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SANITARY AND IMPROVEMENT DISTRICT NO. 176 OF SARPY COUNTY, NEBRASKA

FINANCIAL STATEMENTS AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

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December 18, 2013

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sanitary and Improvement District No. 176
of Sarpy County, Nebraska

We have audited the accompanying financial statements of Sanitary and Improvement District No. 176 of Sarpy County, Nebraska (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—cash basis of the governmental activities and each major fund of the District, as of June 30, 2013, and the respective changes in financial position—cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information included on pages 14 - 18, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of the District'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* in considering the District's internal control over financial reporting and compliance.

HSMC Orizon LLC

HSMC ORIZON LLC

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

STATEMENT OF NET POSITION - CASH BASIS

JUNE 30, 2013

ASSETS

	Governmental Activities
ASSETS:	
Cash with County Treasurer	$ 642,516
TOTAL ASSETS	$ 642,516

NET POSITION

Restricted:	
Debt service	$ 497,468
Unrestricted	145,048
TOTAL NET POSITION	$ 642,516

See Notes to Financial Statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Net (Disbursements) Receipts and Changes in Net Assets	Cash Disbursements	Program Cash Receipts Capital Grants and Contributions
Governmental activities:			
General services	$ (78,630)	$ (82,862)	$ 4,232
Principal and interest on indebtedness	(102,146)	(102,146)	
Net program (disbursements) receipts	(180,776)	$ (185,008)	$ 4,232
General receipts:			
Property taxes	333,494		
Other taxes	601		
Issuance of debt, net	100		
Total general receipts	334,195		
Change in net position	153,419		
Net position - beginning of year	489,097		
Net position - end of year	$ 642,516		

See Notes to Financial Statements.

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

STATEMENT OF FUND BALANCES AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Debt Service Fund	Total Government Funds
RECEIPTS:			
Property taxes	$ 95,036	$ 238,458	$ 333,494
State motor vehicle tax allocation	170	431	601
Intergovernmental	4,232		4,232
Total receipts	99,438	238,889	338,327
DISBURSEMENTS:			
Treasurer's fees	1,841	4,637	6,478
Administrative costs	1,160		1,160
Electricity	17,518		17,518
Insurance	4,288		4,288
Mowing	3,916		3,916
Professional fees	16,752		16,752
Publication fees	110		110
Repairs and maintenance	30,864		30,864
Street cleaning	600		600
Street cone/sign rental	309		309
Fiscal fees		867	867
Interest on bonds		102,146	102,146
Total expenditures	77,358	107,650	185,008
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	22,080	131,239	153,319
OTHER FINANCING SOURCES AND USES:			
Warrants issued current year unpaid	100		100
EXCESS (DEFICIENCY) OF RECEIPTS AND SOURCES OVER DISBURSEMENTS AND OTHER FINANCING USES	22,180	131,239	153,419
FUND BALANCE - beginning of year	122,868	366,229	489,097
FUND BALANCE - end of year	$ 145,048	$ 497,468	$ 642,516

See Notes to Financial Statements

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

STATEMENT OF FUND BALANCES AND CHANGES IN FUND BALANCES - CONTINUED
CASH BASIS - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Debt Service Fund	Total Government Funds
FUND BALANCE - CASH BASIS:			
Cash with County Treasurer	$ 145,048	$ 497,468	$ 642,516
TOTAL FUND BALANCE - CASH BASIS - June 30, 2012	$ 145,048	$ 497,468	$ 642,516
FUND BALANCE - CASH BASIS:			
Restricted for:			
Debt service		$ 497,468	$ 497,468
Unassigned	$ 145,048		145,048
TOTAL FUND BALANCE - CASH BASIS - June 30, 2012	$ 145,048	$ 497,468	$ 642,516

See Notes to Financial Statements

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanitary and Improvement District No. 176 of Sarpy County, Nebraska (the "District") is a governmental subdivision authorized under the statutes of the State of Nebraska. It was formed for the purposes of installation and maintenance of streets and utility systems and contracting for street lighting.

Reporting Entity

The District's financial statements are presented as the primary government and include all departments and activities for which the District is financially accountable. The District has determined that there are no potential component units that meet the criteria for inclusion in the financial statements.

Basis of Presentation - Fund Accounting

Government-wide Financial Statements: Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis display information about the reporting government as a whole. They include all funds of the reporting entity. The statements present the District's financial statements as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Alternatively, business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District does not operate any business-type activities.

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. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its cash, investments, fund balance, receipts and disbursements. The District only has governmental funds. The District currently has no fiduciary or proprietary funds. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District, meets specific mathematical criteria set forth by GASB or is identified as a major fund by the District's management. All of the District's funds meet the criteria of a major fund.

The governmental funds of the reporting entity are described below:

General Fund – This fund is the primary operating fund of the District and is always classified as a major fund. 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 infrastructure related capital asset acquisition and development and the accumulation of resources for the payment of general long-term obligations, interest and related costs.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Measurement Focus

In both the government-wide financial statements and the fund financial statements, the governmental activities are presented using a cash basis measurement focus. The District's reported net position/fund balance is considered a measure of "available cash and investments." The operating statements focus on cash received and cash disbursed.

Basis of Accounting

In the government-wide and the fund financial statements, the District prepares its financial statements using the cash basis of accounting. Accordingly, revenues are recognized when cash is received by the District and expenditures are recognized when cash is disbursed. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

This basis of accounting is applied to all transactions, including the disbursements for capital assets, receipt of proceeds from issuance of debt and the retirement of debt.

Investments

Investments are stated at cost, since the increase in value to fair value has not yet been received and therefore is not recognized on the cash basis of accounting. Additional cash and investment disclosures are presented in Note 3.

Long-term Debt

Long-term debt arising from cash transactions for governmental funds is not reported as a liability in the government-wide or fund financial statements. The debt proceeds are, instead, reported as other financing receipts and payment of principal and interest reported as cash disbursements.

Equity Classification

Government-wide Statements:

Equity is classified as net position and displayed in two components:

a. Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

b. Unrestricted net position – All other net position that do not meet the definition of "restricted."

It is the District's policy to use restricted net position, first, prior to the use of unrestricted net position, when a disbursement is made for purposes in which both restricted and unrestricted net position are available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Financial Statements:

Governmental fund equity is reported as fund balance within each respective fund. For governmental funds, the fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

a. Non-spendable – This fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. At June 30, 2013, the District had no non-spendable fund balance.

b. Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Board of Trustees to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the District can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

c. Committed – This fund balance classification includes amounts that can only be used for the specific purposes imposed by formal action (resolution) of the Board of Trustees. Those committed amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board of Trustees, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. At June 30, 2013, the District had no committed fund balance.

d. Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by Board of Trustees. At June 30, 2013, the District had no assigned fund balance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classification, Continued

Fund Financial Statements, Continued

e. Unassigned – This fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Interfund transfers, the flow of assets from one fund to another where repayment is not expected, are reported as cash receipts and disbursements.

2. BUDGET PROCESS AND PROPERTY TAXES

The District is required by state law to adopt an annual operating budget. The Board has adopted separate budgets for the General Fund and Debt Service Fund. Each budget is presented on the cash basis of accounting, which is consistent with the requirements of the state budget act.

State Statutes of the Nebraska Budget Act provide 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 expenditures and/or tax levy limitations.

The District follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

a. The Board of Trustees considers a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted at a public meeting to obtain taxpayer comments.

c. Prior to September 20, the budget is legally enacted by a resolution of the Board of Trustees.

d. An encumbrance system is not used by the District and all appropriations lapse at the end of the fiscal year.

2. BUDGET PROCESS AND PROPERTY TAXES, CONTINUED

e. The budget is adopted on a per-fund basis by the District and all adjustments or supplemental appropriations must be approved by the Board of Trustees. No such adjustments or supplemental appropriations were made to the 2012-2013 budget.

f. Legal budget compliance is on a combined fund basis. While the District exceeded its authorized expenditures in the debt service fund it complied with the overall budget compliance.

The property tax requirement resulting from the budget process is utilized to establish the tax levy in accordance with State statutes, which tax levy attaches as an enforceable lien on property within the District as of December 31. Taxes are due as of that date. One-half of the real estate taxes become delinquent after the following April 1, with the second one-half becoming delinquent after August 1. The District levied taxes for 2012-2013 at the rate of $0.2500 per $100 for the Bond Fund and $0.55000 per $100 for the General Fund on an estimated property valuation of $40,112,496.

3. DEPOSITS AND INVESTMENTS

According to State statutes, Sanitary and Improvement Districts are required to maintain their cash with the County Treasurer. At June 30, 2013, the County Treasurer has represented to the District that the District's cash maintained by the County Treasurer is insured or collateralized in the County Treasurer's name.

The District may by State statute invest in U.S. Government obligations, certificates of deposit and other time deposits. The District's investments of consist primarily of U.S. Treasury Bills with an original maturity of less than one year. As of June 30, 2013, the District did not have any investments.

Deposit and investment risks include:

- Custodial Credit Risk – for deposits and investments, 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 investments or collateral securities in the possession of a third party.
- Credit Risk – for deposits and investments, credit risk is the risk that a bank or other counterparty defaults on its principal and/or interest payments owed to the District.
- Interest Rate Risk – for deposits and investments, interest rate risk is the risk that the value of deposits and investments will decrease as a result of a rise in interest rates.

The District has not adopted specific policies for the above risks, but certain risks are reduced through compliance with the provisions of state statutes.

4. LONG-TERM DEBT

The following general obligation bond issue is outstanding at June 30, 2013:

Issue Date	Interest Rate	Balance	Maturity Date
May 15, 2012	1.20 to 4.25%	$ 3,975,000	August 15, 2032

4. LONG-TERM DEBT, CONTINUED

The following is a summary of bond transactions of the District for the year ended June 30, 2013:

Balance at June 30, 2012	$ 3,975,000
Principal paid	_____
Balance at June 30, 2013	$ 3,975,000

Aggregate principal and interest payments applicable to the District's bond issue subsequent to June 30, 2013 are as follows:

Year Ended June 30	Principal	Interest	Total
2014	$ 100,000	135,595	235,595
2015	110,000	134,253	244,253
2016	120,000	132,580	252,580
2017	130,000	130,447	260,447
2018	135,000	127,861	262,861
2019-23	835,000	579,969	1,414,969
2024-28	1,125,000	414,168	1,539,168
2029-33	1,420,000	157,675	1,577,675
TOTAL	$ 3,975,000	$ 1,812,548	$ 5,787,548

5. CAPITAL ASSETS

Capital asset balances for the period ended June 30, 2013 are summarized below:

	June 30, 2012	Additions (Disposals)	June 30, 2013
Paving, sanitary and storm sewer	$ 2,719,558		$ 2,719,558
Gas, electric and water distribution	2,073,797		2,073,797
	$ 4,793,355		$ 4,793,355

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors or omissions, injuries, or acts of God. These risks are transferred to independent issuance carriers and no self-insurance program is maintained by the District. District management believes adequate coverage exists for potential exposures as of June 30, 2013. There have been no claims that have exceeded this coverage for any of the past three years.

7. INTER-LOCAL AGREEMENT

The District formed an inter-local agreement, dated June 2, 2005, with Sanitary and Improvement District No. 192 to share operating costs of the sanitary sewer lift station. The District's share is 32.359% and District No. 192's share is 67.641%. Total costs paid by the District during the year ended June 30, 2013 were $8,647. The balance due from SID 192 on June 30, 2013 was $4,777.

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

BUDGETARY COMPARISON SCHEDULE - CASH BASIS - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS:			
Property taxes	$ 100,281	$ 95,036	$ (5,245)
State motor vehicle tax allocation	300	170	(130)
Miscellaneous revenue	3,500	4,232	732
Total receipts	104,081	99,438	(4,643)
DISBURSEMENTS:			
Administrative costs	1,000	1,160	(160)
Professional fees	15,000	16,752	(1,752)
Street cleaning	600	600	
Collection fees - County Treasurer	1,966	1,841	125
Insurance	4,500	4,288	212
Mowing	4,000	3,916	84
Repair and maintenance	25,000	30,864	(5,864)
Street overlay	100,000		100,000
Electricity	15,500	17,518	(2,018)
Publication fees	50	110	(60)
Street cone/sign rental	200	309	(109)
Miscellaneous	5,000		5,000
Total disbursements	172,816	77,358	95,458
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(68,735)	22,080	90,815
OTHER FINANCING USES:			
Warrants issued current year unpaid		100	100
Total other financing sources and uses		100	100
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	$ (68,735)	22,180	$ 90,915
BUDGETARY FUND BALANCE - beginning of year		122,868	
BUDGETARY FUND BALANCE - end of year		$ 145,048	

See Note to Supplementary Information.

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

BUDGETARY COMPARISON SCHEDULE - CASH BASIS - DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS:			
Property taxes	$ 220,619	$ 238,458	$ 17,839
State motor vehicle tax allocation	700	431	(269)
Interest on investments	300		(300)
Total receipts	221,619	238,889	17,270
DISBURSEMENTS:			
Fiscal fees	500	867	(367)
Collection fees - County Treasurer	4,326	4,637	(311)
Interest on bonds	102,146	102,146	
Total disbursements	106,972	107,650	(678)
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	$ 114,647	$ 131,239	$ 16,592
BUDGETARY FUND BALANCE - beginning of year		366,229	
BUDGETARY FUND BALANCE - end of year		$ 497,468	

See Note to Supplementary Information.

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

NOTE TO SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2013

1. BUDGETARY ACCOUNTING

The District prepares its budget for the Governmental Funds on the cash basis of accounting. This 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.

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

INFORMATION REQUIRED BY SECTION 31-740,
REISSUE REVISED STATUTES OF NEBRASKA

FOR THE YEAR ENDED JUNE 30, 2013

Gross revenue from all sources in prior year	$ 4,199,466
Amounts spent for access to facilities and use of the services of the library system of one or more neighboring cities or villages	None
Amount spent for sewage disposal	None
Amount expended for water mains	None
Gross amount of sewage processed	None
Cost per thousand gallons of processing sewage	None
Amount expended for maintenance and repairs	$ 30,864
Amount expended for new equipment	None
Amount expended for new construction work	None
Amount expended for property	None
Number of employees	None
Salaries and fees paid employees	None
Total amount of taxes levied upon the property within the District	$ 320,900

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

BOARD OF TRUSTEES AND RELATED BONDS

JUNE 30, 2013

TRUSTEES	BONDS	
Daniel Sedlacek, Chairman	Western Surety	$ 5,000
Larry Brown, Clerk	Western Surety	$ 20,000
Theresa Bima-Reeves, Trustee		
Joseph McCaslin, Trustee		
Ken Tamblyn, Trustee		

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December 18, 2013

INDEPENDENT AUDITOR'S 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. 176
of Sarpy County, Nebraska

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Sanitary and Improvement District No. 176, Sarpy County, Nebraska, (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2013. Our report disclosed that, as described in Note 1 to the financial statements, the District prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting principles in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HSMC Orizon LLC

HSMC ORIZON LLC

SANITARY AND IMPROVEMENT DISTRICT NO. 176
OF SARPY COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENT FINDINGS

2013-1 SIGNIFICANT DEFICIENCY

Financial Statement Preparation

Condition: The District's management does not appear to possess the expertise to prepare its financial statements or detect and correct a potential misstatement in the presentation of the financial statements or notes in compliance with generally accepted accounting principles reporting model.

Criteria: The District's management should possess the expertise to prepare, detect and correct a potential misstatement in the presentation of the financial statements or notes with generally accepted accounting principles reporting model.

Effect: Intentional or unintentional errors could be made and not be detected within a timely period by the District's management in the normal course of performing their assigned functions.

Recommendation: A remedy for this situation would be for the District to engage a person with enough accounting experience to prepare the financial statements.

Response: At this time, the Board of Trustees of the District believes that the benefit of eliminating this significant deficiency does not outweigh the cost of engaging a duly qualified person to perform this service.