Sanitary and Improvement District No. 292 of Sarpy County, Nebraska

Basic Financial Statements and Independent Auditors' Report

June 30, 2014

Lutz

Sanitary and Improvement District No. 292 of Sarpy County, Nebraska

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NOTE: Budgetary comparison schedules are not presented since the District was not legally required to adopt a budget for the period from inception (June 11, 2013) to June 30, 2014.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Sanitary and Improvement District No. 292 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. 292 of Sarpy County, Nebraska, for the period from inception (June 11, 2013) to June 30, 2014, 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 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 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. 292 of Sarpy County, Nebraska, as of June 30, 2014, and the respective changes in financial position for the period from inception (June 11, 2013) to June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
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.

Other Information
We were engaged to audit the financial statements taken as a whole. The accompanying other supplemental information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in the audits of the financial statements. Accordingly, it is inappropriate to and we do not express an opinion on the other supplemental information referred to above.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2014, on our consideration of Sanitary and Improvement District No. 292 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, 2014

Sanitary and Improvement District No. 292 of Sarpy County, Nebraska

Governmental Funds Balance Sheet/Statement of Net Position

June 30, 2014

	General Fund	Debt Service Fund	Total	Reconciliation (Note 5)	Statement of Net Position
ASSETS					
Construction in Progress (Note 3)	$ -	$ -	$ -	$ 4,410,348	$ 4,410,348
TOTAL ASSETS	**$ -**	**$ -**	**$ -**	**$ 4,410,348**	**$ 4,410,348**
LIABILITIES					
Accounts Payable	$ 6,958	$ 899,606	$ 906,564	$ -	$ 906,564
Registered Warrants Payable (Note 4)	1,449	-	1,449	3,551,677	3,553,126
Unregistered Warrants Payable (Note 4)	364	-	364	7,620	7,984
Accrued Interest on Registered Warrants (Note 4)	53	116,884	116,937	-	116,937
Total Liabilities	8,824	1,016,490	1,025,314	3,559,297	4,584,611
COMMITMENTS AND CONTINGENCIES (Note 6)					
FUND BALANCE (DEFICIT)/NET POSITION					
Unassigned, Reported in General Fund	(8,824)	-	(8,824)	8,824	-
Restricted, Debt Service Fund	-	(1,016,490)	(1,016,490)	1,016,490	-
Total Fund Balance (Deficit)	(8,824)	(1,016,490)	(1,025,314)	1,025,314	-
TOTAL LIABILITIES AND FUND BALANCE	**$ -**	**$ -**	**$ -**		
NET POSITION					
Invested in Capital Assets, Net of Related Debt				851,051	851,051
Unrestricted				(8,824)	(8,824)
Restricted for Debt Service				(1,016,490)	(1,016,490)
TOTAL NET POSITION				**$ (174,263)**	**$ (174,263)**

See Notes to Basic Financial Statements.

Sanitary and Improvement District No. 292 of Sarpy County, Nebraska

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

Period from Inception (June 11, 2013) to June 30, 2014

	General Fund	Debt Service Fund	Total	Reconciliation (Note 5)	Statement of Activities
EXPENDITURES/EXPENSES					
Current:					
Insurance	$ 1,067	$ -	$ 1,067	$ -	$ 1,067
Interest on Registered Warrants (Note 4)	53	-	53	-	53
Clerk Fees	1,001	-	1,001	-	1,001
Professional Fees	6,703	-	6,703	-	6,703
Utilities	-	165,439	165,439	-	165,439
Net Capital Outlay	-	4,410,348	4,410,348	(4,410,348)	-
Total Expenditures/Expenses	8,824	4,575,787	4,584,611	(4,410,348)	174,263
Excess (Deficiency) of Revenues/Receipts Over Expenditures/Expenses	(8,824)	(4,575,787)	(4,584,611)	4,410,348	(174,263)
OTHER FINANCING SOURCES (USES)					
Warrants Issued (Note 4)	-	3,559,297	3,559,297	(3,559,297)	-
Total Other Financing Sources (Uses)	-	3,559,297	3,559,297	(3,559,297)	-
Excess (Deficiency) of Revenues/Receipts and Transfers in Over (Under) Expenditures/ Expenses and Transfers Out	(8,824)	(1,016,490)	(1,025,314)	1,025,314	-
Change in Net Position				(174,263)	(174,263)
Fund Balance (Deficit)/Net Position, June 11, 2013 (Inception)	-	-	-	-	-
Fund Balance (Deficit)/Net Position, June 30, 2014	**$ (8,824)**	**$ (1,016,490)**	**$(1,025,314)**	**$ -**	**$ (174,263)**

See Notes to Basic Financial Statements.

1. Summary of Significant Accounting Policies

The accounting policies of Sanitary and Improvement District No. 292 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. 292 of Sarpy County, Nebraska (the District), formed on June 11, 2013, 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.

Basic Financial Statements

The basic financial statements include the government-wide and fund financial statements and provide reports on the financial condition and results of operations for the District. The government-wide financial statements are based on the District as a whole, while the fund financial statements provide information about the District's individual funds.

The District's government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. 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 from governmental activities. 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 District's governmental fund financial statements include the Governmental Funds Balance Sheet and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The District reports the two major governmental funds' financial condition and results of operations in separate columns.

Fund Accounting

The District used funds to maintain its financial records. 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. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. 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.

- **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.

Measurement Focus and Basis of Accounting

The government-wide financial statements are presented using the *economic resources measurement focus* and 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 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 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 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, 2014.

- **Restricted Fund Balance**

  Restricted fund balances consist 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, 2014.

- **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, 2014.

- **Unassigned Fund Balance**

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

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.

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.

The District did not adopt a budget for the period from inception (June 11, 2013) to June 30, 2014 since it was not legally required. The District will follow the budgetary procedures above in future fiscal years.

Investments

Excess funds may be invested by the District in accordance with the statutes of the State of Nebraska. Allowable investments generally include U.S. government obligations, certificates of deposit, and time deposits.

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. The District does not have a policy for custodial credit risk beyond compliance with state statutes.

The District had no investments at June 30, 2014

Property Taxes

Property taxes receivables are recorded when a legal and enforceable claim is assessed against the property. The District did not levy taxes for the period from inception (June 11, 2013) to June 30, 2014.

Capital Assets

Capital assets are stated at cost in accordance with construction contracts and other costs applicable thereto in the government-wide financial statements. Interest accrued on warrants issued for the construction of improvements is capitalized during the period of construction. Interest costs on registered warrants capitalized for the period from inception (June 11, 2013) to June 30, 2014 totaled $116,884. 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.

Costs of Utilities

These costs include the cost of systems for which the District does not obtain title such as electrical systems (OPPD). These costs are expensed as incurred.

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.

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, 2014, noting no items requiring disclosure.

2. 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.

For the period from inception (June 11, 2013) to June 30, 2014, the District was not legally required to adopt a budget, and, accordingly, did not levy taxes.

3. Construction in Progress

Construction in Progress at June 30, 2014, consists of the following:

	Costs at June 30, 2014
Sanitary Sewer System	$ 2,381,821
Storm Sewer System	517,845
Paving	1,333,980
Water Distribution System	87,364
Easements	89,338
	$ 4,410,348

4. 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.

The following is a summary of warrant transactions during the period from inception (June 30, 2011) to June 30, 2014:

	General Fund	Debt Service Fund
Balance, June 11, 2013	$ -	$ -
Warrants Issued	1,813	3,559,297
Balance, June 30, 2014	$ 1,813	$ 3,559,297

Aggregate maturities of warrants outstanding are as follows:

	--------General Fund---------		-----Debt Service Fund-----	
Year Ending June 30:	Amount of Warrants	Interest Rate	Amount of Warrants	Interest Rate
2015	$ -		$ -	
2016	-		-	
2017	1,813	7%	-	
2018	-		-	
2019	-		3,559,297	7%
	$ 1,813		$ 3,559,297	

Unregistered warrants in the general and debt service funds totaled $364 and $7,620, respectively, at June 30, 2014.

5. Reconciliation of Net Position and Change in Net Position

Net Position	
Total fund balance per balance sheet	$ (1,025,314)
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.	4,410,348
Some liabilities, including warrants payable are not due and payable in the current period and therefore are not reported in the funds.	(3,559,297)
Net position of governmental activities	$ (174,263)

Changes in Net Position	
Net change in fund balance	$ (4,584,611)
Governmental funds report capital outlay as expenditures. However, the cost of these assets is allocated over their estimated useful lives.	4,410,348
Change in net position of governmental activities	$ (174,263)

6. 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 and annual property levies. Special assessments are levied on a per lot basis. The generation of property taxes is dependent 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 for the District. The District's ability to fund its obligations in the future is contingent upon the success of future lot sales and the development within the District.

SUPPLEMENTAL INFORMATION

Information Required by Nebraska Revised Statutes Section 31-740

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. 292 of Sarpy County, Nebraska

Information Required by Nebraska Revised Statutes Section 31-740 **Schedule 1**

June 30, 2014

Total Receipts From All Sources	None
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	None
New Equipment	None
New Construction Work	$ 4,410,348
Property Purchased	None
Number of Employees	None
Total Amount of Taxes Levied Upon the Property Within the District	None

See Independent Auditors' Report.

Sanitary and Improvement District No. 292 of Sarpy County, Nebraska

District Trustees and Related Bonds **Schedule 2**

June 30, 2014

Trustees		Bonds	
Name	**Office**	**Insurer**	**Amount**
Gerald Torczon	Chairman	Western Surety Company	$ 5,000
Doris Nicholson	Clerk	Western Surety Company	$ 20,000
John Torczon	Trustee		
Jeffery Torczon	Trustee		
Jerome Pieper	Trustee		

See Independent Auditors' Report.

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. 292 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. 292 of Sarpy County, Nebraska, for the period from inception (June 11, 2013) to June 30, 2014, which collectively comprise Sanitary and Improvement District No. 292 of Sarpy County, Nebraska's basic financial statements and have issued our report thereon dated November 15, 2014. 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. 292 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. 292 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. 292 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. 292 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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 Board of Trustees has engaged the outside audit firm to prepare the financial statements and related footnotes in conformity with accounting principles 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 accounting principles generally accepted in the United States of America.

Effect
The District does not on its own comply with regulatory requirements to prepare annual financial statements in accordance with accounting principles generally accepted in the United States of America.

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

Response
This is not an uncommon situation for a governmental entity of the District's size. The Board of Trustees 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 accounting principles generally accepted in the United States of America. The Board of Trustees will oversee and monitor the transactions being reported and will accept responsibility for the financial statements prepared by the audit firm.

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, 2014

Lutz