



SANITARY AND IMPROVEMENT DISTRICT  
NO. 163  
OF SARPY COUNTY, NEBRASKA  
FINANCIAL STATEMENTS  
JUNE 30, 2012

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
JUNE 30, 2012

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MASSMAN NELSON REINIG PC

Certified Public Accountants

13310 I Street | Omaha, Nebraska 68137

402 330 7099 Fax 402 330 0809

Michael L Massman CPA  
George E Nelson CPA  
James A Reinig CPA

Keli D Palfini CPA  
Jason T McGill CPA

INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Sanitary and Improvement District No. 163  
of Sarpy County, Nebraska

We have audited the accompanying financial statements of the governmental activities and each major fund of Sanitary and Improvement District No. 163 of Sarpy County, Nebraska (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Sanitary and Improvement District No. 163 of Sarpy County, Nebraska as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2012 on our consideration of the Sanitary and Improvement District No. 163'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 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 budgetary comparison information on pages 18 through 20 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.

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information 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 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 financial statements as a whole.

Massman Nelson Reinig PC

Certified Public Accountants

Omaha, Nebraska  
September 14, 2012

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

ASSETS

Current assets:

Cash on deposit, County Treasurer	\$	32,829
Taxes receivable		72,279
Investments		174,938
Interest receivable - investments		29
Total current assets		280,075

Noncurrent assets:

Capital assets, net of accumulated depreciation		1,849,721
Bond issue costs, net of accumulated amortization		56,447
Total non-current assets		1,906,168

Total assets

2,186,243

LIABILITIES

Current liabilities:

Accounts payable		2,160
Warrants outstanding		332
Accrued interest payable - bonds		1,790
Bonds payable - current portion		125,000
Total current liabilities		129,282

Noncurrent liabilities:

Bonds payable		1,575,000
		1,575,000

Total liabilities

1,704,282

NET ASSETS

Invested in capital assets, net of related debt		204,378
Restricted for debt service		249,654
Unrestricted		27,929
Total net assets		\$ 481,961

See the accompanying notes to the financial statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Expenditures:	
Audit and budget	\$ 3,950
Legal fees	5,505
Publication costs	64
Engineering fee	1,742
Repairs and maintenance	6,267
Interest on bonds	87,128
Street lighting	5,075
Paying agent fees	1,558
Bond agent fees	332
Depreciation	89,078
Amortization	112,218
	<hr/> 312,917 <hr/>
Revenues:	
Real property taxes assessed	167,600
Collection fee - County Treasurer	(3,320)
Other taxes	482
Interest income on taxes	972
Interest income on investments	79
Over accrual - tax revenue	(5,549)
Miscellaneous	240
	<hr/> 160,504 <hr/>
Increase (decrease) in net assets	(152,413)
Net assets, beginning of year	<hr/> 634,374 <hr/>
Net assets, end of year	<hr/> \$ 481,961 <hr/>

See the accompanying notes to the financial statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2012

ASSETS

	Governmental Funds		
	General Fund	Debt Service Fund	Total
Assets:			
Cash on deposit, County Treasurer	\$ 20,386	\$ 12,443	\$ 32,829
Taxes receivable	9,703	62,576	72,279
Investments	-	174,938	174,938
Interest receivable – investments	-	29	29
Total assets	\$ 30,089	\$ 249,986	\$ 280,075

LIABILITIES AND FUND EQUITY

Liabilities:			
Accounts payable	\$ 2,160	\$ -	\$ 2,160
Warrants outstanding	-	332	332
Total liabilities	2,160	332	2,492
Fund equity:			
Fund balances:			
Restricted for debt services	-	249,654	249,654
Unassigned	27,929	-	27,929
Total fund balances	27,929	249,654	277,583
Total liabilities and fund balances	\$ 30,089	\$ 249,986	\$ 280,075

See the accompanying notes to the financial statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Total fund balances - governmental funds \$ 277,583

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund financial statements:

Capital assets	\$	2,926,803	
Accumulated depreciation		<u>(1,077,082)</u>	1,849,721

Other long-term assets are not financial resources and, therefore, not reported in the fund financial statements:

Bond issue costs		62,050	
Accumulated amortization		<u>(5,603)</u>	56,447

Other liabilities are not due and payable in the current period and therefore not reported in governmental funds:

Accrued interest payable - bonds		(1,790)	
Bonds payable		<u>(1,700,000)</u>	<u>(1,701,790)</u>

Net assets of governmental activities \$ 481,961

See the accompanying notes to the financial statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Funds		
	General	Debt Service	Total
Revenues:			
Real property taxes	\$ 22,500	\$ 145,100	\$ 167,600
Collection fee - County Treasurer	(446)	(2,874)	(3,320)
Other taxes	65	417	482
Interest income on taxes	130	842	972
Interest income - investment	1	78	79
Over accrual - tax revenue	(744)	(4,805)	(5,549)
Miscellaneous	32	208	240
	<u>21,538</u>	<u>138,966</u>	<u>160,504</u>
Expenditures:			
Audit and budget	3,950	-	3,950
Legal fees	5,505	-	5,505
Publication costs	64	-	64
Engineering fees	1,742	-	1,742
Repairs and maintenance	6,267	-	6,267
Interest on bonds	-	85,338	85,338
Street lighting	5,075	-	5,075
Paying agent fees	1,558	-	1,558
Bond agent fees	-	332	332
	<u>24,161</u>	<u>85,670</u>	<u>109,831</u>
Excess (deficiency) of revenues over (under) expenditures	(2,623)	53,296	50,673
Other financing sources (uses):			
New bond issue	-	1,700,000	1,700,000
Retirement of bond principal	-	(1,735,000)	(1,735,000)
Bond issue costs	-	(62,050)	(62,050)
	<u>-</u>	<u>(97,050)</u>	<u>(97,050)</u>
Deficiency of revenues under expenditures and other financing sources (uses)	(2,623)	(43,754)	(46,377)
Fund balance, beginning of year	<u>30,552</u>	<u>293,408</u>	<u>323,960</u>
Fund balance, end of year	<u>\$ 27,929</u>	<u>\$ 249,654</u>	<u>\$ 277,583</u>

See the accompanying notes to the financial statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances - Total government funds \$ (46,377)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense (89,078)

Governmental funds report bond issue costs as expenditures while government activities report amortization to allocate the cost over the life of the bond issues.

New bond issue costs	62,050	
Increase in interest payable	(1,790)	
Amortization expense	<u>(112,218)</u>	
		(51,958)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

New bond issue (1,700,000)

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

Retirement of bond principal 1,735,000

Change in net assets of governmental activities \$ (152,413)

See the accompanying notes to the financial statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Sanitary and Improvement District No. 163 of Sarpy County, Nebraska (the District) is presented to assist in understanding the District's basic financial statements. The financial statements and notes are representations of the District's management who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

District Activities

The District is organized as a political subdivision and governed under the State of Nebraska. The District has a tax base made up of a commercial development, conducting its activity in Sarpy County, Nebraska.

The Financial Reporting Entity

The Board of Trustees of the District has financial accountability and control over all the activities related to Sanitary and Improvement District No. 163. The Board of Trustees is elected by the property owners of the District and has decision-making authority, the authority to levy taxes, the power to designate management, and the ability to significantly influence operations. The Board also has primary financial accountability for fiscal matters of the District. The District is engaged in a single governmental program and is not included in any other governmental "reporting entity" as defined by the GASB pronouncements. In addition, there are no component units as defined by the Governmental Accounting Standards Board Statement 14, which are included in the District's reporting entity.

Basis of Presentation

The basic financial statements of the District include the government-wide and the fund financial statements.

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities, which report financial information for all nonfiduciary activities of the District. Individual funds are not displayed, and internal activity between or within funds is eliminated.

The government-wide statement of net assets recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by law through constitutional provisions or enabling legislature. Internally imposed designations resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The government-wide statement of activities reflects the expenses of the District's governmental activities, offset by general revenues to determine the change in net assets for the year.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

Fund Financial Statements:

The fund financial statements provide additional and detailed information about the District. The emphasis of the fund financial statements is on the determination of financial position and changes in financial position rather than upon net income. The following is a description of the District's two governmental funds:

General Fund – This fund is the operating fund of the District. It is used to account for all financing resources, except those required to be accounted for in other funds.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

In the government-wide financial statements, the activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. On an accrual basis, revenues are recognized when earned. Expenditures are recorded when liabilities are incurred, regardless of the timing of related cash flows.

In the fund financial statements, both funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when they become both measurable and available. Available means collectable within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the period the liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due.

Property tax revenues are recognized when susceptible to accrual. Revenues on special assessments and miscellaneous revenues are recognized as the amounts are collected. Investment earnings are recorded as earned since they are measurable and available.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - Continued

Budgets and Budgetary Accounting

The District is required by Nebraska law to adopt an annual operating budget for all the funds over which the District controls. The budget is adopted using the cash basis of accounting, which differs significantly from accounting principles generally accepted in the United States of America. Under the cash basis of accounting, revenues and expenditures are recorded when cash is received or paid. Payment is deemed to have been made when warrants are issued. Budgetary comparisons presented for both the General Fund and Debt Service Fund in this report are on non-GAAP budgetary basis.

The District adheres to the following procedures in preparing and adopting the budget:

- a. On or before early September, the Board of Trustees proposes an operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to September 20, the Board of Trustees formally approves the budget document following a public hearing, with notice given five days in advance.
- c. As of September 20, the budget document must be on file with the County Board and the Auditor of Public Accounts.
- d. Appropriations for the General Fund and the Debt Service Fund lapse at the end of the fiscal year.
- e. Expenditures cannot exceed appropriations at the fund level. When expenditures are required for functions that have not been budgeted, authorization to amend the budget and to incur the expenditures is permitted following a public hearing. Expenditures did not exceed appropriations for the fiscal year ended June 30, 2012.
- f. A majority vote by the Board of Trustees may authorize transfer of budgeted amounts from the General Fund to the Debt Service Fund.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - Continued

Taxes Receivable

Receivables for property taxes are due from property owners within the boundaries of the District located in Sarpy County, Nebraska.

Capital Assets and Depreciation

Capital assets of the District, which primarily include infrastructure assets, are recorded at historical cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The estimated useful lives for significant capital assets are as follows:

Paving and sewer systems	25 – 40 years
Underground power and water systems	25 – 30 years
Improvements	25 – 30 years

Amortization

Bond issue costs are amortized over the terms of the bonds, using the interest method of amortization.

Net Assets/Fund Equity

The government-wide fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and outstanding balance of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This category represents net assets of the District not restricted for any project or other purpose.

Fund equity – In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantor or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

1. Summary of Significant Accounting Policies - Continued

Net Assets/Fund Equity - Continued

- Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the District through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same action it employed to commit those amounts.
- Assigned – Amounts the District intends to use for specific purposes.
- Unassigned – All amounts not included in other classifications.

2. Budget Basis of Accounting

Nebraska budgetary procedures require the preparation of budgets on a cash basis, rather than on the modified accrual basis of accounting used in the preparation of the accompanying financial statements. Accordingly, required budget comparisons for both the General Fund and the Debt Service Fund are presented on a non-GAAP budgetary basis in the accompanying financial statements of the District. The adjustments necessary to reconcile the differences between the two methods of accounting are summarized as follows:

	Fund		
	General	Debt Service	Total
Excess (deficiency) of receipts over (under) disbursements on a budgetary basis	\$ (2,625)	\$ 60,397	\$ 57,772
Change in property tax revenue from recognition on a cash basis	(1,094)	(7,113)	(8,207)
Change in interest and miscellaneous income from recognition on a cash basis	-	11	11
Change in total expenditures from recognition on a cash basis	1,096	1	1,097
Excess (deficiency) of revenues over (under) expenditures on a modified accrual (GAAP) basis	\$ (2,623)	\$ 53,296	\$ 50,673

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

3. Deposits and Investments

Deposits

The District's deposits are insured or collateralized with securities held by the District of its agent in the District's name. All deposits are maintained by the Sarpy County Treasurer and are considered to be held by the District. As of June 30, 2012, The District's total deposits were \$32,829.

Investments

The District is allowed to invest funds as permitted by Nebraska Statute 77-2341 and generally include U.S. government obligations, certificates of deposit, and time deposits. During the year ended June 30, 2012, the District invested in treasury bills.

All investment activities are conducted through the District's fiscal agent, the Sarpy County Treasurer. Investments are bought and held in safekeeping by the Sarpy County Treasurer in the District's name. The District's investments are insured or collateralized with securities held by the District of its agent in the District's name.

As of June 30, 2012, the District had the following investments:

	Cost	Cost and Accrued Interest
Cash on deposit, County Treasurer	\$ 32,829	\$ 32,829
U.S. Treasury Bills held by County Treasurer	174,938	174,967
	\$ 207,767	\$ 207,796

Deposit risks include:

- Custodial Credit Risk – for deposits, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the District will not be able to recover the value of its deposits or collateral securities in the possession of a third party.
- Credit Risk – for deposits, credit risk is the risk that a bank or other counterparty defaults on its own principal and/or interest payments owed to the District.
- Interest Rate Risk – for deposits, interest rate risk is the risk that the value of deposits will decrease as a result of a rise in interest rates.

4. Warrants Payable

Warrants are issued for payment of liabilities. These warrants bear an interest rate of 7% and 8% per annum from the date registered with the County Treasurer. General Fund warrants are due and payable no later than three years from the date of issuance. Debt Service Fund warrants are due and payable no later than five years from the date of issuance.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

4. Warrants Payable – Continued

A detail of the warrants outstanding at June 30, 2012 is as follows:

	<u>June 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>June 30, 2012</u>
General fund	\$ -	\$ 25,257	\$ (25,257)	\$ -
Debt service fund	-	11,382	(11,050)	332
	<u>\$ -</u>	<u>\$ 36,639</u>	<u>\$ (36,307)</u>	<u>\$ 332</u>

There was no interest expense on warrants for the year ended June 30, 2012 for the general fund and debt service fund. None of the warrants issued and outstanding have been registered.

5. Capital Assets

All capital assets are carried at their original cost. A summary is presented below:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Costs:</u>				
Paving and storm sewer I	\$ 1,939,550	\$ -	\$ -	\$ 1,939,550
Sanitary Sewer	436,802	-	-	436,802
Other costs	42,398	-	-	42,398
Underground power	309,601	-	-	309,601
Water	198,452	-	-	198,452
	<u>2,926,803</u>	<u>-</u>	<u>-</u>	<u>2,926,803</u>
	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Accumulated depreciation:</u>				
Paving and storm sewer I	\$ 612,178	\$ 57,746	\$ -	\$ 669,924
Sanitary Sewer	151,385	10,920	-	162,305
Other costs	23,292	1,413	-	24,705
Underground power	142,049	12,384	-	154,433
Water	59,100	6,615	-	65,715
	<u>988,004</u>	<u>89,078</u>	<u>-</u>	<u>1,077,082</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,938,799</u>	<u>\$ 89,078</u>	<u>\$ -</u>	<u>\$ 1,849,721</u>

The District recorded depreciation expense of \$89,078 for the year ended June 30, 2012.

6. Bonds Payable

Bonds payable totaling \$2,740,000 issued October 1, 2003, with a balance of \$0 at June 30, 2012, is due serially beginning October 1, 2012 through October 1, 2022. The maturities range from \$110,000 in October 2011 to \$120,000 in October 2022. Interest is payable semi-annually on this issue at 4.90% to 5.50%. This issue was paid in full during the current period with funds from new bond issue.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

6. Bonds Payable - Continued

Bonds payable totaling \$1,700,000 issued December 15, 2011, with a balance of \$1,700,000 at June 30, 2012, is due serially beginning December 15, 2012 through December 15, 2022. The maturities range from \$125,000 in December 2012 to \$190,000 in December 2022. Interest is payable semi-annually on this issue at 1.10% to 3.55%.

A summary of changes in outstanding bonds payable is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>New</u> <u>Issues</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
October 1, 2003 issue	\$ 1,735,000	\$ -	\$ (1,735,000)	\$ -
December 15, 2011 issue	<u>-</u>	<u>1,700,000</u>	<u>-</u>	<u>1,700,000</u>
	<u>\$ 1,735,000</u>	<u>\$ 1,700,000</u>	<u>\$ (1,735,000)</u>	<u>\$ 1,700,000</u>

The following is a disclosure of total debt service to maturity:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 125,000	\$ 42,263	\$ 167,263
2014	130,000	40,762	170,762
2015	135,000	38,938	173,938
2016	140,000	36,665	176,665
2017	150,000	33,755	183,755
2018-2022	830,000	102,585	932,585
2023	190,000	3,372	193,372
	<u>\$ 1,700,000</u>	<u>\$ 298,340</u>	<u>\$ 1,998,340</u>

7. Bond Issue Costs

Costs incurred by the District relating to issuing or refunding bonds payable are capitalized and amortized over the life of the bond issue. Amortization expense is computed using the interest method, which is computed by multiplying the bond issue costs by the ratio in which the numerator is the face value of the bond issue outstanding during the year, and the denominator is the summation of the face value of the bond issue outstanding for all years of the bond issue. Amortization expense for the year ended June 30, 2012 amounted to \$112,218.

8. Tax Levy

Property taxes are levied in August and become due on December 31. The first half payment is due March 31 and becomes delinquent April 1 of the following year, and the second half payment is due July 31 and becomes delinquent August 1 of the following year. The County Treasurer bills and collects all property taxes for the District. If the taxes remain delinquent after February of the following year, the County places a lien on the property.

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2012

8. Tax Levy - Continued

Property tax revenues are recognized when they become available, which includes those property tax receivables expected to be collected within sixty days after period-end. The portion of the taxes not expected to be collected within sixty days after period-end is recorded as deferred revenue. Delinquent taxes are considered fully collectable and, therefore, no allowance for uncollectible taxes is provided.

The District has levied real and personal property taxes as follows:

		<u>District Tax Levy per \$100</u>		
<u>Fiscal Year</u>	<u>District Valuation of Property</u>	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<u>2011-2012</u>	<u>\$ 40,854,727</u>	<u>0.05507</u>	<u>0.35516</u>	<u>0.41023</u>

9. Insurance

The District is exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage or settlement amounts exceeding insurance coverage for the current year or in the past three years.

10. Other

Management has evaluated subsequent events through September 14, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
STATEMENT OF COMPARISON:  
BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

GENERAL FUND

	Original/ Final Budget	Actual	Variance With Budget Favorable (Unfavorable)
Receipts:			
Operating:			
Taxes collected	\$ 22,030	\$ 22,404	\$ 374
Other taxes	100	65	(35)
Other:			
Miscellaneous	150	163	13
Total receipts	<u>22,280</u>	<u>22,632</u>	<u>352</u>
Disbursements:			
Operating:			
Audit and budget	3,750	3,950	(200)
Paying agent fee	700	1,850	(1,150)
Publishing costs	70	63	7
Street lighting	5,500	5,029	471
Maintenance and repairs	10,520	6,676	3,844
Engineering fees	4,000	2,184	1,816
Legal fees	5,500	5,505	(5)
Total disbursements	<u>30,040</u>	<u>25,257</u>	<u>4,783</u>
Deficiency of receipts under disbursements from operations	(7,760)	(2,625)	5,135
Other sources (uses):			
Interfund transfer	(5,000)	-	5,000
Warrants issued	-	25,257	25,257
Warrants retired	-	(25,257)	(25,257)
Deficiency of receipts under disbursements	<u>\$ (12,760)</u>	<u>\$ (2,625)</u>	<u>\$ 10,135</u>

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
STATEMENT OF COMPARISON:  
BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

DEBT SERVICE FUND

	Original/ Final Budget	Actual	Variance With Budget Favorable (Unfavorable)
Receipts:			
Operating:			
Taxes collected	\$ 142,190	\$ 144,534	\$ 2,344
Other taxes	500	417	(83)
Other:			
Miscellaneous	1,500	1,117	(383)
Total receipts	<u>144,190</u>	<u>146,068</u>	<u>1,878</u>
Disbursements:			
Operating:			
Bond agent fees	-	332	(332)
Interest on bonds	89,555	85,339	4,216
Total disbursements	<u>89,555</u>	<u>85,671</u>	<u>3,884</u>
Excess of receipts over disbursements from operations	54,635	60,397	5,762
Other sources (uses):			
Interfund transfer	5,000	-	(5,000)
New bond issue	-	1,700,000	1,700,000
Bond issue costs	-	(62,050)	(62,050)
Bonds retired	(100,000)	(1,735,000)	(1,635,000)
Warrants issued	-	11,382	11,382
Warrants retired	-	(11,050)	(11,050)
Deficiency of receipts under disbursements	<u>\$ (40,365)</u>	<u>\$ (36,321)</u>	<u>\$ 4,044</u>

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -  
BUDGETARY COMPARISON SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2012

1. Budgetary Accounting

The District prepares its budget for the Governmental Funds on the cash basis of accounting. The basis is consistent with the basis of accounting used in presenting the basic financial statements. Under this method of accounting, all unexpended appropriations lapse at the end of the budget year.

The term "Budgetary Fund Balance" used in these supplementary schedules is synonymous with the terms "Fund Balance - Cash Basis" used in the basic financial statements.

OTHER SUPPLEMENTARY SCHEDULES

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
SCHEDULE OF INVESTMENTS  
JUNE 30, 2012  
SUPPLEMENTARY SCHEDULE

<u>Description</u>	<u>Maturity Dates</u>	<u>Yield</u>	<u>Par</u>	<u>Cost</u>	<u>Market Value</u>	<u>Accrued Interest</u>
<u>General</u>						
None						-
<u>Debt Service</u>						
U.S. T-Bills	07/12/12	0.04 %	\$ 60,000	\$ 59,988	\$ 59,999	\$ 11
U.S. T-Bills	09/06/12	0.10	25,000	24,988	24,995	7
U.S. T-Bills	10/11/12	0.08	45,000	44,983	44,990	7
U.S. T-Bills	11/08/12	0.11	45,000	44,979	44,983	4
			<u>\$ 175,000</u>	<u>\$ 174,938</u>	<u>\$ 174,967</u>	<u>\$ 29</u>

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
INFORMATION REQUIRED BY SECTION 31-740  
REVISED STATUTES OF NEBRASKA  
JUNE 30, 2012  
SUPPLEMENTARY SCHEDULE

Gross income from all sources	\$	160,504
Amount spent for sewage disposal		NONE
Amount expended on water mains		NONE
Gross amount of sewage processed		NONE
Cost per thousand gallons of processing sewage		NONE
Amount expended for:		
Maintenance and repair	\$	6,267
New equipment		-
New construction work		-
Property purchased		-
Start-up costs		-
Number of employees		-
Salaries and fees paid employees		-
Total amount of taxes levied upon property within the district	\$	167,600

SANITARY AND IMPROVEMENT DISTRICT NO. 163  
OF SARPY COUNTY, NEBRASKA  
TRUSTEES AND RELATED BONDS  
JUNE 30, 2012  
SUPPLEMENTARY SCHEDULE

<u>Board of Trustees</u>			
<u>Name</u>	<u>Office</u>	<u>Insurer</u>	<u>Amount</u>
Stan Baatz	Chairman	Old Republic Surety Co.	\$ 5,000
Dave Miller	Clerk	Old Republic Surety Co.	20,000
Herbert Lavigne	Trustee		-
Barbara Kroeger	Trustee		-
Troy Blenderman	Trustee		-

MASSMAN NELSON REINIG PC

Certified Public Accountants

13310 I Street | Omaha, Nebraska 68137

402 330 7099 Fax 402 330 0809

Michael L Massman CPA  
George E Nelson CPA  
James A Reinig CPA

Keli D Palfini CPA  
Jason T McGill CPA

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

Board of Trustees  
Sanitary and Improvement District No. 163  
of Sarpy County, Nebraska

We have audited the accompanying financial statements of the governmental activities of Sanitary and Improvement District No. 163 of Sarpy County, Nebraska (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

1. Comment: In conjunction with the audit of the financial statements, it was necessary to propose material adjustments for the financial statement to be in conformity with accounting principles generally accepted in the United States of America, specifically the conversion to the accrual method.

Recommendation: We recommend that the Board read, review, discuss and approve the adjusting journal entries to make the accrual financial statements be in conformity with accounting principles generally accepted in the United States of America.

Board response: The Board will review the proposed adjustments at one of the Board meetings.

2. Comment: The Auditing Standards Board (ASB) recently issued guidance to auditors related to an entity's internal controls over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including footnotes. Statement of Auditing Standard No. 115 emphasizes that the auditor cannot be part of the system of internal control over financial reporting. In our judgment, the Board's trustee charged with governance, in the course of his assigned duties, lacks the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles (GAAP) and to correct any misstatements if present.

Recommendation: In our judgment, those charged with governance need to understand the importance of this communication. However, due to the lack of resources available to the Board to correct this material weakness in financial reporting, we recommend the Board mitigate this weakness by having a heightened awareness of all transactions being reported.

Board response: The Board of Trustees realizes the importance of the financial statements and heightened its awareness of all transactions being reported.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, the State of Nebraska Auditor of Public Accounts, and the property owners of the District, and is not intended to be and should not be used by anyone other than these specified parties.

Massman Nelson Reirig PC

Certified Public Accountants

Omaha, Nebraska  
September 14, 2012

MASSMAN NELSON REINIG PC

Certified Public Accountants

13310 I Street | Omaha, Nebraska 68137

402 330 7099 Fax 402 330 0809

Michael L Massman CPA  
George E Nelson CPA  
James A Reinig CPA

Keli D Palfini CPA  
Jason T McGill CPA

September 14, 2012

To the Board of Trustees  
Sanitary and Improvement District No. 163  
of Sarpy County, Nebraska

Dear Chairman:

Internal Control Matters

In planning and performing our audit of the financial statements of the governmental activities of Sanitary and Improvement District No. 163 of Sarpy County, Nebraska as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Sanitary and Improvement District No. 163 of Sarpy County, Nebraska's internal control over financial reporting (internal control) 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 Board of Trustee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board of Trustee's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

1. Comment: In conjunction with the audit of the financial statements, it was necessary to propose material adjustments for the financial statement to be in conformity with accounting principles generally accepted in the United States of America, specifically the conversion to the accrual method.

Recommendation: We recommend that the Board read, review, discuss and approve the adjusting journal entries to make the accrual financial statements be in conformity with accounting principles generally accepted in the United States of America.

Board response: The Board will review the proposed adjustments at one of the Board meetings.

2. Comment: The Auditing Standards Board (ASB) recently issued guidance to auditors related to an entity's internal controls over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including footnotes. Statement of Auditing Standard No. 115 emphasizes that the auditor cannot be part of the system of internal control over financial reporting. In our judgment, the Board's trustee charged with governance, in the course of his assigned duties, lacks the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles (GAAP) and to correct any misstatements if present.

Recommendation: In our judgment, those charge with governance need to understand the importance of this communication. However, due to the lack of resources available to the Board to correct this material weakness in financial reporting, we recommend the Board mitigate this weakness by having a heightened awareness of all transactions being reported.

Board response: The Board of Trustees realizes the importance of the financial statements and heightened its awareness of all transactions being reported.

This communication is intended solely for the use of the Board of Trustees and management of Sanitary and Improvement District No. 163 of Sarpy County and the Nebraska Auditor of Public Accounts and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Massman Nelson Reinig PC  
Certified Public Accountants  
By: George E. Nelson