

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

YEAR ENDED JUNE 30, 2010

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Sanitary and Improvement District No. 240
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. 240 of Sarpy County, Nebraska (a political subdivision) as of and for the year ended June 30, 2010, 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 opinions.

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. 240 of Sarpy County, Nebraska as of June 30, 2010, 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.

The accompanying financial statements have been prepared assuming that Sanitary and Improvement District No. 240 of Sarpy County, Nebraska will continue as a going concern. As discussed in Note H to the basic financial statements, the District has \$4,828,838 of outstanding debt service fund warrants which mature on July 1, 2011. The due date of these warrants were previously extended by an order of the Sarpy County District Court on June 15, 2009 since the District did not have sufficient funds to retire the warrants and was unable to sell bonds in sufficient amounts to retire them. The development of the District has continued to be slow and, as a result, the tax base is lower than anticipated and is not sufficient to support the District's debt. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note H. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

INDEPENDENT AUDITORS' REPORT – continued

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010, on our consideration of Sanitary and Improvement District No. 240 of Sarpy County'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.

The Budgetary Comparison Information – General Fund and the Budgetary Comparison Information – Debt Service Fund on pages 16 through 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

HANCOCK & DANA PC

Hancock & Dana PC

Omaha, Nebraska
December 21, 2010

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Statement of Net Assets
June 30, 2010**

ASSETS

Cash on deposit - County Treasurer	\$ 355,767
Investments	84,965
Taxes receivable	54,422
Special assessments receivable	1,440,058
Interest receivable on special assessments	500,510
Capital assets, net of accumulated depreciation	3,840,290
Total Assets	\$ <u>6,276,012</u>

LIABILITIES

Accounts payable	21,831
Warrants payable	690
Accrued interest	414,270
Noncurrent liabilities, warrants payable	
Due in more than one year	6,475,795
Total Liabilities	\$ <u>6,912,586</u>

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(2,635,505)
Restricted for debt service	1,959,021
Unrestricted	39,910
Total Net Assets (Deficit)	\$ <u>(636,574)</u>

See accompanying notes to basic financial statements.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Statement of Activities
For the year ended June 30, 2010**

GOVERNMENTAL ACTIVITIES:

EXPENSES - GENERAL GOVERNMENT

Professional and administrative expenses	\$ 34,304
Maintenance and street lighting	32,579
Depreciation	157,848
Interest	450,833
	<u>675,564</u>

GENERAL REVENUES

Property taxes, net of uncollectible taxes	118,681
Interest	117,224
Miscellaneous	416
	<u>236,321</u>

Change in net assets **(439,243)**

Net assets (deficit) - beginning of year	(197,331)
Net assets (deficit) - end of year	\$ <u><u>(636,574)</u></u>

See accompanying notes to basic financial statements.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Balance Sheet
Governmental Funds
June 30, 2010**

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash on deposit - County Treasurer	\$ 36,707	\$ 319,060	\$ 355,767
Investments	-	84,965	84,965
Taxes receivable	25,724	28,698	54,422
Special assessments receivable	-	1,440,058	1,440,058
Total Assets	\$ 62,431	\$ 1,872,781	\$ 1,935,212
LIABILITIES			
Accounts payable	\$ 21,831	\$ -	\$ 21,831
Warrants payable	690	-	690
Special assessments deferred revenue	-	1,440,058	1,440,058
Total Liabilities	22,521	1,440,058	1,462,579
FUND BALANCES			
Fund balance - unreserved	39,910	-	39,910
Fund balance - reserved for debt service	-	432,723	432,723
Total Fund Balances	39,910	432,723	472,633
Total Liabilities and Fund Balances	\$ 62,431	\$ 1,872,781	\$ 1,935,212

See accompanying notes to basic financial statements.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010**

Total Fund Balances - Governmental Funds	\$	472,633
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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 governmental funds.

Capital assets	\$ 4,725,553	
Accumulated depreciation	<u>(885,263)</u>	3,840,290

Deferred revenue on special assessments in the governmental funds has been recorded as revenue in the government-wide statements.		1,440,058
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Interest is accrued as revenue on unpaid special assessments in the government-wide statements whereas interest on special assessments is recorded as revenue in the governmental funds when collected.		500,510
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Long-term liabilities are not due and payable in the current period and, therefore, not reported in the governmental funds:

Warrants payable	(6,475,795)	
Accrued interest	<u>(414,270)</u>	<u>(6,890,065)</u>

Net Assets (Deficit) of Governmental Activities	\$	<u>(636,574)</u>
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**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes assessed	\$ 55,872	\$ 62,855	\$ 118,727
Special assessments	-	38,946	38,946
Interest on special assessments	-	12,881	12,881
Interest on taxes	11	-	11
Interest on investments	-	461	461
State motor vehicle tax allocation	291	126	417
Total Revenues	<u>56,174</u>	<u>115,269</u>	<u>171,443</u>
EXPENDITURES			
Current:			
Collection fees - County Treasurer	1,745	1,674	3,419
Engineering fees	7,394	-	7,394
Insurance	924	-	924
Professional fees	29,961	-	29,961
Repairs and maintenance	10,581	-	10,581
Street lighting	14,605	-	14,605
Uncollectible taxes	46	-	46
Capital outlay - improvements, net of refunds	-	(2,692)	(2,692)
Debt service:			
Warrant interest payments	81	423,592	423,673
Total Expenditures	<u>65,337</u>	<u>422,574</u>	<u>487,911</u>
Excess of revenues under expenditures	<u>(9,163)</u>	<u>(307,305)</u>	<u>(316,468)</u>
OTHER FINANCING SOURCES			
Warrants issued	-	423,592	423,592
Total Other Financing Sources	<u>-</u>	<u>423,592</u>	<u>423,592</u>
Net change in fund balances	(9,163)	116,287	107,124
Fund balances - beginning of year	49,073	316,436	365,509
Fund balances - end of year	\$ <u>39,910</u>	\$ <u>432,723</u>	\$ <u>472,633</u>

See accompanying notes to basic financial statements.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the year ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds **\$ 107,124**

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

Governmental funds report capital outlays, net of refunds, as expenditures. However, in the statement of activities, the cost of those assets is capitalized and is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays, net of refunds, in the current year. (160,540)

Proceeds from issuance of long-term warrants are reported as an other financing source in the governmental funds, but as an increase in noncurrent liabilities in the government-wide financial statements. (423,592)

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses consist of:
Change in accrued interest (27,161)

Collections on special assessments and interest thereon have been reported as revenues in the governmental funds but are reported as decreases in receivables on the statement of net assets. This is the amount of collections on special assessments and the change in accrued interest thereon. 64,926

Change in Net Assets of Governmental Activities **\$ (439,243)**

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sanitary and Improvement District No. 240 of Sarpy County, Nebraska comply with the rules and regulations of the State of Nebraska, and conform in all material respects to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

DEFINITION OF DISTRICT – The District is a governmental subdivision created with the filing of the Petition and Articles of Association with the Secretary of State, State of Nebraska. The District was formed for the purpose of installing sewers, water, and public road systems within the District and contracting for water, fire protection, and lighting for roads. The District is located in Sarpy County and is commonly known as Pebblebrooke.

REPORTING ENTITY – The Board of Trustees has governance responsibilities over all activities related to public improvements within the jurisdiction of the District. The accompanying financial statements present the District's primary government unit and do not include any component units because the District does not exercise financial accountability over any separate units. Financial accountability is based primarily on operational or financial relationships with the District including budget adoption, taxing authority, funding, and appointment of the respective governing board.

The Sarpy County Treasurer is the ex-officio treasurer of the District. All cash transactions and funds are required to be administered and recorded by the County Treasurer.

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 are eliminated. Governmental activities include programs supported primarily by taxes and other intergovernmental revenue. The District has no business type activities that rely, to a significant extent, on fees and charges for support.

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

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The following is a description of the District's two governmental funds:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term 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 on the financial statements. Basis of accounting relates to the timing of the measurements 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. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

In the governmental fund financial statements, the 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 they become both measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred except for debt service expenditures and other long-term liabilities, which are recorded only when due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt are reported as an other financing source in governmental funds.

The Districts reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue criteria are met, the liability for deferred revenue is removed from the governmental funds balance sheet and revenue is recognized.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

INVESTMENTS – Investments are stated at amortized cost, which approximates market. Premiums or discounts on investments are amortized on the straight-line method from date of purchase to date of maturity.

CAPITAL ASSETS – Within the government-wide financial statements, capital assets, including primarily infrastructure, are recorded at historical cost. The District defines capital assets as assets with an individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line method over their estimated useful lives in the government-wide statements.

The estimated useful lives are as follows:

Sanitary and Storm Sewer Systems	25-30 years
Underground Power and Water Systems	25 years
Paving	40 years
Miscellaneous Infrastructure	25 years

RISK MANAGEMENT – 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. The District has purchased a commercial general liability insurance policy and bonds on its chairman and clerk to minimize the adverse effects of certain types of losses. There have been no significant reductions in insurance coverage and no significant claims or settlements for the current year and the three prior years. The District has retained the risk of loss for property damage to its public improvements.

CREDIT RISK – Receivables for property taxes and special assessments are due from property owners within the boundaries of the District located in Sarpy County, Nebraska.

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

SUBSEQUENT EVENTS – The District has evaluated subsequent events through December 21, 2010, the date which the financial statements were available to be issued.

NOTE B – INVESTMENTS

The District is allowed to invest funds as permitted by Nebraska Statutes and allowable investments generally include U.S. government obligations, certificates of deposit and time deposits. During the year ended June 30, 2010, the District invested only in U.S. Treasury Bills. The District does not have a formal investment policy in place.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE B – INVESTMENTS - Continued

All investment activities are conducted through the County Treasurer and investments are held in the County's name.

At June 30, 2010, the District's investments in U.S. Treasury Bills had maturities of less than one year and the original purchase costs and amortized costs are as follows:

	Debt Service Fund
Original Purchase Costs	\$ 84,928
Amortized Costs	\$ 84,965

Investment risks that the District may be subject to consist of:

Interest Rate Risk - Since the District's investments are short-term, this risk is minimized at June 30, 2010.

Custodial Credit Risk - Since investments are held in the County's name, the District is exposed to this risk at June 30, 2010.

NOTE C – SPECIAL ASSESSMENTS

SPECIAL ASSESSMENT LEVY OF MARCH 9, 2005 – Special assessments in the amount of \$1,206,775 were levied against certain properties within the District in connection with the construction of improvements. Special assessments are due in ten annual installments through March, 2015 and bear interest as specified in the levy (7% per annum until delinquent and 9% per annum thereafter until paid.) The balance due on this levy at June 30, 2010 was \$698,521.

SPECIAL ASSESSMENT LEVY OF MAY 17, 2006 – Special assessments in the amount of \$767,404 were levied against certain properties within the District in connection with the construction of improvements. Special assessments are due in ten annual installments through May, 2016 and bear interest as specified in the levy (7.5% per annum until delinquent and 9.5% per annum thereafter until paid.) The balance due on this levy at June 30, 2010 was \$741,537.

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Governmental Activities:				
Depreciable Capital Assets:				
Sanitary and Storm				
Sewer Systems	\$ 2,197,307	\$ -	\$ -	\$ 2,197,307
Underground Power				
and Water Systems	1,185,457	-	-	1,185,457
Paving	467,562	-	-	467,562
Miscellaneous Infrastructure				
(Principally Legal and				
Financing Fees)	607,945	-	-	607,945
	<u>4,458,271</u>	<u>-</u>	<u>-</u>	<u>4,458,271</u>

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE D – CAPITAL ASSETS - Continued

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>
Accumulated Depreciation:				
Sanitary and Storm				
Sewer Systems	346,721	74,328	-	421,049
Underground Power				
and Water Systems	219,152	47,513	-	266,665
Paving	58,233	11,689	-	69,922
Miscellaneous Infrastructure	<u>103,309</u>	<u>24,318</u>	-	<u>127,627</u>
	<u>727,415</u>	<u>157,848</u>	-	<u>885,263</u>
Net Depreciable Capital Assets	<u>3,730,856</u>	<u>(157,848)</u>	-	<u>3,573,008</u>
Non-depreciable Capital Assets:				
Interceptor Sewer Fees	239,141	-	2,692	236,449
Easements	<u>30,833</u>	-	-	<u>30,833</u>
	<u>269,974</u>	-	-	<u>267,282</u>
Capital Assets, net	<u>\$ 4,000,830</u>	<u>\$ (157,848)</u>	<u>\$ 2,692</u>	<u>\$ 3,840,290</u>

NOTE E – WARRANTS PAYABLE

General fund warrants are due 3 years from the date of issuance. Warrants registered with the County bear interest at 7% per annum. Interest accrues on the warrants from the date of registration to the date they are called for payment.

The summary of general fund warrant activity is as follows:

Balance Outstanding, June 30, 2009	\$ -
Warrants Issued	71,619
Warrant Principal Payments	<u>(70,929)</u>
Balance Outstanding, June 30, 2010	<u>\$ 690</u>

The District is not currently registering its general fund warrants but is paying these warrants on a current basis as presented to the County Treasurer. Accordingly, any outstanding general fund warrant balance is presented as a current liability in the governmental funds balance sheet and in the statement of net assets.

NOTE F – NONCURRENT LIABILITIES – WARRANTS PAYABLE

Debt service fund warrants are due 5 years from the date of issuance. On June 15, 2009, the maturity dates of debt service fund warrants totaling \$4,828,838 were extended to July 1, 2011 by an order of the Sarpy County District Court. The warrants covered by this order continue to accrue interest at the rate shown on the face of each individual warrant.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE F – NONCURRENT LIABILITIES – WARRANTS PAYABLE – Continued

Warrants registered with the County bear interest at 7% per annum. Interest accrues on the warrants from the date of registration to the date they are called for payment.

The summary of debt service fund warrant activity is as follows:

Balance Outstanding, June 30, 2009	\$ 6,052,203
Warrants Issued	<u>423,592</u>
Balance Outstanding, June 30, 2010	<u>\$ 6,475,795</u>

Outstanding debt service fund warrants mature as follows:

Fiscal year ending June 30, 2012	\$ 5,196,360
2013	853,668
2014	2,175
2015	<u>423,592</u>
	<u>\$ 6,475,795</u>

All of the debt service fund warrants outstanding at June 30, 2010 had been registered with the County.

NOTE G – PROPERTY TAXES

Property taxes are levied in September and attach as an enforceable lien on the assessed property as of December 31. The first half payment becomes delinquent April 1 of the following year and the second half payment becomes delinquent August 1 of the following year. The Sarpy County Treasurer bills and collects all property taxes for the District.

The District has levied taxes for the year ended June 30, 2010 as follows:

GENERAL FUND (Cents per \$100 Valuation)	DEBT SERVICE FUND	ASSESSED VALUATION	TAXES LEVIED
40.00	45.00	\$ 13,967,893	\$ 118,727

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE H – GOING CONCERN ISSUES

As described in Note F, there are debt service fund warrants of \$4,828,838 which mature on July 1, 2011. The due date of these warrants were previously extended by an order of the Sarpy County District Court on June 15, 2009 since the District did not have sufficient funds to retire the warrants and was unable to sell bonds in sufficient amounts to retire them. The development in the District has continued to be slow and, as a result, the tax base is lower than anticipated and not sufficient to support the District's debt. These factors create an uncertainty about the District's ability to continue as a going concern. The District's management believes a small bond issue of \$750,000 to \$1,000,000 could be feasible to retire some debt service fund warrants, but there would still be a significant amount of these warrants maturing that could not be paid. As a result, another short-term extension of the debt service fund warrants while a bankruptcy filing is being prepared is a realistic possibility. The ability of the District to continue as a going concern is dependent on the success of the aforementioned plans and further development in the District. The financial statements do not include any adjustments relating to the recoverability and classification of reported assets or the amounts and classification of liabilities that might be necessary if the District is unable to continue as a going concern.

**REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MD&A)**

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Required Supplementary Information - Unaudited
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
For the year ended June 30, 2010**

	Budget - Original/ Final	(Budgetary Basis) Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes assessed	\$ 55,872	\$ 87,225	\$ 31,353
Interest on taxes	50	10	(40)
State motor vehicle tax allocation	300	291	(9)
Property tax credit	-	1,733	1,733
Homestead exemption	-	355	355
Total Revenues	56,222	89,614	33,392
EXPENDITURES			
Current:			
Collection fees - County Treasurer	1,096	1,745	(649)
Engineering fees	10,000	8,491	1,509
Insurance	1,000	340	660
Professional fees	25,000	26,049	(1,049)
Repairs and maintenance	20,000	24,817	(4,817)
Street lighting	15,000	11,922	3,078
	72,096	73,364	(1,268)
Debt service:			
Warrant principal payments	71,000	70,929	71
Warrant interest payments	-	81	(81)
	71,000	71,010	(10)
Total Expenditures	143,096	144,374	(1,278)
Excess of revenues under expenditures	(86,874)	(54,760)	32,114
OTHER FINANCING SOURCES			
Warrants issued	71,000	71,619	619
	71,000	71,619	619
Net change in fund balances	(15,874)	16,859	32,733
Fund balances - beginning of year	19,848	19,848	-
Fund balances - end of year	\$ 3,974	\$ 36,707	\$ 32,733

See accompanying notes to schedules of revenues, expenditures and changes in fund balances - budget and actual.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Required Supplementary Information - Unaudited
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Debt Service Fund
For the year ended June 30, 2010**

	Budget - Original/ Final	(Budgetary Basis) Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes assessed	\$ 62,855	\$ 31,872	\$ (30,983)
Special assessments	25,000	38,946	13,946
Interest on special assessments	10,000	12,881	2,881
Interest on investments	5,000	471	(4,529)
Sewer connection fees	-	2,692	2,692
State motor vehicle tax allocation	-	125	125
Property tax credit	-	1,949	1,949
Homestead exemption allocation	-	336	336
Total Revenues	<u>102,855</u>	<u>89,272</u>	<u>(13,583)</u>
EXPENDITURES			
Current:			
Collection fees - County Treasurer	6,232	1,674	4,558
Financing fees	45,000	-	45,000
	<u>51,232</u>	<u>1,674</u>	<u>49,558</u>
Debt service:			
Warrant principal payments	700,000	-	700,000
Warrant interest payments	1,050,000	423,592	626,408
	<u>1,750,000</u>	<u>423,592</u>	<u>1,326,408</u>
Total Expenditures	<u>1,801,232</u>	<u>425,266</u>	<u>1,375,966</u>
Excess of revenues under expenditures	<u>(1,698,377)</u>	<u>(335,994)</u>	<u>1,362,383</u>
OTHER FINANCING SOURCES			
Warrants issued	1,545,000	423,592	(1,121,408)
	<u>1,545,000</u>	<u>423,592</u>	<u>(1,121,408)</u>
Net change in fund balances	(153,377)	87,598	240,975
Fund balances - beginning of year	316,390	316,390	-
Fund balances - end of year	\$ <u>163,013</u>	\$ <u>403,988</u>	\$ <u>240,975</u>

See accompanying notes to schedules of revenues, expenditures and changes in fund balances - budget and actual.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
NOTES TO SCHEDULES OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2010

BUDGETS AND BUDGETARY ACCOUNTING

The District is required to adopt an annual operating budget for all the funds over which the District controls. Budgets are adopted by the District for the general and debt service funds. The budget is adopted using a cash basis of accounting which differs significantly from generally accepted accounting principles (GAAP). 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. Accordingly, adjustments are necessary to convert the revenues and expenditures as reported on the governmental fund statements to the budgetary basis for comparison with budgetary data in the accompanying schedules of revenues, expenditures and changes in fund balances - budget and actual. Fund balance on the budgetary basis consists of cash on deposit with the County Treasurer and the original purchase cost of investments. Encumbrance accounting is not used by the District.

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

- 1) In September of each year the District submits a proposed operating budget for all funds to the real estate owners of the District.
- 2) Notice of place and time of public hearings must be published prior to the public hearings.
- 3) Public hearings are conducted to obtain taxpayer comment.
- 4) After publication and hearing, the budget is legally adopted by majority vote of the Board. The District is required to file a copy of the adopted budget with the County Clerk and the Nebraska Auditor of Public Accounts in accordance with the Nebraska Budget Act.
- 5) The budget is adopted on a per-fund basis and budgetary control is exercised at the fund level.
- 6) Appropriations lapse at year-end, however, the Board of Trustees may authorize supplemental appropriations during the year. No such appropriations were made during the fiscal year ended June 30, 2010.

In fiscal 2010, the District incurred general fund expenditures of approximately \$1,300 in excess of those budgeted for this fund. However, total expenditures for the general and debt service funds did not exceed the total budgeted for these funds.

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
NOTES TO SCHEDULES OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2010

RECONCILIATION OF BUDGET BASIS TO GAAP

A reconciliation for the year ended June 30, 2010, which discloses the nature and amount of adjustments necessary to convert the budgetary basis to a GAAP basis, is presented below:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Net change in fund balances:		
Balance on a budgetary basis	\$ 16,859	\$ 87,598
Adjustments:		
Revenue for receivables	(33,486)	25,997
Expenditures for payable	8,154	2,692
Issuance of warrants, net of retirements	<u>(690)</u>	<u>-</u>
Balance on a GAAP basis	<u>\$ (9,163)</u>	<u>\$ 116,287</u>

OTHER SUPPLEMENTARY INFORMATION

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

SCHEDULE OF DEBT SERVICE FUND INVESTMENTS

JUNE 30, 2010

<u>DESCRIPTION</u>	<u>PAR</u>	<u>COST</u>	<u>AMORTIZED COST</u>
U.S. Treasury Bills due:			
September 9, 2010	\$ 45,000	\$ 44,963	\$ 44,986
October 14, 2010	<u>40,000</u>	<u>39,965</u>	<u>39,979</u>
	<u>\$ 85,000</u>	<u>\$ 84,928</u>	<u>\$ 84,965</u>

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

**INFORMATION REQUIRED BY SECTION 31-740
REISSUED REVISED STATUTES OF NEBRASKA, 2008**

JUNE 30, 2010

Gross income from all sources	\$ 236,321
Amount spent for access to facilities and use of services of library system of neighboring cities and villages	None
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:	
a. Maintenance and repair	\$ 10,581
b. New equipment	None
c. New construction work, net of refunds of \$2,692	\$ (2,692)
d. Property purchased	None
Number of employees	None
Salaries and fees paid employees	None
Total amount of taxes levied upon property within the District	\$ 118,727

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA**

TRUSTEES AND RELATED BONDS

JUNE 30, 2010

TRUSTEES		BONDS	
<u>NAME</u>	<u>OFFICE</u>	<u>INSURER</u>	<u>AMOUNT</u>
Michael F. Rogers	Chairman	Western Surety Company	\$ 5,000
Joseph P. Rogers	Clerk	Western Surety Company	\$ 20,000
John C. Rogers	Trustee	None	
Josephine Garretson	Trustee	None	
Dwayne Lewis	Trustee	None	

HANCOCK & DANA PC

ACCOUNTANTS & CONSULTANTS

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

To the Board of Trustees
Sanitary and Improvement District No. 240
of Sarpy County, Nebraska

We have audited the financial statements of the governmental activities and each major fund of Sanitary and Improvement District No. 240 of Sarpy County, Nebraska, as of and for the year ended June 30, 2010, which collectively comprise Sanitary and Improvement District No. 240 of Sarpy County's basic financial statements and have issued our report thereon dated December 21, 2010. 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 Sanitary and Improvement District No. 240 of Sarpy County'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 Sanitary and Improvement District No. 240 of Sarpy County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sanitary and Improvement District No. 240 of Sarpy County's internal control over financial reporting.

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

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

**INDEPENDENT AUDITORS' 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 - *Continued***

Preparation of Financial Statements

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Sanitary and Improvement District No. 240 of Sarpy County's response to this finding is that the aforementioned circumstance is not unusual in a governmental entity of their size and that the costs of correcting this deficiency would exceed the benefits to be derived therefrom. The District's management has also informed us that they are willing to accept the degree of risk associated with this condition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sanitary and Improvement District No. 240 of Sarpy County'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*.

Sanitary and Improvement District No. 240 of Sarpy County's response to the finding identified in our audit is described above. We did not audit Sanitary and Improvement District No. 240 of Sarpy County's response and, accordingly, we express no opinion on it.

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

HANCOCK & DANA PC

Hancock & Dana PC

Omaha, Nebraska
December 21, 2010