 2.80 percent.

7,687,418

Total business-type activity notes payable

\$ 11,376,338

Current portion

\$ 540,164

Noncurrent portion

10,836,174

Total

\$ 11,376,338

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

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

5. Long-term Debt, continued

Component Units:

Bonds payable:

McCook Leasing Corporation:

On March 15, 2011, the McCook Leasing Corporation issued \$3,750,000 of Lease Rent Revenue Bonds for the construction of the combined Administration/Public Safety Building. The bonds are due in semi-annual interest payments commencing September 15, 2011, through September 15, 2018. Principal is due in semi-annual payments commencing September 15, 2012, through September 15, 2018. The bonds bear interest ranging from 1.0 to 3.20 percent. The City will incur a capital lease obligation when the facility is built which will service the debt for the McCook Leasing Corporation.

\$ 3,280,000

Current portion

\$ 480,000

Noncurrent portion

2,800,000

Total

\$ 3,280,000

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			McCook Leasing Corp	
	Notes and Bonds Payable		Notes Payable			Bonds Payable	
	Principal	Interest	Principal	Interest	Fees	Principal	Interest
2013	\$ 602,020	\$102,717	\$ 540,164	\$ 308,051	\$ 112,082	\$ 480,000	\$ 75,455
2014	662,402	92,088	555,261	292,954	106,825	535,000	68,343
2015	677,797	77,738	549,039	277,611	101,446	545,000	58,125
2016	689,318	60,466	564,217	262,433	95,918	560,000	45,400
2017	695,000	41,170	579,817	246,833	90,237	570,000	30,840
2018-2022	720,000	19,343	2,570,431	1,013,736	370,038	590,000	14,012
2023-2027	-	-	2,522,107	667,634	240,707	-	-
2028-2032	-	-	1,833,485	376,776	134,563	-	-
2033-2037	-	-	1,661,817	106,392	37,997	-	-
	<u>\$4,046,537</u>	<u>\$393,522</u>	<u>\$11,376,338</u>	<u>\$3,552,420</u>	<u>\$1,289,813</u>	<u>\$3,280,000</u>	<u>\$ 292,175</u>

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

5. Long-term Debt, continued

Municipal Solid Waste Landfill Postclosure

The City recognizes a proportionate share of the estimated total current cost of closure and postclosure care costs of the municipal solid waste landfill as an expense and a liability in each period that the landfill accepts solid waste.

Under an agreement with the Nebraska Department of Environmental Quality, the City of McCook discontinued acceptance of solid waste after the completion of the current cell on September 1, 1996. According to the engineering study performed for the municipal solid waste landfill, the revised closure costs for the landfill were estimated at \$36,000. The postclosure care costs were estimated at \$45,478 annually for 15 years after closure as required by EPA rule “Solid Waste Disposal Facility Criteria.” The amount accrued has been adjusted for inflation. The total closure and postclosure cost which was accrued is \$682,170. The cumulative liability, which is based on the capacity of the landfill used to date, was \$715,000 at September 30, 2012. The City of McCook considers this amount available through the normal annual budgeting process.

Deep Well Abandonment Costs

The City recognizes a proportionate share of the estimated total current cost of well abandonment for the deep injection well as an expense and a liability in each period that the well operates.

Under an agreement with the Nebraska Department of Environmental Quality, the City of McCook established an escrow account with a balance at September 30, 2012, of \$72,139 to be used for future deep well abandonment costs. The estimated cost of abandonment is being recognized over the 30-year estimated life of the well. The accrued deep well abandonment cost was \$15,000 at September 30, 2012.

Component Unit CRA Notes Payable and Receivable

Note Payable – Retro Development of Nebraska, Inc.

On October 1, 1999, the Authority issued a note for Tax Increment Financing to Retro Development of Nebraska, Inc., to assist them in developing a project known as the McCook YMCA Apartments. The amount payable to Retro shall not exceed 90 percent of the Tax Increment Financing Revenues generated. The annual revenues are estimated at \$5,600 per year, of which \$5,040 will be payable to Retro. The current value of the note was calculated based on a six percent interest rate over the six remaining years.

The estimated payable to Retro is calculated to be approximately \$5,022, equal to the September 30, 2012 note receivable balance.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

5. Long-term Debt, continued

Notes Receivable – Tax Increment Financing

The Community Redevelopment Authority has undertaken a program for the redevelopment of blighted areas in the city and is engaged in carrying out various projects as follows:

Retro Development of Nebraska, Inc. – An agreement was entered into with the Community Redevelopment Authority for the construction of the project known as the McCook YMCA Apartments to create a taxable valuation for real estate tax assessment purposes of at least \$700,000. The Authority will receive the incremental real estate taxes paid by Retro in accordance with the Redevelopment Agreement, 90 percent of which will then be paid back to Retro to retire the related note payable as shown above. At September 30, 2012, the balance of the note receivable was \$5,022.

Estimated future receivables and payables under TIF agreements were as follows as of September 30, 2012:

	<u>TIF Receivable</u>	<u>TIF Payable</u>
Retro Development of Nebraska, Inc.	<u>\$ 5,022</u>	<u>\$ 5,022</u>
Current portion	\$ 5,022	\$ 5,022
Noncurrent portion	-	-
	<u>\$ 5,022</u>	<u>\$ 5,022</u>

6. Interfund Transactions and Balances

Operating transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Electric and Emergency	\$ 911,937	\$ -
Water	52,500	(6,250)
Sewer	59,000	-
Solid Waste	<u>50,500</u>	<u>-</u>
Total General Fund	1,073,937	(6,250)

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

6. Interfund Transactions and Balances, continued

Operating transfers, continued:

	<u>Transfers In</u>	<u>Transfers Out</u>
Internal Service Fund:		
Electric	375,000	-
Grant Fund:		
Solid Waste	-	(3,836)
Capital Projects Fund:		
Sewer	-	(50,000)
Water	-	(120,755)
Total Capital Projects Fund	-	(170,755)
Water Fund:		
General	6,250	(52,500)
Capital Projects	120,755	-
Total Water Fund	127,005	(52,500)
Electric Fund:		
Internal Service Fund	-	(375,000)
General	-	(911,937)
Total Electric Fund	-	(1,286,937)
Sewer Fund:		
General	-	(59,000)
Capital Projects	50,000	-
Total Sewer Fund	50,000	(59,000)
Solid Waste Fund:		
General	-	(50,500)
Grants	3,836	-
Total Solid Waste Fund	3,836	(50,500)
Total Operating Transfers	<u>\$ 1,629,778</u>	<u>\$ (1,629,778)</u>

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

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

6. Interfund Transactions and Balances, continued

Interfund Balances

The Water and Sewer Departments paid for improvements that have been included with special assessments receivable in the Debt Service Fund. At September 30, 2012, the Debt Service Fund owed \$880 to the Sewer Fund. These interfund loans will be repaid as special assessments are collected.

The \$2,617,766 balance due from McCook Leasing Corporation to the City represents capital lease proceeds that had not been spent on construction of the Municipal Center as of September 30, 2012. This balance is expected to be used for construction costs by December 2012.

NOTE D – OTHER NOTES

1. Employee Pension and Other Benefit Plans

The City participates in three employee benefit plans as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
City General Plan	Defined Contribution Plan
City Manager Plan	Defined Contribution Plan
Police and Firefighters Plan	Defined Contribution Plan

The City Manager Plan is administered by the City, and the Police and Firefighters Plan and the City General Plan are administered by a third party. None of the plans are included in these financial statements.

City General Plan

The City provides pension benefits for substantially all of the full-time employees (excluding the City Manager and all uniformed personnel covered under other retirement plans) through a defined contribution plan. The defined contribution plan includes all General and Proprietary Fund employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

1. Employee Pension and Other Benefit Plans, continued

City General Plan, continued

Public employees are eligible to participate on the first day of the month following the date on which the employee meets the eligibility requirements. The City contributes up to six percent of the participant's base salary and the employee contributes from six percent to 15 percent of his or her base salary. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after seven years of continuous service. The City's total payroll and eligible compensation (excluding the City Manager and uniformed personnel) in the year ended September 30, 2012, was \$2,053,114 and \$1,975,746, respectively. All contributions, including \$122,474 in employee contributions and \$102,192 in City contributions, have been transferred to the plan's trustee during the year ended September 30, 2012.

The Public Employee Plan, which is administered by CPI Qualified Plan Consultants, Inc., had plan assets with a market value of \$2,579,311 at September 30, 2012.

City Manager Plan

The City provides pension benefits for the City Manager under a separate defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Manager is eligible to participate from the date of employment. The City contributes six percent of the Manager's salary and the Manager is eligible to contribute up to 19 percent of his salary. The City's contributions for the Manager (and interest allocated to his account) are fully vested after entrance into the plan. The City's payroll for the City Manager was \$71,923 in the year ended September 30, 2012. All contributions, including \$2,354 in employee contributions and \$7,840 in City contributions, have been transferred to the plan's trustee during the year ended September 30, 2012.

Police and Firefighters Plan

The City provides pension benefits for the policemen and the firemen under separate defined contribution plans established by statutes of the State of Nebraska, effective January 1, 1984. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The City contributes six percent to the policemen's fund and 13 percent to the firemen's fund while the policemen contribute six percent and the firemen contribute 6.5 percent. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after seven years of continuous service.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

1. Employee Pension and Other Benefit Plans, continued

Police and Firefighters Plan, continued

The City provides pension benefits for the policemen and the firemen under separate defined contribution plans established by statutes of the State of Nebraska, effective January 1, 1984. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The City contributes six percent to the policemen's fund and 13 percent to the firemen's fund while the policemen contribute six percent and the firemen contribute 6.5 percent. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after seven years of continuous service.

The City's total payroll and eligible compensation for policemen and firemen in the year ended September 30, 2012, was \$930,973 and \$930,973, respectively. All contributions, including \$33,780 and \$23,918, respectively, in employee contributions and \$33,780 and \$47,836, respectively, in City contributions, have been transferred to the plan's trustee during the year ended September 30, 2012. The City did not use any of the unallocated account in the policemen's and firemen's pension funds for the City's contribution during the year ended September 30, 2012.

The policemen and firemen plans had plan assets with a market value of \$1,354,735 and \$1,444,117, respectively, at September 30, 2012.

2. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 MCCOOK, 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, direct obligations of or guaranteed by the full faith and credit of the U.S. Government, and other similar obligations of the U.S. Government or its agencies.

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 City had no certificates of deposit as of September 30, 2012.

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, money market funds, and other securities backed by U.S. Government obligations, 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 bank balances, totaling \$13,793,725, were all held at McCook National Bank.

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.

3. Commitments and Contingencies

Claims and Lawsuits

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential loss on all claims and lawsuits as of September 30, 2012, will not be significant to the City's financial statements.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

3. Commitments and Contingencies, continued

Construction and Commitments

As of September 30, 2012, the City had the following construction obligations:

<u>Project</u>	<u>Contract Amount</u>	<u>Paid Through 9/30/12</u>	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
Municipal facility:				
Construction	\$ 4,661,825	\$ 2,378,408	\$ 2,283,417	December 2012
Architecture	337,384	296,898	40,486	December 2012
Data & phone cabling	<u>41,260</u>	<u>10,315</u>	<u>30,945</u>	December 2012
	5,040,469	2,685,621	2,354,848	
WWTP Cation Waste				
Disposal design	31,500	12,600	18,900	August 2013
Fox Theater renovation	505,000	97,258	407,742	December 2012
East 9 th & G Street –				
Drainage design	3,800	2,280	1,520	Year ending 9/30/13
Wildlife fence at				
airport	<u>571,408</u>	<u>499,400</u>	<u>72,008</u>	Fall 2012
	<u>\$ 6,152,177</u>	<u>\$ 3,297,159</u>	<u>\$ 2,855,018</u>	

Self-Insurance Fund

The City provides medical and dental insurance for eligible employees using a self-insurance fund. The fund is reported in the Internal Service Fund and is financed by operating transfers from the Proprietary and General Funds of an average amount per employee, which is based on management's previous experience. The Self-Insurance Fund covers up to \$30,000 in costs per employee. Any expenses over that amount are covered by an insurance carrier. The City also uses a claims service to handle the insurance claims.

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

3. Commitments and Contingencies, continued

Operating Leases

The City is party to nine operating leases for four copiers, Senior Center equipment, land for a telecommunications tower, postage meters, land for the ballparks, and tower space from McCook Public Power District. As of September 30, 2012, future lease obligations are as follows:

<u>Year Ended September 30,</u>	<u>Lease Commitments</u>
2013	\$ 21,847
2014	15,377
2015	9,519
2016	3,984
2017	4,008
Thereafter	<u>12,618</u>
	<u>\$ 67,353</u>

Total rent expense was \$24,044 for the year ended September 30, 2012.

4. Interlocal Agreements

The City has the following interlocal agreements in effect as of September 30, 2012:

<u>Parties to Agreement</u>	<u>Term</u>	<u>Description</u>
Red Willow County	n/a	Establish and provide E-911 services
McCook Public Schools and Red Willow County	10/1/01 - indefinite	Joint grant writer services
Red Willow Western Rural Fire Protection District	3/2/02 - indefinite	Hazmat response team assistance
Red Willow County	6/19/00 - indefinite	96-hour jail holding facility
Red Willow County Fire Districts and Municipal Fire Departments	6/18/01 - indefinite	Mutual financial assistance
Red Willow County	8/7/06 - indefinite	Radio dispatching services
Red Willow County	1/1/96 - indefinite	Ambulance services
McCook Public Schools	11/19/10 - 11/19/14	School resource officer
Red Willow County	10/1/11 - 10/1/12	Snow removal

CITY OF MCCOOK, NEBRASKA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2012

NOTE D – OTHER NOTES, continued

4. Interlocal Agreements, continued

<u>Parties to Agreement</u>	<u>Term</u>	<u>Description</u>
Red Willow County	4/1/05 - indefinite	Fuel purchases
Public Alliance for Community Energy	2/19/98 - indefinite	Acquisition, management, distribution, and sale of energy
Nebraska First Class Cities	10/18/10 - indefinite	Federal Transportation Funding
McCook Public Schools Mid-Plains Community College- McCook	5/3/10 - indefinite	Creation of a Comprehensive Marketing Plan promoting all entities

5. Union Agreements

The City is subject to the following union contracts:

- McCook Professional Firefighter's Association Local 2100
- McCook Fraternal Order of Police Lodge 57

6. Subsequent Events

Management has evaluated subsequent events through February 26, 2013, the date on which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
GENERAL FUND**

Year ended September 30, 2012

	Budget (Original and Final)	Actual	Variances - Actual Over (Under) Final Budget
RESOURCES (INFLOWS)			
Taxes:			
Property	\$ 1,002,875	\$ 1,007,572	\$ 4,697
Motor vehicle	140,000	160,377	20,377
Payments in lieu of taxes	80,000	90,464	10,464
Occupation	36,000	35,609	(391)
Franchise	73,000	68,057	(4,943)
Sales	600,000	675,763	75,763
Intergovernmental	481,800	459,620	(22,180)
Grants	244,900	161,848	(83,052)
Charges for services	410,070	545,492	135,422
Interest income	10,000	24,357	14,357
Contributions	352,500	155,787	(196,713)
Loan proceeds	60,000	-	(60,000)
Other	110,000	19,322	(90,678)
Total resources	<u>3,601,145</u>	<u>3,404,268</u>	<u>(196,877)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
General government:			
Administrative	518,075	465,219	(52,856)
Publicity	7,640	6,010	(1,630)
City Council	436,890	82,455	(354,435)
Health operating	471,334	471,334	-
Total general government	<u>1,433,939</u>	<u>1,025,018</u>	<u>(408,921)</u>
Public safety:			
Fire	860,537	840,644	(19,893)
Ambulance	68,464	85,313	16,849
Police	1,486,297	1,398,989	(87,308)
Civil defense	9,575	9,897	322
Total public safety	<u>2,424,873</u>	<u>2,334,843</u>	<u>(90,030)</u>
Public works:			
Building and zoning	60,296	62,541	2,245
Street lights	147,560	156,863	9,303
Cemetery	140,001	144,276	4,275
Total public works	<u>347,857</u>	<u>363,680</u>	<u>15,823</u>
Environment and leisure:			
Public transportation	106,610	96,598	(10,012)
Senior Center	326,578	307,378	(19,200)
Library	544,228	270,596	(273,632)
Parks	170,328	158,498	(11,830)
Ballparks	95,500	95,616	116
Auditorium	41,520	30,715	(10,805)
Pool	85,085	85,980	895
Airport	123,363	123,930	567
Total environment and leisure	<u>1,493,212</u>	<u>1,169,311</u>	<u>(323,901)</u>
Total charges to appropriations	<u>5,699,881</u>	<u>4,892,852</u>	<u>(807,029)</u>

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
GENERAL FUND, Continued**

Year ended September 30, 2012

	Budget (Original and <u>Final</u>)	<u>Actual</u>	Variances - Actual Over (Under) Final <u>Budget</u>
Resources over (under) charges to appropriations	(2,098,736)	(1,488,584)	610,152
OTHER FINANCING SOURCES (USES)			
Transfers in	937,000	1,073,937	136,937
Transfers out	-	(6,250)	(6,250)
Net transfers	<u>937,000</u>	<u>1,067,687</u>	<u>130,687</u>
RESOURCES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>\$ (1,161,736)</u>	<u>\$ (420,897)</u>	<u>\$ 740,839</u>

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
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)			
Sales tax	\$ 140,000	\$ 203,068	\$ 63,068
Intergovernmental	691,000	780,232	89,232
Grants	<u>-</u>	<u>440</u>	<u>440</u>
Total resources	831,000	983,740	152,740
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
Public works	417,356	589,047	171,691
Capital outlay	<u>257,800</u>	<u>25,470</u>	<u>(232,330)</u>
Total charges to appropriations	<u>675,156</u>	<u>614,517</u>	<u>(60,639)</u>
RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS			
	<u>\$ 155,844</u>	<u>\$ 369,223</u>	<u>\$ 213,379</u>

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
ECONOMIC DEVELOPMENT FUND**

Year ended September 30, 2012

	Budget (Original and Final)	<u>Actual</u>	Variances - Actual Over (Under) Final <u>Budget</u>
RESOURCES (INFLOWS)			
Sales tax	\$ 370,000	\$ 439,416	\$ 69,416
Interest income	-	2,281	2,281
Loan collections	-	5,895	5,895
Total resources	<u>370,000</u>	<u>447,592</u>	<u>77,592</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
Economic development	379,268	345,131	(34,137)
Principal payments	110,000	110,000	-
Interest expense	28,533	28,533	-
Bond fees	350	350	-
Total charges to appropriations	<u>518,151</u>	<u>484,014</u>	<u>(34,137)</u>
RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>\$ (148,151)</u>	<u>\$ (36,422)</u>	<u>\$ 111,729</u>

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
CAPITAL PROJECTS 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	\$ 1,110,000	\$ 1,318,247	\$ 208,247
Interest income	-	21,394	21,394
Total resources	<u>1,110,000</u>	<u>1,339,641</u>	<u>229,641</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
General government	-	-	-
Public works	-	-	-
Environment and leisure	-	911	911
Capital projects	2,500,302	1,078,475	(1,421,827)
Principal payments	-	470,000	470,000
Interest on long-term debt	-	81,185	81,185
Bond fees	-	1,912	1,912
Total charges to appropriations	<u>2,500,302</u>	<u>1,632,483</u>	<u>(867,819)</u>
Resources over charges to appropriations	(1,390,302)	(292,842)	1,097,460
OTHER FINANCING USES			
Transfers out	-	(170,755)	(170,755)
RESOURCES AND OTHER FINANCING USES OVER CHARGES TO APPROPRIATIONS	<u>\$ (1,390,302)</u>	<u>\$ (463,597)</u>	<u>\$ 926,705</u>

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
GRANT 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)			
Intergovernmental	\$ -	\$ 132,531	\$ 132,531
Grants	2,089,967	719,914	(1,370,053)
Charges for services	57,000	55,322	(1,678)
Contributions	103,246	30,823	(72,423)
Interest income	-	7,539	7,539
Insurance proceeds	-	649,528	649,528
Transfer from McCook Facilities Corp	3,750,000	1,132,225	(2,617,775)
Other revenues	-	7,813	7,813
Total resources	<u>6,000,213</u>	<u>2,735,695</u>	<u>(3,264,518)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
General government	50,011	129,479	79,468
Economic development	321,200	-	(321,200)
Public safety	196,290	53,494	(142,796)
Environment and leisure	96,660	93,023	(3,637)
Capital outlay	5,591,812	2,360,412	(3,231,400)
Total charges to appropriations	<u>6,255,973</u>	<u>2,636,408</u>	<u>(3,619,565)</u>
Resources over (under) charges to appropriations	(255,760)	99,287	355,047
OTHER FINANCING SOURCES			
Transfers in (out)	37,500	(3,836)	(41,336)
RESOURCES AND OTHER FINANCING SOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>\$ (218,260)</u>	<u>\$ 95,451</u>	<u>\$ 313,711</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF MCCOOK, NEBRASKA

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS -
DEBT SERVICE 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)			
Property tax	\$ -	\$ 44	\$ 44
Payments in lieu of taxes	-	44	44
Special assessments	7,000	8,728	1,728
Interest	4,900	4,928	28
Total resources	<u>11,900</u>	<u>13,744</u>	<u>1,844</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)			
Capital outlay	338,603	-	(338,603)
Other	75,841	-	(75,841)
Total charges to appropriations	<u>414,444</u>	<u>-</u>	<u>(414,444)</u>
RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	<u>\$ (402,544)</u>	<u>\$ 13,744</u>	<u>\$ 416,288</u>

CITY OF MCCOOK, NEBRASKA

**COMBINING STATEMENT OF ASSETS AND LIABILITIES -
MODIFIED CASH BASIS - FIDUCIARY FUNDS**

September 30, 2012

	<u>Special Fire</u>	<u>Senior Center Contributions</u>	<u>School</u>	<u>Library Memorial</u>
ASSETS				
Cash	<u>\$ 1,158</u>	<u>\$ 31,150</u>	<u>\$ 1,244</u>	<u>\$ 14,639</u>
LIABILITIES HELD FOR OTHERS				
Held in trust for other purposes	<u>\$ 1,158</u>	<u>\$ 31,150</u>	<u>\$ 1,244</u>	<u>\$ 14,639</u>

<u>Von Reissen Library</u>	<u>McCook Volunteer Fire and Rescue</u>	<u>Ambulance</u>	<u>Public Works</u>	<u>Main Street Improvements</u>	<u>Police/ DARE</u>	<u>Total Agency Funds</u>
<u>\$ 1,527</u>	<u>\$ 27</u>	<u>\$ 2,193</u>	<u>\$ 1,770</u>	<u>\$ 1,300</u>	<u>\$ 3,820</u>	<u>\$ 58,828</u>
<u>\$ 1,527</u>	<u>\$ 27</u>	<u>\$ 2,193</u>	<u>\$ 1,770</u>	<u>\$ 1,300</u>	<u>\$ 3,820</u>	<u>\$ 58,828</u>

CITY OF MCCOOK, NEBRASKA

**COMBINING STATEMENT OF REVENUES AND EXPENDITURES -
MODIFIED CASH BASIS - GENERAL FUND DEPARTMENTS**

Year ended September 30, 2012

	<u>Administrative</u>	<u>Publicity</u>	<u>Auditorium</u>	<u>City Council</u>	<u>Police</u>
REVENUES					
Taxes:					
General property tax	\$ 1,007,572	\$ -	\$ -	\$ -	\$ -
Motor vehicle tax	160,377	-	-	-	-
Payments in lieu of taxes	90,464	-	-	-	-
Occupation tax	35,609	-	-	-	-
Franchise	68,057	-	-	-	-
Sales	675,763	-	-	-	-
Intergovernmental revenue:					
State assistance	314,895	-	-	-	-
County assistance	-	-	-	-	61,134
Rural fire	-	-	-	-	-
Licenses and permits	2,532	-	-	-	-
Rental and fees	46,030	-	-	-	4,965
Admission fees and concessions	-	-	-	-	-
Grants	-	-	-	-	3,198
Contributions	2,500	-	-	-	-
Interest income	23,278	-	-	-	-
Other receipts	19,322	-	-	-	-
Total revenues	<u>2,446,399</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,297</u>
EXPENDITURES					
Personnel services:					
Salaries and benefits	296,342	-	7,394	9,527	1,158,150
Operating expenses:					
Insurance	6,274	-	3,567	2,437	46,649
Interlocal agreement	-	-	-	41,640	-
Contract services	1,035	1,600	166	4,791	2,613
Professional fees	58,161	-	-	-	8,887
Meetings, seminars, and dues	16,351	367	-	3,720	9,894
Repairs and maintenance	14,840	-	3,475	-	31,274
Printing, postage, and publications	9,355	-	-	-	-
Transportation	5,722	-	-	1,931	40,224
Utilities and telephone	8,173	-	14,988	-	18,298
Total operating expenses	<u>119,911</u>	<u>1,967</u>	<u>22,196</u>	<u>54,519</u>	<u>157,839</u>
Supplies	10,439	2,701	-	20	6,176
Other expenses	19,492	1,342	-	15,071	21,100
Capital outlay	7,586	-	1,125	3,318	55,724
Principal payments	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-
Total expenditures	<u>453,770</u>	<u>6,010</u>	<u>30,715</u>	<u>82,455</u>	<u>1,398,989</u>
Excess (deficiency) of revenues over expenditures before transfers	1,992,629	(6,010)	(30,715)	(82,455)	(1,329,692)
TRANSFERS FROM (TO) OTHER FUNDS	<u>1,073,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AFTER TRANSFERS	<u>\$ 3,066,566</u>	<u>\$ (6,010)</u>	<u>\$ (30,715)</u>	<u>\$ (82,455)</u>	<u>\$ (1,329,692)</u>

Fire	Ambulance	Civil Defense	Building and Zoning	Library	Street Lights	Cemetery
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	2,962	-	-
-	-	-	-	-	-	-
53,287	-	-	-	-	-	-
-	-	-	67,266	-	-	-
5,159	249,060	-	-	8,976	-	1,650
-	-	-	-	-	-	25,640
-	-	-	-	-	-	-
-	-	-	-	50,000	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>58,446</u>	<u>249,060</u>	<u>-</u>	<u>67,266</u>	<u>61,938</u>	<u>-</u>	<u>27,290</u>
601,283	-	-	51,328	172,391	-	75,938
62,704	12	205	3,504	5,819	676	5,070
-	-	-	-	-	-	-
3,104	37,428	-	-	-	-	-
1,088	-	-	2,264	783	-	-
6,744	1,139	-	789	410	-	-
20,815	9,575	1,370	868	6,844	6,761	12,444
-	213	-	262	1,298	-	-
8,513	7,503	-	1,819	943	-	4,393
13,599	1,609	8,322	797	20,680	149,426	38,280
<u>116,567</u>	<u>57,479</u>	<u>9,897</u>	<u>10,303</u>	<u>36,777</u>	<u>156,863</u>	<u>60,187</u>
3,256	2,636	-	905	6,709	-	7,062
7,110	4,380	-	5	51,391	-	15
98,928	20,818	-	-	3,328	-	-
13,463	-	-	-	-	-	-
37	-	-	-	-	-	-
<u>840,644</u>	<u>85,313</u>	<u>9,897</u>	<u>62,541</u>	<u>270,596</u>	<u>156,863</u>	<u>143,202</u>
(782,198)	163,747	(9,897)	4,725	(208,658)	(156,863)	(115,912)
<u>(6,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ (788,448)</u>	<u>\$ 163,747</u>	<u>\$ (9,897)</u>	<u>\$ 4,725</u>	<u>\$ (208,658)</u>	<u>\$ (156,863)</u>	<u>\$ (115,912)</u>

CITY OF MCCOOK, NEBRASKA

**COMBINING STATEMENT OF REVENUES AND EXPENDITURES -
MODIFIED CASH BASIS - GENERAL FUND DEPARTMENTS, Continued**

Year ended September 30, 2012

	<u>Parks</u>	<u>Ballparks</u>	<u>Pool</u>	<u>Airport</u>
REVENUES				
Taxes:				
General property tax	\$ -	\$ -	\$ -	\$ -
Motor vehicle tax	-	-	-	-
Payments in lieu of taxes	-	-	-	-
Occupation tax	-	-	-	-
Franchise	-	-	-	-
Sales	-	-	-	-
Intergovernmental revenue:				
State assistance	-	-	-	-
County assistance	-	-	-	-
Rural fire	-	-	-	-
Licenses and permits	-	-	-	-
Rental and fees	-	-	-	106,375
Admission fees and concessions	-	-	19,439	-
Grants	-	-	-	-
Contributions	-	-	-	-
Interest income	-	-	-	-
Other receipts	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>19,439</u>	<u>106,375</u>
EXPENDITURES				
Personnel services:				
Salaries and benefits	86,111	40,508	52,827	55,558
Operating expenses:				
Insurance	5,787	2,724	2,369	10,982
Interlocal agreement	-	-	-	-
Contract services	-	-	-	-
Professional fees	-	-	9	588
Meetings, seminars, and dues	90	-	-	990
Repairs and maintenance	11,619	10,391	2,646	24,258
Printing, postage, and publications	-	-	-	-
Transportation	3,782	1,120	-	1,971
Utilities and telephone	27,102	20,541	4,282	17,760
Total operating expenses	<u>48,380</u>	<u>34,776</u>	<u>9,306</u>	<u>56,549</u>
Supplies	7,687	4,200	19,642	1,532
Other expenses	39	49	4,205	7,706
Capital outlay	16,281	16,083	-	2,585
Principal payments	-	-	-	-
Interest on long-term debt	-	-	-	-
Total expenditures	<u>158,498</u>	<u>95,616</u>	<u>85,980</u>	<u>123,930</u>
Excess (deficiency) of revenues over expenditures before transfers	(158,498)	(95,616)	(66,541)	(17,555)
TRANSFERS FROM (TO) OTHER FUNDS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AFTER TRANSFERS	<u>\$ (158,498)</u>	<u>\$ (95,616)</u>	<u>\$ (66,541)</u>	<u>\$ (17,555)</u>

<u>Unemployment</u>	<u>Uncollectible Tax</u>	<u>Senior Center</u>	<u>HandiBus</u>	<u>Health Operating</u>	<u>Perpetual Care</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,007,572
-	-	-	-	-	-	160,377
-	-	-	-	-	-	90,464
-	-	-	-	-	-	35,609
-	-	-	-	-	-	68,057
-	-	-	-	-	-	675,763
-	-	1,946	25,396	-	-	345,199
-	-	-	-	-	-	61,134
-	-	-	-	-	-	53,287
-	-	-	-	-	-	69,798
-	-	-	3,600	-	4,800	430,615
-	-	-	-	-	-	45,079
-	-	105,059	53,591	-	-	161,848
-	-	95,284	8,003	-	-	155,787
-	-	-	-	-	1,079	24,357
-	-	-	-	-	-	19,322
-	-	<u>202,289</u>	<u>90,590</u>	-	<u>5,879</u>	<u>3,404,268</u>
1,443	-	147,024	78,897	471,334	-	3,306,055
-	-	4,511	(54)	-	-	163,236
-	-	3,828	-	-	-	45,468
-	-	368	-	-	-	51,105
-	-	2,000	1,018	-	-	74,798
-	-	270	155	-	-	40,919
-	-	6,633	3,099	-	1,074	167,986
-	-	707	47	-	-	11,882
-	-	2,353	7,568	-	-	87,842
-	-	<u>14,168</u>	<u>1,996</u>	-	-	<u>360,021</u>
-	-	34,838	13,829	-	1,074	1,003,257
-	-	13,761	150	-	-	86,876
-	10,006	100,040	3,722	-	-	245,673
-	-	11,715	-	-	-	237,491
-	-	-	-	-	-	13,463
-	-	-	-	-	-	37
<u>1,443</u>	<u>10,006</u>	<u>307,378</u>	<u>96,598</u>	<u>471,334</u>	<u>1,074</u>	<u>4,892,852</u>
(1,443)	(10,006)	(105,089)	(6,008)	(471,334)	4,805	(1,488,584)
-	-	-	-	-	-	<u>1,067,687</u>
<u>\$ (1,443)</u>	<u>\$ (10,006)</u>	<u>\$ (105,089)</u>	<u>\$ (6,008)</u>	<u>\$ (471,334)</u>	<u>\$ 4,805</u>	<u>\$ (420,897)</u>

CITY OF MCCOOK, NEBRASKA

**COMBINING STATEMENT OF NET ASSETS -
COMPONENT UNITS**

September 30, 2012

	<u>Community Development Agency</u>	<u>McCook Leasing Corporation</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 61,708	\$ 2,607,404	\$ 2,669,112
Current portion of TIF receivable	<u>5,022</u>	<u>480,000</u>	<u>485,022</u>
Total current assets	66,730	3,087,404	3,154,134
Noncurrent assets:			
Unamortized bond discount	-	52,632	52,632
Noncurrent portion of TIF receivable	<u>-</u>	<u>2,800,000</u>	<u>2,800,000</u>
Total noncurrent assets	<u>-</u>	<u>2,852,632</u>	<u>2,852,632</u>
Total assets	66,730	5,940,036	6,006,766
LIABILITIES			
Current liabilities:			
Current portion of long-term obligations	5,022	480,000	485,022
Due to City of McCook	<u>-</u>	<u>2,617,776</u>	<u>2,617,776</u>
Total current liabilities	5,022	3,097,776	3,102,798
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	<u>-</u>	<u>2,800,000</u>	<u>2,800,000</u>
Total liabilities	<u>5,022</u>	<u>5,897,776</u>	<u>5,902,798</u>
NET ASSETS			
Unrestricted	<u>\$ 61,708</u>	<u>\$ 42,260</u>	<u>\$ 103,968</u>

See notes to financial statements.

CITY OF MCCOOK, NEBRASKA

**COMBINING STATEMENT OF ACTIVITIES-
COMPONENT UNITS**

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>
Component units:			
Community Development Agency	\$ 196,227	\$ -	\$ -
McCook Leasing Corporation	90,018	81,185	-
Total component units	<u>\$ 286,245</u>	<u>\$ 81,185</u>	<u>\$ -</u>

See notes to financial statements.

	Net (Expenses) Revenues and Changes in Net Assets		
	Primary Government		
<u>Capital Grants and Contributions</u>	<u>Community Development Agency</u>	<u>McCook Leasing Corporation</u>	<u>Total</u>
\$ -	\$ (196,227)	\$ -	\$ (196,227)
-	-	(8,833)	(8,833)
<u>\$ -</u>	<u>(196,227)</u>	<u>(8,833)</u>	<u>(205,060)</u>
General revenues:			
TIF proceeds	196,227	-	196,227
Interest income	31	35,646	35,677
	<u>31</u>	<u>26,813</u>	<u>26,844</u>
Change in net assets			
Net assets - September 30, 2011	<u>61,677</u>	<u>15,447</u>	<u>77,124</u>
Net assets - September 30, 2012	<u>\$ 61,708</u>	<u>\$ 42,260</u>	<u>\$ 103,968</u>

SINGLE AUDIT REPORTS

CITY OF MCCOOK, NEBRASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended September 30, 2012

<u>Federal Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Department of Transportation</u>		
Passed Through Nebraska Department of Roads: Public Transportation for Nonurbanized Areas	20.509	\$ 105,424
Passed Through Nebraska Department of Aeronautics: Airport Improvement Program	20.106	<u>489,213</u> *
Total Department of Transportation		<u>594,637</u>
<u>Department of Health and Human Services</u>		
Passed Through West Central Nebraska Area Agency on Aging: Title III, Part D - Special Programs for the Aging	93.043	500
Aging Cluster: Title III, Part B - Supportive Services and Senior Centers	93.044	18,158
Title III, Part C - Nutrition Services	93.045	44,602
Nutrition Services Incentive Program	93.053	<u>22,706</u>
Total Aging Cluster		<u>85,466</u>
Total Department of Health and Human Services		85,966
<u>Department of Energy</u>		
Passed Through Nebraska Energy Office: Energy Efficiency and Conservation Block Grant Program	81.128	83,206
<u>Department of Justice</u>		
Secure Our Schools (passed through to McCook Public Schools)	16.710	15,604
Bulletproof Vests	16.607	<u>3,198</u>
Total Department of Justice		18,802
<u>Housing and Urban Development</u>		
Passed Through Nebraska Department of Economic Development: Community Development Block Grant	14.228	<u>99,658</u>
Total Federal Awards		<u>\$ 882,269</u>

*Major Program

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of McCook, Nebraska, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



**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**

SHAREHOLDERS

Robert D. Almquist
Phillip D. Maltzahn
Terry T. Galloway
Marcy J. Luth
Heidi A. Ashby
Christine R. Shenk

To the Honorable Mayor and
Members of the City Council
City of McCook, Nebraska

We have audited the financial statements of the governmental activities - modified cash basis, the business-type activities - accrual basis, the aggregate discretely presented component units - accrual basis, each major fund - modified cash basis for the governmental funds and accrual basis for the proprietary funds, the aggregate remaining fund information - modified cash basis, and the fiduciary funds - modified cash basis of the City of McCook, Nebraska, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 26, 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. Our report on the financial statements disclosed that, as described in Note A to the financial statements, the City prepares its financial statements for the governmental funds and fiduciary funds on a prescribed basis of accounting that demonstrates compliance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of the City of McCook is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of McCook'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.

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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 in the accompanying schedule of findings and questioned costs as 2012-1 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McCook'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 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 management of the City of McCook, in a separate letter dated February 26, 2013.

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

August, Malholm,
Galloway & Luth, P.C.

Grand Island, Nebraska
February 26, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

SHAREHOLDERS

Robert D. Almquist
Phillip D. Maltzahn
Terry T. Galloway
Marcy J. Luth
Heidi A. Ashby
Christine R. Shenk

To the Honorable Mayor and Members of the City Council
City of McCook, Nebraska

Compliance

We have audited the compliance of the City of McCook, Nebraska, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2012. The City of McCook, Nebraska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of McCook, Nebraska's management. Our responsibility is to express an opinion on the City of McCook, Nebraska's compliance based on our audit.

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

In our opinion, the City of McCook, Nebraska, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

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Internal Control Over Compliance

The management of the City of McCook, Nebraska, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of McCook, Nebraska's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City of McCook's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City's compliance but not to provide an opinion on the effectiveness of the City of McCook's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Amquist, Mathyhn,
Galloway & Luth, PC.

Grand Island, Nebraska
February 26, 2013

CITY OF MCCOOK, NEBRASKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended September 30, 2012

1. A summary of auditors' results:
 - (i) An unqualified opinion was issued on the financial statements of the City of McCook, Nebraska, as of September 30, 2012.
 - (ii) One significant deficiency disclosed during the audit of the financial statements is reported in the "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 significant deficiency is not reported as a material weakness.
 - (iii) The audit disclosed no instances of noncompliance which are material to the financial statements of the City of McCook, Nebraska.
 - (iv) The audit did not disclose any significant deficiencies in the internal control over major programs for the City of McCook.
 - (v) An unqualified opinion was issued on compliance for major programs.
 - (vi) The audit did not disclose any audit findings which we are required to report under §____.510(a).
 - (vii) Major Program: CFDA #20.106 – Airport Improvement Program.
 - (viii) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
 - (ix) The City of McCook, Nebraska, qualified as a low-risk auditee under §____.530.
2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS:

Significant Deficiency

2012-1 Incompatible segregation of accounting duties consistent with appropriate control objectives due to the limited number of employees.
3. Findings and questioned costs for Federal awards which shall include audit findings as defined in §____.510(a):

None

CITY OF MCCOOK, NEBRASKA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended September 30, 2012

Program

Findings for the year ended September 30, 2011

There were no prior audit findings.