

**Sanitary and Improvement District No. 258
of Sarpy County, Nebraska**

**Basic Financial Statements and
Independent Auditors' Report**

June 30, 2013



Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Sanitary and Improvement District No. 258 of Sarpy County, Nebraska, 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 index.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 fraud or error.

Auditors' 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 of 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 auditors' 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 auditors consider 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 of the governmental activities and each major fund of Sanitary and Improvement District No. 258 of Sarpy County, Nebraska, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 15 through 16 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.

Management has omitted management's discussion and analysis that 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 required 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Information Required by Section 31-740, Reissue Revised Statute of Nebraska, 1998 on page 17 and District Trustees and Related Bonds on page 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information on pages 17 and 18 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of Sanitary and Improvement District No. 258 of Sarpy County, Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lutz & Company, P.C.

November 15, 2013

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Governmental Funds Balance Sheet/Statement of Net Position

June 30, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of Net Position</u>
ASSETS					
Cash on Deposit					
County Treasurer	\$ 43,181	\$ 258,687	\$ 301,868	\$ -	\$ 301,868
Receivables					
Property Taxes (Note 2)	28,664	61,428	90,092	-	90,092
Special Assessments (Note 3)	-	952,928	952,928	-	952,928
Accrued Interest Receivable					
Special Assessments (Note 3)	-	526,846	526,846	-	526,846
Capital Assets, Net of					
Accumulated Depreciation (Note 4)	-	-	-	3,069,599	3,069,599
TOTAL ASSETS	\$ 71,845	\$ 1,799,889	\$ 1,871,734	\$ 3,069,599	\$ 4,941,333
LIABILITIES					
Accounts Payable	\$ 27,163	\$ 1,283	\$ 28,446	\$ -	\$ 28,446
Unregistered Warrants Payable (Note 5)	205	-	205	-	205
Class A Bonds Payable (Note 6)					
Due After One Year	-	-	-	5,788,058	5,788,058
Total Liabilities	27,368	1,283	28,651	5,788,058	5,816,709
DEFERRED INFLOWS OF RESOURCES					
Deferred Revenue	-	-	-	90,092	90,092
COMMITMENTS AND CONTINGENCIES (Note 8)					
FUND BALANCE (DEFICIT)/NET POSITION					
Unassigned, Reported in					
General Fund	44,477	-	44,477	(44,477)	-
Restricted, Debt Service Fund	-	1,798,606	1,798,606	(1,798,606)	-
Total Fund Balance (Deficit)	44,477	1,798,606	1,843,083	(1,843,083)	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 71,845	\$ 1,799,889	\$ 1,871,734		
NET POSITION					
Invested in Capital Assets, Net of					
Related Debt				(2,718,459)	(2,718,459)
Unrestricted				15,813	15,813
Restricted for Debt Service				1,737,178	1,737,178
TOTAL NET POSITION				\$ (965,468)	\$ (965,468)

See Notes to Basic Financial Statements.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Year Ended June 30, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Reconciliation (Note 7)</u>	<u>Statement of Activities</u>
REVENUES/RECEIPTS					
Property Taxes (Note 2)	\$ 60,330	\$ 130,712	\$ 191,042	\$ (9,828)	\$ 181,214
Interest on					
Property Taxes (Note 2)	235	510	745	-	745
Investments	9	-	9	-	9
Special Assessments (Note 3)	-	96,901	96,901	-	96,901
Sewer Connection Fees	-	38,400	38,400	-	38,400
State Motor Vehicle Tax Allocation	104	226	330	-	330
Total Revenue/Receipts	60,678	266,749	327,427	(9,828)	317,599
EXPENDITURES/EXPENSES					
Current:					
Collection Fees- County Treasurer	1,119	11,898	13,017	-	13,017
Depreciation (Note 4)	-	-	-	153,837	153,837
Engineering	2,029	-	2,029	-	2,029
Fiscal Agent Fees	-	4,533	4,533	-	4,533
Insurance	340	-	340	-	340
Maintenance	23,131	-	23,131	-	23,131
Professional Fees	36,059	-	36,059	-	36,059
Utilities	47,986	-	47,986	-	47,986
Class A Bonds Payable (Note 6)					
Principal Payments	-	409,593	409,593	(409,593)	-
Total Expenditures/Expenses	110,664	426,024	536,688	(255,756)	280,932
Excess (Deficiency) of Revenues/Receipts Over Expenditures/Expenses	(49,986)	(159,275)	(209,261)	245,928	36,667
OTHER FINANCING SOURCES (USES)					
Warrants Issued (Note 5)	-	750	750	(750)	-
Warrants Retired (Note 5)	-	(750)	(750)	750	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess (Deficiency) of Revenues/Receipts and Transfers in Over (Under) Expenditures/ Expenses and Transfers Out	(49,986)	(159,275)	(209,261)	209,261	-
Change in Net Position				36,667	36,667
Fund Balance Net Position, Beginning of Year	94,463	1,957,881	2,052,344	-	(1,002,135)
Fund Balance Net Position, End of Year	\$ 44,477	\$ 1,798,606	\$ 1,843,083	\$ -	\$ (965,468)

See Notes to Basic Financial Statements.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies

The accounting policies of Sanitary and Improvement District No. 258 of Sarpy County, Nebraska conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the District's significant policies.

Reporting Entity

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska (the District), was formed on December 15, 2004, is a governmental subdivision authorized under the statutes of the State of Nebraska. The District operates under an elected Board of Trustees which governs all activities related to streets, utility systems, and other public improvements within the jurisdiction of the District. The accompanying basic financial statements present the District's primary government unit and no component units because the District does not have any component units.

The District has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures* which changes note disclosure requirements for governmental entities.

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides additional guidance on fund balance classifications and clarifies existing guidance on governmental fund type definitions. GASB No. 54 requires the District to identify amounts that are considered nonspendable and provides for additional classification of spendable amounts as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

On July 1, 2012, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which introduced and defined deferred outflows of resources as a consumption of net assets and deferred inflows of resources as an acquisition of net assets, by the government that are applicable to a future period. On July 1, 2012, the District also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which establishes accounting and financial reporting standards that reclassify or recognize certain items that were previously reported as assets and liabilities as deferred outflows or inflows or current outflows or inflows of resources.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

Basic Financial Statements

The District Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental Activities. These statements are presented on an *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, the accompanying Statement of Net Position presents all of the assets and deferred inflows over liabilities and deferred outflows. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Governmental activities include programs supported primarily by taxes, special assessments and other intergovernmental revenues. The District has no fiduciary activities or business type activities that rely, to a significant extent, on fees and charges for support.

The basic financial statements provide reports on the financial condition and results of operations for the District. The District reports the two major governmental funds' financial condition and results of operations in separate columns.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's Trustees to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Fund Accounting

The District used funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only used governmental funds.

Governmental Funds

Governmental funds are those through which most general governmental functions of the District are financed. These funds are accounted for using the *current financial resources measurement focus*. Under this measurement focus, only current assets and liabilities are included on the balance sheets, and the operating statements present sources and uses of available financial resources during a given period. The following major governmental funds are used by the District:

- 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.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

- Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs anticipated to be settled during the next fiscal year.

Basis of Accounting

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Net Position/Fund Balances

The governmental funds report up to five categories of fund balances as described below:

- Nonspendable Fund Balance

Nonspendable fund balances consist of amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The District had no nonspendable fund balance as of June 30, 2013.

- Restricted Fund Balance

Restricted fund balances consists of amounts that are constrained by creditors, grantors, contributors or laws and regulations of other governments, or limitations that are imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balance

Committed fund balances consist of amounts that are only to be used for specific purposes pursuant to constraints imposed by the highest level of decision making, which is the Board of Trustees. These amounts cannot be used for any other purpose unless the government removes the restrictions through resolution. The District had no committed fund balance as of June 30, 2013.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

- **Assigned Fund Balance**

Assigned fund balances consist of amounts that are constrained by the government intended to be used for a specific purpose but are neither restricted nor committed. The authority for making the assignment is not required to be the government's highest decision making authority and the nature of the actions necessary to remove or modify the assignment is not as prescriptive as it is with regards to committed fund balances. The District had no assigned fund balance as of June 30, 2013.

- **Unassigned Fund Balance**

Unassigned fund balances consist of the residual classification for the general fund.

The net position of the District is classified as follows:

- **Invested in Capital Assets, Net of Related Debt**

This category consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets as well as deferred outflows or inflows of resources that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted**

This category consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, contributors or laws and regulations external to the District. The District's restricted net position presents amounts restricted for the repayment of principal and interest on long-term debt and related costs.

- **Unrestricted**

This category consists of remaining net assets that do not meet the definitions of net position invested in capital assets, net of related debt or restricted net position as described above.

The District first applies restricted resources when an expense/expenditure is incurred for a purpose for which both restricted and unrestricted resources are available.

Budgets and Budgetary Accounting

The District is required to adopt an annual operating budget for all the funds over which the District controls. The budget is adopted using a cash basis of accounting which differs significantly from generally accepted accounting principles. Under the cash basis of accounting, revenues and expenditures are recorded when cash is received or paid, respectively. Payment is deemed to have been made when warrants are issued.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

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) The Board of Trustees may authorize supplemental appropriations during the year. (No such appropriations were made during the fiscal year ended June 30, 2013.)

Investments

The District is allowed to invest funds as permitted by Nebraska Statute 77-2341, R.R.S., 1990, and allowable investments generally include U.S. government obligations, certificates of deposit, and time deposits. There were no investments as of June 30, 2013.

All investment activities are conducted through the County Treasurer. Treasury bills are bought and held in safekeeping by the County Treasurer in the District's name.

Investments are stated at fair value.

Property Taxes

Property tax revenues are recognized when a legal and enforceable claim is assessed against the property. Delinquent taxes are considered fully collectible; therefore, no allowance for uncollectible taxes is provided.

Special Assessments

Revenue on special assessments is recognized when the specials are assessed. Special assessments are considered fully collectible; therefore, no allowance for uncollectible assessments are provided.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

Capital Assets

Capital assets are stated at cost in accordance with construction contracts and other costs applicable thereto. Interest accrued on warrants issued for the construction of improvements is capitalized during the period of construction. Capital assets are classified as construction in progress until construction is complete or special assessments are levied. No depreciation expense is reported for capital assets classified as construction in progress. The costs of improvements disposed and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses from property disposals are recognized in the year of disposal. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Storm and Sanitary Sewers Systems	50
Street Improvements	20
Park Improvements	15

Costs of Utilities

These costs include the cost of systems for which the District does not obtain title such as electrical systems (OPPD), water distribution systems (MUD) and/or gas distribution systems (MUD). These costs are expensed as incurred.

Deferred Revenue

The District reports unearned deferred revenue in the Statement of Net Position. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within thirty-one days after year-end are considered to have been for prior year services.

Credit Risk

The District's credit risk relates to receivables for property taxes and special assessments which are due from property owners within the boundaries of the District and cash on deposit with the Sarpy County Treasurer. The District's investments are also exposed to various risks, such as interest rate, market and credit risk.

Subsequent Events

Subsequent events are events or transactions that occur after the Governmental Funds Balance Sheet/Statement of Net Position date but before the financial statements are available to be issued and may require potential recognition or disclosure in the financial statements. Management has considered such events or transactions through November 15, 2013 noting no items requiring disclosure.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

2. Property Taxes

Property taxes are levied in September and attached 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.

For 2012-2013, the District levied property taxes at the rate of \$.95 (\$.30 for the general fund and \$.65 for the debt service fund) per \$100 based on a property valuation of \$20,109,419.

3. Special Assessments Receivable

Special assessments in the amount cumulative of \$2,262,286 were levied against certain properties within the District in connection with the construction of improvements. The assessments are due in ten annual installments and bear interest at 7.5% per annum until delinquent and 9.5% per annum thereafter until paid.

4. Capital Assets

Capital assets at June 30, 2013, consist of the following:

	Costs at June 30, 2012	Additions	Deletions	Costs at June 30, 2013
Storm and Sanitary Sewer Systems	\$ 1,955,393	\$ -	\$ -	\$ 1,955,393
Street Improvements	1,576,313	-	-	1,576,313
Park Improvements	538,701	-	-	538,701
Easements	48,800	-	-	48,800
	<u>\$ 4,119,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,119,207</u>
Less Accumulated Depreciation				<u>1,049,608</u>
Capital Assets, Net of Accumulated Depreciation				<u>\$ 3,069,599</u>

5. Warrants Payable

Warrants registered with Sarpy County accrue interest from the date of registration to the date they are called for payment.

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.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

The following is a summary of warrant transactions during the year ended June 30, 2013:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Balance, June 30, 2012	\$ -	\$ -
Warrants Issued	86,303	750
Warrants Retired	(86,098)	(750)
Balance, June 30, 2013	<u>\$ 205</u>	<u>\$ -</u>

Aggregate maturities of warrants outstanding are as follows:

Year Ending <u>June 30:</u>	-----General Fund-----		----Debt Service Fund----	
	<u>Amount of Warrants</u>	<u>Interest Rate</u>	<u>Amount of Warrants</u>	<u>Interest Rate</u>
2014	\$ -		\$ -	
2015	-		-	
2016	205	7%	-	
2017	-		-	
2018	-		-	
Thereafter	-		-	
	<u>\$ 205</u>		<u>\$ -</u>	

There were unregistered warrants totaling \$205 in the general fund at June 30, 2013.

6. Class A Bonds Payable

The District's long-term debt consists of Class A bonds which are reflected in the debt service fund.

As part of the District's Plan of Adjustment approved by the United States Bankruptcy Court for the District of Nebraska outlined in Note 8, in September 2011, all outstanding debt service fund warrants were exchanged for non-interest bearing Class A bonds issued to individual warrant holders originally totaling \$6,984,727.

The District makes annual payments on outstanding Class A bonds in an amount determined by the District's disbursement agent, until December 31, 2021, at which time any unpaid principal will be discharged.

The following is a summary of Class A bonds payable transactions of the District for the year ending June 30, 2013:

Class A Bonds Outstanding, June 30, 2012	\$ 6,197,651
Class A Bonds Retired	(409,593)
Class A Bonds Outstanding, June 30, 2013	<u>\$ 5,788,058</u>

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

7. Reconciliation of Net Position and Changes in Net Position

Net Position

Total fund balance per balance sheet \$ 1,843,083

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 3,069,599

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (5,788,058)

Property tax revenue not yet earned at year end is reported as deferred revenue. (90,092)

Net position of governmental activities \$ (965,468)

Changes in Net Position

Net change in fund balance \$ (209,261)

Current year property tax levy not yet earned at year end. (9,828)

Certain expenditures do not require the use of current financial resources and therefore are not reported as expenditures in the funds. (153,837)

Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. 409,593

Change in net position of governmental activities \$ 36,667

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Notes to Basic Financial Statements

June 30, 2013

8. Commitments and Contingencies

The District has entered into various contracts and agreements related to the construction of streets, utility systems and other public improvements as well as general maintenance and other operating expenses related to the District. These contracts and agreements will be completed in the future. All expenditures are initially funded by the issuance of warrants. Warrants mature as follows; General Fund warrants mature within 3 years of issuance and Debt Service Fund warrants mature in 5 years. Maturities of warrants payable are primarily funded by the issuance of bonds payable and cash flow generated from special assessments, sewer connection fees and annual property tax levies. Special assessments and sewer connection fees are levied on a per lot basis. The generation of property taxes is depended upon the growth of the valuation base as lots are developed. In addition, the District's ability to issue bonds is dependent upon an acceptable level of valuation of the District. The District's ability to fund its obligations in the future is contingent upon the increase in valuation, success of future lot sales and the development within the District.

Chapter 9 Bankruptcy

The District has had difficulties paying warrant principal and interest as warrants mature due to the lack of property valuation and special assessment collection. In September 2011, the District commenced proceedings to propose a Plan of Adjustment in the United States Bankruptcy Court under Chapter 9 of the United States Bankruptcy Code. The Plan of Adjustment allowed for a transfer of funds from the debt service fund to the general fund in an amount sufficient to retire all outstanding general fund warrants and accrued interest plus a \$50,000 emergency reserve for the operation of the District. The Plan also outlined the exchange of outstanding debt service fund warrants for non-interest bearing Class A bonds to individual warrant holders. A Class B certificate of indebtedness will also be issued to bondholders contemporaneously with the payment in full of the bonds in an amount representing accrued interest on the bonds at 7%. The Plan of Adjustment was approved and confirmed by an Order of the United States Bankruptcy Court of the District of Nebraska in September 2011. The District's Plan of Adjustment is available at the Sarpy County courthouse.

The District will make annual payments on outstanding bonds and certificates of indebtedness in an amount determined by the District's disbursement agent, until December 31, 2021, at which time the Plan of Adjustment terminates and any unpaid principal and interest will be discharged. The District made a payment totaling \$409,593 for the year ended June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Revenue, Expenditures and Changes in Fund Balance-
Budget and Actual (Budgetary Basis) – General Fund**

**Schedule of Revenue, Expenditures and Changes in Fund Balance-
Budget and Actual (Budgetary Basis) – Debt Service Fund**

SUPPLEMENTAL INFORMATION

**Information Required by Section 31-740,
Reissue Revised Statute of Nebraska, 1998**

District Trustees and Related Bonds

**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***

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund

Schedule 1

Year Ended June 30, 2013

	Actual on GAAP Basis	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance- Favorable (Unfavorable)
REVENUES/RECEIPTS					
Property Taxes	\$ 60,330	\$ (3,104)	\$ 57,226	\$ 58,518	\$ (1,292)
Interest on					
Property Taxes	235	-	235	1,000	(765)
Investments	9	14	23	-	23
State Motor Vehicle Tax Allocation	104	-	104	-	104
Total Revenues/Receipts	60,678	(3,090)	57,588	59,518	(1,930)
EXPENDITURES/DISBURSEMENTS					
Collection Fees- County Treasurer	1,119	-	1,119	-	(1,119)
Engineering	2,029	-	2,029	5,000	2,971
Insurance	340	-	340	500	160
Maintenance	23,131	(1,376)	21,755	25,000	3,245
Professional Fees	36,059	(21,317)	14,742	20,000	5,258
Utilities	47,986	(3,707)	44,279	75,000	30,721
Total Expenditures/Disbursements	110,664	(26,400)	84,264	125,500	41,236
Excess (Deficiency) of Revenues/Receipts over Expenditures/Disbursements	(49,986)	23,310	(26,676)	(65,982)	39,306
OTHER FINANCING SOURCES (USES)					
Warrants Issued	-	86,303	86,303	-	86,303
Warrants Retired	-	(86,098)	(86,098)	-	(86,098)
Total Other Financing Sources (Uses)	-	205	205	-	205
EXCESS (DEFICIENCY) OF REVENUES/ RECEIPTS AND OTHER SOURCES OVER EXPENDITURES/DISBURSEMENTS AND OTHER USES					
	(49,986)	23,515	(26,471)	\$ (65,982)	\$ 39,511
Fund Balance (Deficit), Beginning of Year	94,463	(24,811)	69,652		
Fund Balance (Deficit), End of Year	\$ 44,477	\$ (1,296)	\$ 43,181		

See Independent Auditors' Report.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – Debt Service Fund

Schedule 2

Year Ended June 30, 2013

	Actual on GAAP Basis	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance- Favorable (Unfavorable)
REVENUES/RECEIPTS					
Property Taxes	\$ 130,712	\$ (6,725)	\$ 123,987	\$ 126,790	\$ (2,803)
Interest on					
Property Taxes	510	-	510	-	510
Special Assessments	96,901	63,480	160,381	40,000	120,381
Special Assessments	-	313,292	313,292	100,000	213,292
Sewer Connection Fees	38,400	-	38,400	20,000	18,400
State Motor Vehicle Tax Allocation	226	-	226	-	226
Total Revenues/Receipts	266,749	370,047	636,796	286,790	350,006
EXPENDITURES/DISBURSEMENTS					
Collection Fees- County Treasurer	11,898	-	11,898	3,200	(8,698)
Bond Maintenance	-	750	750	2,000	1,250
Fiscal Agent Fees	4,533	(4,533)	-	-	-
Class A Bonds Payable					
Principal	409,593	2,500	412,093	100,000	(312,093)
Total Expenditures/Disbursements	426,024	(1,283)	424,741	105,200	(319,541)
Excess (Deficiency) of Revenues/Receipts over Expenditures/Disbursements	(159,275)	371,330	212,055	181,590	30,465
OTHER FINANCING SOURCES (USES)					
Warrants Issued	750	-	750	-	750
Warrants Retired	(750)	-	(750)	-	(750)
Total Other Financing Sources (Uses)	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES/ RECEIPTS AND OTHER SOURCES OVER EXPENDITURES/DISBURSEMENTS AND OTHER USES					
	(159,275)	371,330	212,055	\$ 181,590	\$ 30,465
Fund Balance (Deficit), Beginning of Year	1,957,881	(1,911,249)	46,632		
Fund Balance (Deficit), End of Year	\$1,798,606	\$ (1,539,919)	\$ 258,687		

See Independent Auditors' Report.

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

Information Required by Section 31-740
Reissue Revised Statute of Nebraska, 1998

Schedule 3

June 30, 2013

Total Receipts From All Sources	\$	694,384
Amount Spent for Sewage Disposal		None
Amount Expended on Water System		None
Gross Amount of Sewage Processed		None
Cost Per Thousand Gallons of Processing Sewage		None
Amount Expended For		
Maintenance and Repair	\$	23,131
New Equipment		None
New Construction Work		None
Property Purchased		None
Number of Employees		None
Total Amount of Taxes Levied Upon the Property Within the District	\$	191,042

Sanitary and Improvement District No. 258 of Sarpy County, Nebraska

District Trustees and Related Bonds

Schedule 4

June 30, 2013

<u>Trustees</u>		<u>Bonds</u>	
<u>Name</u>	<u>Office</u>	<u>Insurer</u>	<u>Amount</u>
Paul McCune	Chairman	Western Surety Company	\$ 5,000
Michelle Zimmerman	Clerk	Western Surety Company	\$ 20,000
Susan McCune	Trustee		
Stacey Holt	Trustee		
George McFarling	Trustee		

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

Board of Trustees

Sanitary and Improvement District No. 258 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. 258 of Sarpy County, Nebraska, as of and for the year ended June 30, 2013, which collectively comprise Sanitary and Improvement District No. 258 of Sarpy County, Nebraska's basic financial statements and have issued our report thereon dated November 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sanitary and Improvement District No. 258 of Sarpy County, Nebraska'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. 258 of Sarpy County, Nebraska's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sanitary and Improvement District No. 258 of Sarpy County, Nebraska'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. 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 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 summarized below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sanitary and Improvement District No. 258 of Sarpy County, Nebraska'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 certain instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* summarized below.

Findings and Responses

Significant Deficiency Identified:

Criteria

Internal controls should be in place that provide reasonable assurance of the District's ability to report financial information reliably in accordance with accounting principles generally accepted in the United States of America.

Condition

The District's management does not have the ability to prepare its financial statements and related footnotes in conformity with accounting standards generally accepted in the United States of America.

Cause

The District has a limited number of administrative personnel available to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles.

Effect

The District cannot on its own, comply with regulatory requirements to prepare annual financial statements in accordance with generally accepted accounting principles.

Recommendation

We recommend the District have a heightened awareness of the required oversight and monitoring of the transactions being reported.

Response

Management has determined it would not be cost-beneficial to establish a system of internal controls that would allow the District to prepare its own financial statements. Accordingly, the District engaged the audit firm to assist in the preparation of the statements in accordance with generally accepted accounting principles. The Board of Trustees will oversee and monitor the transactions being reported.

Instances of Noncompliance Identified:

Criteria

Internal controls should be in place that monitor the District's activities for consistency with budgeted amounts.

Condition

The District exceeded budgeted expenditures/expenses by approximately \$281,500.

Cause

The District exceeded the budgeted amount of expenditures/expenses mainly due to a greater than anticipated principal payment on the District's Class A bonds payable resulting from better than expected financial results.

Effect

The District did not amend the budget to account for the exceeded expenditures/expenses.

Recommendation

We recommend the Board of Trustees monitor the District's activities for consistency with budgeted amounts.

Board of Trustees
Sanitary and Improvement District No. 258 of Sarpy County, Nebraska
Page 3

Response

The District's activities were not consistent with budgeted amounts due to unanticipated circumstances.
The Board of Trustees will monitor the District's activities in order to effectively budget in the future.

We did not audit and, accordingly, we express no opinion on the District's responses to the findings identified above.

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

Lutz & Company, P.C.

November 15, 2013

Lutz