

**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, 2012

**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, 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 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, 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.

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 \$6,050,028 of outstanding debt service fund warrants maturing in the year ending June 30, 2013. The due date of the majority of these warrants was previously extended by an order of the Sarpy County District Court on August 8, 2011 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 those matters are described in Note H. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, 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.

INDEPENDENT AUDITORS' REPORT – continued

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 16 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sanitary and Improvement District No. 240 of Sarpy County, Nebraska's basic financial statements as a whole. The other supplementary information on pages 20 and 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Management has not presented Management's Discussion and Analysis, that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

HANCOCK & DANA PC

Hancock & Dana PC

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Statement of Net Assets
June 30, 2012**

ASSETS

Cash on deposit - County Treasurer	\$ 594,293
Taxes receivable	54,938
Special assessments receivable	1,401,908
Interest receivable on special assessments	720,039
Capital assets, net of accumulated depreciation	3,518,130
Total Assets	\$ <u>6,289,308</u>

LIABILITIES

Accounts payable	13,015
Accrued interest	474,297
Noncurrent liabilities, warrants payable	
Due within one year	6,050,028
Due in more than one year	1,385,403
Total Liabilities	\$ <u>7,922,743</u>

NET ASSETS (DEFICIT)

Invested in capital assets, net of related debt	(3,896,008)
Restricted for debt service	2,265,334
Unrestricted	(2,761)
Total Net Assets (Deficit)	\$ <u>(1,633,435)</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, 2012**

GOVERNMENTAL ACTIVITIES:

EXPENSES - GENERAL GOVERNMENT

Professional and administrative expenses	\$ 43,984
Maintenance and street lighting	54,862
Depreciation	157,848
Interest	516,567
	<u>773,261</u>

GENERAL REVENUES

Property taxes, net of uncollectible taxes	118,557
Interest	119,699
Miscellaneous	338
	<u>238,594</u>

Change in net assets (534,667)

Net assets (deficit) - beginning of year	<u>(1,098,768)</u>
Net assets (deficit) - end of year	<u><u>\$ (1,633,435)</u></u>

**SANITARY AND IMPROVEMENT DISTRICT NO. 240
OF SARPY COUNTY, NEBRASKA
Balance Sheet
Governmental Funds
June 30, 2012**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash on deposit - County Treasurer	\$ 5,655	\$ 588,638	\$ 594,293
Taxes receivable	25,892	29,046	54,938
Special assessments receivable	-	1,401,908	1,401,908
Total Assets	<u>\$ 31,547</u>	<u>\$ 2,019,592</u>	<u>\$ 2,051,139</u>
LIABILITIES			
Accounts payable	\$ 13,015	\$ -	\$ 13,015
Special assessments deferred revenue	-	1,401,908	1,401,908
Total Liabilities	<u>13,015</u>	<u>1,401,908</u>	<u>1,414,923</u>
FUND BALANCES			
Restricted for debt service	-	617,684	617,684
Unassigned	18,532	-	18,532
Total Fund Balances	<u>18,532</u>	<u>617,684</u>	<u>636,216</u>
Total Liabilities and Fund Balances	<u>\$ 31,547</u>	<u>\$ 2,019,592</u>	<u>\$ 2,051,139</u>

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, 2012**

Total Fund Balances - Governmental Funds	\$	636,216
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, not reported in the governmental funds.</p>		
Capital assets	\$ 4,719,089	
Accumulated depreciation	<u>(1,200,959)</u>	3,518,130
<p>Deferred revenue on special assessments in the governmental funds has been recorded as revenue in the government-wide statements.</p>		
		1,401,908
<p>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.</p>		
		720,039
<p>Long-term liabilities are not due and payable in the current period and, therefore, not reported in the governmental funds:</p>		
Warrants payable	(7,435,431)	
Accrued interest	<u>(474,297)</u>	<u>(7,909,728)</u>
Net Assets (Deficit) of Governmental Activities	\$	<u>(1,633,435)</u>

See accompanying notes to basic financial statements.

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, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes assessed	\$ 55,837	\$ 62,816	\$ 118,653
Special assessments	-	28,215	28,215
Interest on special assessments	-	13,425	13,425
Interest on taxes	8	9	17
Interest on investments	-	139	139
State motor vehicle tax allocation	159	179	338
Total Revenues	<u>56,004</u>	<u>104,783</u>	<u>160,787</u>
EXPENDITURES			
Current:			
Collection fees - County Treasurer	1,079	2,047	3,126
Engineering fees	10,346	-	10,346
Insurance	1,017	-	1,017
Professional fees	39,841	-	39,841
Repairs and maintenance	29,002	-	29,002
Street lighting	15,514	-	15,514
Uncollectible taxes	5	91	96
Capital outlay - improvements, net of refunds	-	(4,800)	(4,800)
Debt service:			
Warrant principal payments	66,082	-	66,082
Warrant interest payments	501	41,769	42,270
Total Expenditures	<u>163,387</u>	<u>39,107</u>	<u>202,494</u>
Excess of revenues over (under) expenditures	<u>(107,383)</u>	<u>65,676</u>	<u>(41,707)</u>
OTHER FINANCING SOURCES			
Warrants issued	87,375	-	87,375
Total Other Financing Sources	<u>87,375</u>	<u>-</u>	<u>87,375</u>
Net change in fund balances	(20,008)	65,676	45,668
Fund balances - beginning of year	38,540	552,008	590,548
Fund balances - end of year	<u>\$ 18,532</u>	<u>\$ 617,684</u>	<u>\$ 636,216</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, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ 45,668**

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. (162,648)

Proceeds from issuance of 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. This is the amount of proceeds in the current year. (87,375)

Repayment of principal on noncurrent liabilities is reported as an expenditure in the governmental funds. In the statement of net assets, the repayment reduces long-term liabilities. This is the amount of warrant principal payments in the current year. 66,082

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 (474,297)

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. 77,903

Change in Net Assets of Governmental Activities **\$ (534,667)**

See accompanying notes to basic financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012

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, 2012

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 27, 2012, 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, 2012, 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, 2012

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, 2012, the District held no investments and, accordingly, was not subject to interest rate risk or custodial credit risk as of that date.

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, 2012 was \$677,616.

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, 2012 was \$724,292.

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
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)	<u>607,945</u>	-	-	<u>607,945</u>
	<u>4,458,271</u>	-	-	<u>4,458,271</u>
Accumulated Depreciation:				
Sanitary and Storm				
Sewer Systems	495,377	74,328	-	569,705
Underground Power				
and Water Systems	314,178	47,513	-	361,691
Paving	81,611	11,689	-	93,300
Miscellaneous Infrastructure	<u>151,945</u>	<u>24,318</u>	-	<u>176,263</u>
	<u>1,043,111</u>	<u>157,848</u>	-	<u>1,200,959</u>
Net Depreciable Capital Assets	<u>3,415,160</u>	<u>(157,848)</u>	-	<u>3,257,312</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE D – CAPITAL ASSETS - Continued

	<u>Balance June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
Non-depreciable Capital Assets:				
Interceptor Sewer Fees	234,785	-	4,800	229,985
Easements	<u>30,833</u>	<u>-</u>	<u>-</u>	<u>30,833</u>
	265,618	-	4,800	260,818
Capital Assets, net	<u>\$ 3,680,778</u>	<u>\$ (157,848)</u>	<u>\$ 4,800</u>	<u>\$ 3,518,130</u>

NOTE E – NONCURRENT LIABILITIES – WARRANTS PAYABLE

General fund warrants are due 3 years from the date of issuance. Debt service fund warrants are due 5 years from the date of issuance. On August 8, 2011, the maturity dates of debt service fund warrants totaling \$5,610,010 were extended to June 1, 2013 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.

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 warrant activity is as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Balance Outstanding, June 30, 2011	\$ -	\$ 7,414,138	\$ 7,414,138
Warrants Issued	87,375	-	87,375
Warrant Principal Payments	<u>(66,082)</u>	<u>-</u>	<u>(66,082)</u>
Balance Outstanding, June 30, 2012	<u>\$ 21,293</u>	<u>\$ 7,414,138</u>	<u>\$ 7,435,431</u>

Outstanding warrants mature as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Fiscal year ending June 30, 2013	\$ -	\$ 6,050,028	\$ 6,050,028
2014	-	2,175	2,175
2015	21,293	423,592	444,885
2016	<u>-</u>	<u>938,343</u>	<u>938,343</u>
	<u>\$ 21,293</u>	<u>\$ 7,414,138</u>	<u>\$ 7,435,431</u>

Substantially all warrants outstanding at June 30, 2012 had been registered with the County.

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

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE F – 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, 2012 as follows:

GENERAL FUND (Cents per \$100 Valuation)	DEBT SERVICE FUND	ASSESSED VALUATION	TAXES LEVIED
40.00	45.00	\$ 13,959,105	\$ 118,653

NOTE G – FUND BALANCES – GOVERNMENTAL FUNDS

Fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees. The Board of Trustees is the highest level of decision making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Trustees.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Only the Board of Trustees may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

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

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE H – GOING CONCERN ISSUES

As described in Note E, there are debt service fund warrants of \$6,050,028 maturing in the year ending June 30, 2013. The due date of the majority of these warrants was previously extended by an order of the Sarpy County District Court on August 8, 2011 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. Management believes increased development could occur, and if this development does occur, the District may apply for an extension of the warrants coming due in hopes that increased valuation can make the District more financially viable. However, if development does not occur, a bankruptcy filing 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, 2012**

	<u>Budget - Original/ Final</u>	<u>(Budgetary Basis) Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Taxes assessed	\$ 55,837	\$ 53,952	\$ (1,885)
Interest on taxes	10	8	(2)
State motor vehicle tax allocation	150	159	9
Property tax credit	-	1,552	1,552
Homestead exemption	-	358	358
Total Revenues	<u>55,997</u>	<u>56,029</u>	<u>32</u>
EXPENDITURES			
Current:			
Collection fees - County Treasurer	1,095	1,079	16
Engineering fees	15,000	7,562	7,438
Insurance	1,000	1,017	(17)
Professional fees	30,000	38,332	(8,332)
Repairs and maintenance	20,000	27,849	(7,849)
Street lighting	18,000	12,614	5,386
	<u>85,095</u>	<u>88,453</u>	<u>(3,358)</u>
Debt service:			
Warrant principal payments	87,989	90,761	(2,772)
Warrant interest payments	-	501	(501)
	<u>87,989</u>	<u>91,262</u>	<u>(3,273)</u>
Total Expenditures	<u>173,084</u>	<u>179,715</u>	<u>(6,631)</u>
Excess of revenues under expenditures	<u>(117,087)</u>	<u>(123,686)</u>	<u>(6,599)</u>
OTHER FINANCING SOURCES			
Warrants issued	84,000	87,375	3,375
	<u>84,000</u>	<u>87,375</u>	<u>3,375</u>
Net change in fund balances	<u>(33,087)</u>	<u>(36,311)</u>	<u>(3,224)</u>
Fund balances - beginning of year	41,966	41,966	-
Fund balances - end of year	<u>\$ 8,879</u>	<u>\$ 5,655</u>	<u>\$ (3,224)</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
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Debt Service Fund
For the year ended June 30, 2012**

	Budget - Original/ Final	(Budgetary Basis) Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes assessed	\$ 62,816	\$ 60,694	\$ (2,122)
Interest on taxes	-	9	9
Special assessments	10,000	28,215	18,215
Interest on special assessments	5,000	13,425	8,425
Interest on investments	300	232	(68)
State motor vehicle tax allocation	150	179	29
Property tax credit	-	1,746	1,746
Homestead exemption allocation	-	403	403
Total Revenues	<u>78,266</u>	<u>104,903</u>	<u>26,637</u>
EXPENDITURES			
Current:			
Collection fees - County Treasurer	4,232	2,047	2,185
	<u>4,232</u>	<u>2,047</u>	<u>2,185</u>
Capital outlay:			
Improvements, net of refunds	-	(4,800)	4,800
Debt service:			
Warrant principal payments	450,000	-	450,000
Warrant interest payments	550,000	-	550,000
	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total Expenditures	<u>1,004,232</u>	<u>(2,753)</u>	<u>1,006,985</u>
Excess of revenues over (under) expenditures	<u>(925,966)</u>	<u>107,656</u>	<u>1,033,622</u>
OTHER FINANCING SOURCES			
Warrants issued	550,000	-	(550,000)
	<u>550,000</u>	<u>-</u>	<u>(550,000)</u>
Net change in fund balances	(375,966)	107,656	483,622
Fund balances - beginning of year	480,982	480,982	-
Fund balances - end of year	<u>\$ 105,016</u>	<u>\$ 588,638</u>	<u>\$ 483,622</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, 2012

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, 2012.

In fiscal 2012, the District incurred general fund expenditures of approximately \$6,600 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, 2012

RECONCILIATION OF BUDGET BASIS TO GAAP

A reconciliation for the year ended June 30, 2012, 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	\$ (36,311)	\$ 107,656
Adjustments:		
Revenue for receivables	(30)	(211)
Expenditures for payables	(8,346)	(41,769)
Issuance of warrants, net of retirements	<u>24,679</u>	<u>-</u>
Balance on a GAAP basis	<u>\$ (20,008)</u>	<u>\$ 65,676</u>

OTHER SUPPLEMENTARY INFORMATION

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

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

JUNE 30, 2012

Gross income from all sources	\$	238,594
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	\$	29,002
b. New equipment		None
c. New construction work, net of refunds of \$4,800	\$	(4,800)
d. Property purchased		None
Number of employees		None
Salaries and fees paid employees		None
Total amount of taxes levied upon property within the District	\$	118,653

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

TRUSTEES AND RELATED BONDS

JUNE 30, 2012

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	
Tim Reich	Trustee	None	
Mitch Sherman	Trustee	None	

HANCOCK & DANA PC

ACCOUNTANTS & CONSULTANTS

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SUITE 100

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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, 2012, which collectively comprise Sanitary and Improvement District No. 240 of Sarpy County's basic financial statements and have issued our report thereon dated December 27, 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

Management of Sanitary and Improvement District No. 240 of Sarpy County, Nebraska is responsible for establishing and maintaining effective 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 27, 2012