

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT

SANITARY AND IMPROVEMENT DISTRICT NO. 261  
SARPY COUNTY, NEBRASKA

YEAR ENDED JUNE 30, 2012

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

We have audited the accompanying financial statements of the governmental activities, and each major fund of Sanitary and Improvement District No. 261 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 on contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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. 261 of Sarpy County, Nebraska as of June 30, 2012, and the respective changes in financial position thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2012 on our consideration of Sanitary and Improvement District No. 261 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 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* and important for assessing the results of our audit.

**INDEPENDENT AUDITORS' REPORT - continued**

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual on page 19, be prepared to supplement the basic financial statements. Such information, although not 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 the District's basic financial statements. The other supplementary information on page 20 are presented for purposed of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain addition procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken 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.

*Jones & Love, P.C.*

Omaha, Nebraska  
December 17, 2012

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2012

	<u>Primary Government</u> <u>Governmental Activities</u>
ASSETS:	
Cash on deposit - County Treasurer	\$ 991,328
Taxes receivable (notes G and I)	345,529
Special assessments receivable (notes B and I)	1,542,654
Accrued interest on special assessments	677,661
Bond issue costs, net of amortization	997,136
Capital assets (note D):	
Infrastructure	10,057,573
Accumulated depreciation	<u>(1,980,909)</u>
Total assets	<u>12,630,972</u>
LIABILITIES:	
Accounts payable	63,100
Accrued interest	157,553
Noncurrent liabilities (notes E and F):	
Due within one year	1,019,223
Due in more than one year	<u>10,795,225</u>
Total liabilities	<u>12,035,101</u>
COMMITMENTS AND CONTINGENCIES (notes H and J)	-
NET ASSETS:	
Invested in capital assets, net of related debt	(2,740,648)
Restricted for debt service	3,290,300
Unrestricted	<u>46,219</u>
Total net assets	<u>\$ 595,871</u>

The accompanying notes are an integral part of these statements.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

<u>Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes In Net Assets</u> <u>Governmental Activities</u>
Governmental activities			
General	\$ 234,781	\$ -	\$ (234,781)
Debt service	78,279	-	(78,279)
Depreciation	312,375	-	(312,375)
Interest on long-term debt	<u>631,475</u>	<u>-</u>	<u>(631,475)</u>
Total government	<u>\$1,256,910</u>	<u>\$ -</u>	<u>(1,256,910)</u>

General revenues:

Property taxes	731,755
State motor vehicle tax allocation	2,066
Property tax credit allocation	20,892
Interest on taxes	1,375
Homestead exemption	1,173
Special assessments	200,305
Interest on special assessments	124,589
Interest on investments	76
Connection fees	<u>43,680</u>
Total general revenues	<u>1,125,911</u>
Change in net assets	(130,999)
Net assets at beginning of period	<u>726,870</u>
Net assets at end of period	<u>\$ 595,871</u>

The accompanying notes are an integral part of these statements.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

ASSETS

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash on deposit - County Treasurer	\$ 20,267	\$ 971,061	\$ 991,328
Taxes receivable (notes G and I)	88,302	257,227	345,529
Special assessments receivable (notes B and I)	-	1,542,654	1,542,654
Accrued interest on special assessments	-	677,661	677,661
Total assets	<u>\$108,569</u>	<u>\$3,448,603</u>	<u>\$3,557,172</u>

LIABILITIES AND FUND BALANCES

<b>LIABILITIES:</b>			
Accounts payable	\$ 62,350	\$ 750	\$ 63,100
Accrued interest on registered warrants	-	11,585	11,585
Deferred revenue	-	2,220,315	2,220,315
Total liabilities	62,350	2,232,650	2,295,000
<b>COMMITMENTS AND CONTINGENCIES</b>			
(notes H and J)	-	-	-
<b>Fund balance:</b>			
Reserved for debt service	-	1,215,953	1,215,953
Unassigned	46,219	-	46,219
Total fund balance	46,219	1,215,953	1,262,172
Total liabilities and fund balance	<u>\$108,569</u>	<u>\$3,448,603</u>	<u>\$3,557,172</u>

The accompanying notes are an integral part of these statements.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balance - total governmental funds \$ 1,262,172

Amounts reported for governmental activities in the  
Statement of Net Assets are different because:

- Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 8,076,664
- Bond issue costs are not current financial resources and therefore are not reported in the governmental funds balance sheet. 997,136
- Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet. (145,968)
- Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.
  - Due within one year \$ (1,019,223)
  - Due in more than one year (10,795,225) (11,814,448)
- Deferred income related to special assessments is required under modified accrual in the governmental funds balance sheet but not under full accrual accounting in the government-wide statement of net assets. 2,220,315

Net Assets of Governmental Activities \$ 595,871

The accompanying notes are an integral part of these statements.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

Year Ended June 30, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES:</b>			
Taxes assessed (note G)	\$187,184	\$ 544,571	\$ 731,755
State motor vehicle tax allocation	540	1,526	2,066
Property tax credit allocation	5,339	15,553	20,892
Interest on taxes	229	1,146	1,375
Homestead exemption	303	870	1,173
Special assessments	-	208,769	208,769
Interest on special assessments	-	96,733	96,733
Interest on investments	-	76	76
Connection fees	-	43,680	43,680
	<u>193,595</u>	<u>912,924</u>	<u>1,106,519</u>
<b>EXPENDITURES:</b>			
Interest on registered warrants	610	200,417	201,027
Legal and accounting fees	24,824	-	24,824
Trustee bonds and insurance	6,222	-	6,222
Collection fees - County Treasurer	3,703	16,353	20,056
Electricity	39,915	-	39,915
Maintenance and engineering	156,545	-	156,545
Trustee fees	1,200	-	1,200
Fiscal agent fees	1,663	8,089	9,752
Payroll tax expense	99	-	99
Debt Service:			
Interest charges	-	423,215	423,215
	<u>234,781</u>	<u>648,074</u>	<u>882,855</u>
<b>EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES</b>	(41,186)	264,850	223,664
<b>OTHER FINANCING SOURCES (USES):</b>			
Issuance of long-term debt	-	1,558,326	1,558,326
Payment of long-term debt	-	(1,445,417)	(1,445,417)
Payment of bond issuance costs	-	(156,175)	(156,175)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES</b>	(41,186)	221,584	180,398
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>87,405</u>	<u>994,369</u>	<u>1,081,774</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 46,219</u>	<u>\$ 1,215,953</u>	<u>\$ 1,262,172</u>

The accompanying notes are an integral part of these statements.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Net change in fund balance - total governmental funds \$ 180,398

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

- The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (10,572)
- Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds. (7,842)
- Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (312,375)
- Special assessments and related interest are recorded as modified accrual for governmental funds and full accrual for government-wide statements resulting in this difference. 19,392

Change in Net Assets of Governmental Activities \$ (130,999)

The accompanying notes are an integral part of these statements.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Sanitary and Improvement District No. 261 of Sarpy County, Nebraska is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the trustees of the District, who are responsible for their integrity and objectivity. These accounting policies conform in all material respects to accounting principles generally accepted in the United States of America, as promulgated by the American Institute of Certified Public Accountants' Industry Audit Guide, Audits of State and Local Government Units, and have been consistently applied in the preparation of the financial statements.

History and business activity

The District is a governmental subdivision, created pursuant to Nebraska law, to act as a vehicle for the construction of roads, utilities and similar improvements. The Board of Trustees, consisting of five members, has the power to provide financing for such improvements and has authority to: issue warrants for construction work and services, contract with financial institutions for conversion of warrants to cash, and to levy both special assessments and general taxes against property in the District to pay off warrants and bonds issued by the District.

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reporting entity

The accompanying financial statements present the District's primary governmental 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.

Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation - Continued

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

Fund Financial Statements

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

General Fund

General Fund is the main operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest, and related costs on general long-term debt paid primarily from taxes levied by the District. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus/Basis of Accounting

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

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included in the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means 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. The District considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes and interest income. All other governmental fund revenues are recognized when received.

Investments

Investments are carried at cost, which approximates market, and any premium or discount on investments are amortized on the straight-line method from date of purchase to date of maturity. These deposits were covered with sufficient assets pledged to the Sarpy County by the financial institutions at June 30, 2012.

Infrastructure

Infrastructure is carried at cost plus interest on warrants while construction is in progress. Depreciation is provided using the straight-line method over estimated lives ranging from 20 to 40 years.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Bond Issue Costs

Bond Issue costs are being amortized on the straight-line method over the life of the bond issue.

Budget 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. Payment is deemed to have been made when warrants are issued.

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

- (a) In September of each year the District submits a proposed operating budget for all funds to the real estate owners of the District.
- (b) Notice of place and time of public hearings must be published prior to the public hearings.
- (c) Public hearings are conducted to obtain taxpayer comment.
- (d) 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.
- (e) The budget is adopted on a per-fund basis and budgetary control is exercised at the fund level.
- (f) The Board of Trustees may authorize supplemental appropriations during the year. No such appropriations were made during the year ended June 30, 2012.
- (g) The accompanying combined statements of revenues, expenditures, and changes in fund balances - Budget and Actual - General and Debt Service Fund presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resultant basis, timing, perspective, and entity differences in the excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30, 2012 is presented as follows:

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budget and Budgetary Accounting - Continued

	General Fund	Debt Service Fund
Excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources (budgetary basis)	\$(51,227)	\$181,435
Adjustments:		
To adjust revenues for receivables	2,276	33,550
To adjust expenditures for payables and accruals	7,765	6,599
To adjust for variance in recognition of items for other financing sources (uses)	-	-
Excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources (GAAP basis)	<u>\$(41,186)</u>	<u>\$221,584</u>

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE B - SPECIAL ASSESSMENTS

Special assessments were levied in the amount of \$1,101,667 on September 27, 2006 against certain properties within the District in connection with the construction of improvements. Special assessments are due in ten annual installments and bear interest at 7% per annum until delinquent and 9% per annum thereafter until paid.

Special assessments were levied in the amount of \$2,883,936 on April 4, 2007 against certain properties within the District in connection with the construction of improvements. Special 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.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - SPECIAL ASSESSMENTS- CONTINUED

Special assessments were levied in the amount of \$200,305 on June 12, 2012 against certain properties within the District in connection with the construction of improvements. Special 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.

NOTE C - INVESTMENTS

The District is allowed to invest funds as permitted by Nebraska Statute 77-2341, R.R.S., 2003, and generally include U.S. government obligations, certificate of deposit and time deposits. During the year ended June 30, 2012, the District invested in U.S. treasury bills.

All investments activities are conducted through the District's fiscal agent, the County Treasurer. Treasury bills and Federal National Mortgage Association notes are bought and held in safekeeping through the County Treasurer in the County's name. These securities are classified as Level 1 in the fair value Hierarchy as indicated in ASC 820-10.

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, 2012.

Custodial Credit Risk - Since investments are held in the County's name, the District is exposed to this risk at June 30, 2012.

The District held no investments at June 30, 2012.

NOTE D - CAPITAL ASSETS

At June 30, 2012, capital assets consist of the following:

	<u>July 1,</u> <u>2011</u>	<u>Additions</u>	<u>June 30,</u> <u>2012</u>
Infrastructure:			
Sanitary sewer	\$ 1,614,999	\$ -	\$ 1,614,999
Paving and storm sewer	5,280,493	-	5,280,493
Water system	1,629,724	-	1,629,724
Power system	534,906	-	534,906
Park and improvements	<u>997,451</u>	<u>-</u>	<u>997,451</u>
	10,057,573	-	10,057,573
Accumulated depreciation	<u>(1,668,534)</u>	<u>(312,375)</u>	<u>(1,980,909)</u>
	<u>\$ 8,389,039</u>	<u>\$(312,375)</u>	<u>\$ 8,076,664</u>

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - CAPITAL ASSETS - CONTINUED

Depreciation expense totaled \$312,375 for the year ended June 30, 2012. Park land not being depreciated totals \$462,560.

NOTE E - REGISTERED WARRANTS

At June 30, 2012, the District has registered warrants outstanding for operating expenses and construction costs. The warrants bear interest at 7%. No interest on warrants for construction costs has been capitalized for the year ended June 30, 2012.

Aggregate maturities of registered warrants are as follows:

	General Fund	Long-Term Debt	Total
2013	\$ -	\$ 729,223	\$ 729,223
2014	-	475,961	475,961
2015	-	456,308	456,308
2016	-	234,630	234,630
2017	-	158,326	158,326
	\$ -	\$2,054,448	\$2,054,448

NOTE F - GENERAL OBLIGATION BONDS PAYABLE

Bonds totaling \$3,675,000 were issued August 15, 2007 and are due serially beginning August 15, 2008. Interest is payable semi-annually on February 15 and August 15 at rates ranging from 4.35% to 5.05%.

Bonds totaling \$3,300,000 were issued September 15, 2008 and are due serially beginning September 15, 2009. Interest is payable semi-annually on March 15 and September 15 at rates ranging from 2.75% to 5.40%.

Bonds totaling \$2,200,000 were issued March 15, 2011 and are due serially beginning March 15, 2012. Interest is payable semi-annually on September 15 and March 15 at rates ranging from 2.35% to 5.65%.

Bonds totaling \$1,400,000 were issued April 15, 2012 and are due serially beginning April 15, 2013. Interest is payable semi-annually on October 15 and April 15 at rates ranging from 1.25% to 4.35%.

A summary of changes in bonds payable is as follows:

Balance July 1, 2011	\$8,610,000
Bond issue	1,400,000
Bond payments	(250,000)
Balance, June 30, 2012	\$9,760,000

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - GENERAL OBLIGATION BONDS PAYABLE - CONTINUED

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>August 15, 2007 issue</u>			
2013	\$ 140,000	\$ 150,840	\$ 290,840
2014	145,000	144,391	289,391
2015	150,000	137,680	287,680
2016	155,000	130,703	285,703
2017	165,000	123,301	288,301
2018 - 2022	950,000	488,950	1,438,950
2023 - 2027	1,205,000	225,576	1,430,576
2028	275,000	6,944	281,944
	<u>3,185,000</u>	<u>1,408,385</u>	<u>4,593,385</u>
 <u>September 15, 2008 issue</u>			
2013	110,000	142,740	252,740
2014	115,000	138,631	253,631
2015	120,000	134,105	254,105
2016	125,000	129,173	254,173
2017	125,000	123,954	248,954
2018 - 2022	725,000	525,828	1,250,828
2023 - 2027	925,000	324,601	1,249,601
2028 - 2029	740,000	48,005	788,005
	<u>2,985,000</u>	<u>1,567,037</u>	<u>4,552,037</u>
 <u>March 15, 2011 issue</u>			
2013	15,000	119,590	134,590
2014	15,000	119,238	134,238
2015	15,000	118,885	133,885
2016	20,000	118,532	138,532
2017	15,000	118,063	133,063
2018 - 2022	95,000	579,857	674,857
2023 - 2027	115,000	555,798	670,798
2028 - 2031	1,900,000	323,180	2,223,180
	<u>2,190,000</u>	<u>2,053,143</u>	<u>4,243,143</u>
 <u>April 15, 2012 issue</u>			
2013	25,000	53,470	78,470
2014	25,000	53,158	78,158
2015	30,000	52,795	82,795
2016	25,000	52,300	77,300
2017	30,000	51,837	81,837
2018 - 2022	160,000	248,538	408,538
2023 - 2027	180,000	221,645	401,645
2028 - 2032	925,000	182,265	1,107,265
	<u>1,400,000</u>	<u>916,008</u>	<u>2,316,008</u>
	<u>\$9,760,000</u>	<u>\$5,944,573</u>	<u>\$15,704,573</u>

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - GENERAL OBLIGATION BONDS PAYABLE - CONTINUED

Bonds maturing on or after August 15, 2013, September 15, 2014, March 15, 2017 and April 15, 2018 are subject to redemption in whole or in part, at any time on or after August 15, 2012, September 15, 2013, March 15, 2016 and April 15, 2017 at par and accrued interest, to the date set for redemption, with no redemption premium.

NOTE G - TAX LEVY

The District levied taxes for 2011-2012 at the rate of \$.90 per \$100 on an estimated 100% property valuation of \$83,492,642.

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.

NOTE H - COMMITMENTS

The District has entered into an agreement with Omaha Public Power District (OPPD) under which OPPD is to furnish street lighting to the District. The cost to the District for this service for fiscal 2013 is estimated to be approximately \$40,000.

NOTE I - 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.

NOTE J - 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; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE K - 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.

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - FUND BALANCES - GOVERNMENTAL FUNDS - CONTINUED

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.

NOTE L - SUBSEQUENT EVENTS

Management evaluated transactions and events occurring subsequent to June 30, 2012 and through the date of the report (the date the financial statements were available to be issued) to determine whether any events should be recognized or disclosed in these statements. There were no material transactions or events in the subsequent period requiring disclosure or recognition in the statements.

REQUIRED SUPPLEMENTARY INFORMATION  
(OTHER THAN MD & A)

SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUND

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUND

Year Ended June 30, 2012

	GENERAL FUND (NON GAAP)		
	Original And Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Taxes collected	\$192,033	\$184,908	\$ (7,125)
State motor vehicle tax allocation	500	540	40
Property tax credit allocation	-	5,339	5,339
Interest on taxes	-	229	229
Homestead exemption	-	303	303
Special assessments and interest	-	-	-
Interest on investments	-	-	-
Connection fees	-	-	-
Total revenues	<u>192,533</u>	<u>191,319</u>	<u>(1,214)</u>
<b>EXPENDITURES:</b>			
Interest on registered warrants	-	609	(609)
Interest on bonds	-	-	-
Legal and accounting fees	23,000	21,491	1,509
Trustee fees	1,500	1,300	200
Fiscal agent fees	1,000	1,663	(663)
Electricity	38,000	50,075	(12,075)
Maintenance and engineering	135,000	157,385	(22,385)
Trustee bonds and insurance	3,000	6,222	(3,222)
Collection fees - County Treasurer	3,765	3,702	63
Payroll tax expense	-	99	(99)
Total expenditures	<u>205,265</u>	<u>242,546</u>	<u>(37,281)</u>
Excess (deficiency) of revenues over expenditures	(12,732)	(51,227)	(38,495)
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from warrants issued	-	-	-
Payment of registered warrants	-	-	-
Payment on bonds	-	-	-
Proceeds from bond issue	-	-	-
Payment of bond issuance costs	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>\$(12,732)</u>	(51,227)	<u>\$(38,495)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>71,494</u>	
FUND BALANCE, END OF YEAR		<u>\$ 20,267</u>	

DEBT SERVICE FUND  
(NON GAAP)

Original And Final Budget	Actual	Variance Favorable (Unfavorable)
\$ 559,401	\$ 511,014	\$ (48,387)
1,100	1,526	426
-	15,553	15,553
-	1,146	1,146
-	870	870
250,000	305,502	55,502
1,000	83	(917)
40,000	43,680	3,680
<u>851,501</u>	<u>879,374</u>	<u>27,873</u>
217,000	206,265	10,735
423,216	423,216	-
-	-	-
-	-	-
10,000	8,839	1,161
-	-	-
-	-	-
-	-	-
15,969	16,353	(384)
-	-	-
<u>666,185</u>	<u>654,673</u>	<u>11,512</u>
185,316	224,701	39,385
217,000	158,326	(58,674)
-	(1,195,417)	(1,195,417)
(250,000)	(250,000)	-
-	1,260,297	1,260,297
-	(16,472)	(16,472)
<u>\$ 152,316</u>	181,435	<u>\$ 29,119</u>
	<u>789,626</u>	
	<u>\$ 971,061</u>	

OTHER SUPPLEMENTARY INFORMATION

Sanitary and Improvement District No. 261  
Sarpy County, Nebraska

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

Year Ended June 30, 2012

Gross revenues from all sources	<u>\$1,106,519</u>
Gross revenues from all sources from previous year	<u>\$ 990,113</u>
Amount spent for sewage disposal	<u>None</u>
Amount expended on water mains	<u>None</u>
Gross amount of sewage processed	<u>None</u>
Cost per thousand gallons of processing sewage	<u>None</u>
Amount expended for:	
Maintenance and repairs	<u>\$ 113,441</u>
New equipment	<u>None</u>
New construction work (incl. water mains)	<u>None</u>
Property purchased	<u>None</u>
Number of employees	<u>One</u>
Salaries and fees paid employees	<u>\$ 1,200</u>
Total amount of taxes levied upon the property within the District	<u>\$ 731,755</u>

SUMMARY OF TAXES RECEIVABLE

Receivable at June 30, 2011	Tax Levied	Collected	Receivable at June 30, 2012
<u>\$309,696</u>	<u>\$731,755</u>	<u>\$695,922</u>	<u>\$345,529</u>

TRUSTEE AND RELATED BONDS

Trustees		Bonds	
Name	Office	Insurer	Amount
Chad LaMontagne	Chairman	Universal Surety Co.	\$5,000
Jana Faller	Clerk	Universal Surety Co.	\$20,000
Barbara Shaw	Trustee	-	None
Jeff Perdue	Trustee	-	None
Chad Bodner	Trustee	-	None



**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. 261  
of Sarpy County, Nebraska

We have audited the financial statements of the governmental activities and each major fund of Sanitary and Improvement District No. 261 of Sarpy County, Nebraska as of and for the year ended June 30, 2012, which collectively comprise Sanitary and Improvement District No. 261 of Sarpy County's basic financial statements and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sanitary and Improvement District No. 261 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. 261 of Sarpy County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sanitary and Improvement District No. 261 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.

#### 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. 261 of Sarpy County's response to this finding is that the aforementioned circumstances 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. 261 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

#### Finding #1

- General fund expenditures exceeded budget by \$37,281, without amending the budget.

#### Response

- Several expenditure categories (especially maintenance and engineering) received Board approval for spending greater than that anticipated when the budget was prepared.

Finding #2

- Payment of debt service fund registered warrants exceeded budget by \$1,195,417 and payment of bond issue costs exceeded budget by \$16,472, both without amending the budget.

Response

- The District conducted a bond issue on April 15, 2012 that was not contemplated when the budget was prepared. The bond issue costs were incurred and the proceeds were used to retire registered warrants.

Sanitary and Improvement District No. 261 of Sarpy County's responses to the findings identified in our audit are described above. We did not audit Sanitary and Improvement District No. 261 of Sarpy County's responses and accordingly, we express no opinion on them.

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

*Jones & Love, P.C.*

Omaha, Nebraska  
December 17, 2012