

# MEMORANDUM

To: Finance, Expenditures and Legal Subcommittee

Subject: FY 2010 Audit

Date: December 1, 2010

From: Carey Fry, District Accountant

- It is staff's recommendation that the FEL Subcommittee recommend to the Board of Directors that the FY2010 Audit Report and management letter, prepared by Bland and Associates, be accepted and that the General Manager be directed to file an authenticated copy of the audit report with the Nebraska Auditor of Public Accounts and the Nebraska Natural Resources Commission.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

FINANCIAL STATEMENTS  
WITH  
SUPPLEMENTAL INFORMATION  
AND  
ACCOMPANYING INDEPENDENT AUDITORS' REPORTS  
YEAR ENDED JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL  
STATEMENTS AND SUPPLEMENTARY SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS

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**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To The Board of Directors  
Papio-Missouri River Natural Resources District  
Omaha, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Papio-Missouri River Natural Resources District (the District), a political subdivision of the State of Nebraska, as of and for the year ended June 30, 2010, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements of the District referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereon for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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.

Management's discussion and analysis and the budgetary comparison information on pages 3 through 9 and 41 through 42 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the



INDEPENDENT AUDITORS' REPORT ON  
FINANCIAL STATEMENTS AND SUPPLEMENTAL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying supplementary information on pages 43 through 54 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages 55 through 56 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bland + Associates, P.C.

Omaha, Nebraska  
December 3, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

This discussion and analysis of the financial performance of Papio-Missouri River Natural Resources District (the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. It should be read in conjunction with the District's financial statements, which follow. The discussion primarily focuses on the District's general fund, although the proprietary funds are also analyzed.

**FINANCIAL HIGHLIGHTS**

- Net assets increased by \$9,653,589, which is a 7% change.
- Total general fund net assets are comprised of the following:
  - 1) Capital assets, net of related debt, of \$101,960,182. Property and equipment, net of accumulated depreciation, is reduced for the outstanding debt related to the purchase or construction of capital assets.
  - 2) Restricted net assets - \$13,109,775. General obligation bond proceeds from special bonding authority granted by the 2009 Nebraska Legislature are restricted to providing funding for flood control projects.
  - 3) Unrestricted net assets of \$16,165,147. These assets are available to maintain the District's continuing obligations. Unrestricted net assets include assets reserved for specific purposes by Board resolution but not restricted by debt covenants or laws and regulations.

During the year, the District generated \$20,558,895 of property taxes and other revenues. This is a slight decrease from last year when revenues of \$20,699,516, were generated.

- Total long-term debt of the District increased to \$18,071,294 during the fiscal year. Total long-term debt from business-type activities decreased by \$728,532 to \$4,132,699 while a \$13,300,000 increase in long-term debt from governmental activities occurred due to the general obligation bond issue.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Management's Discussion and Analysis introduces the District's basic financial statements, which include the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

**Government-wide Financial Statements**

The District's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Both government-wide financial statements distinguish governmental activities of the District that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The District's governmental activities include general government administration, projects aimed at ground and surface water protection, flood threat protection, soil and wildlife conservation efforts, public services such as trail and campground maintenance and educational materials, and recreation such as fishing or camping. The District's business-type activities include four rural water systems and four other trail and waterway construction and preservation projects.

**Statement of Net Assets**

The first of these government-wide statements is the Statement of Net Assets. This is the District-wide statement of position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors, such as the condition of the District's capital assets, in addition to the financial information provided in this report.

**Statement of Activities**

The second government-wide statement is the Statement of Activities, which reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by property tax collections.

**Fund Financial Statements**

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

The District's three types of funds are the Governmental Fund, Proprietary Funds and Fiduciary Fund. The governmental fund encompasses essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

A budgetary comparison schedule is included in the basic financial statements for the general fund. This schedule demonstrates compliance with the District's adopted and final revised budget.

Proprietary funds generally report services for which the District charges customers a fee. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The Dakota County, Washington County #1, Washington County #2, and Thurston County Rural Water Districts, as well as four waterway reconstruction projects, comprise the District's proprietary funds.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. Individual fund information for non-major enterprise funds is found in combining statements in a later section of this report.

The Fiduciary fund is used to account for assets held in a trustee capacity. Fiduciary fund statements focus on net assets and the change in net assets and are accounted for using the accrual basis of accounting. The District is the administering agent of the Papillion Creek Watershed Partnership. This Partnership is comprised of local governments that have entered into an inter-local agreement to fund engineering studies addressing water quantity and quality issues in the Papillion Creek drainage area.

**Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

**Supplemental Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's non-major proprietary funds and expenditures of federal awards.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District implemented the new financial reporting model used in this report beginning with the fiscal year ended June 30, 2003. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole. The table on the next page summarizes the District's net assets.

**Summary of Net Assets**

	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
Current and other assets	\$ 31,258,916	\$ 34,361,150	\$ 4,340,993	\$ 2,932,360
Capital assets, net of accumulated depreciation	115,260,182	80,295,812	7,973,851	8,077,916
Total assets	146,519,098	114,656,962	12,314,844	11,010,276
Long-term liabilities	13,655,874	323,031	2,732,134	4,500,441
Other liabilities	1,628,120	1,430,056	1,570,311	489,233
Total liabilities	15,283,994	1,753,087	4,302,445	4,989,674
Net assets:				
Invested in capital assets,				
net of related debt	101,960,182	80,295,812	3,841,152	3,216,685
Restricted	13,109,775	-	404,271	513,056
Unrestricted	16,165,147	32,608,063	3,766,976	2,290,861
Total net assets	131,235,104	112,903,875	8,012,399	6,020,602
	<u>\$146,519,098</u>	<u>\$114,656,962</u>	<u>\$12,314,844</u>	<u>\$11,010,276</u>



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

The District reported positive balances in net assets for both governmental and business-type activities. Since the District's net assets increased \$9,693,759 for governmental activities and decreased \$40,170 for business-type activities, the District's overall financial position improved during fiscal year 2010. Prior period adjustments were also reported which increased net assets by a total of \$10,089,997. These adjustments are described in further detail at Note O.

The table on the next page summarizes the District's changes in net assets from revenues and expenditures. The District is heavily reliant on property taxes to support governmental operations, since taxes provide 81.5% of the District's total governmental revenues.

	Governmental Fund			Proprietary Funds		
	6/30/2010	% of Total	6/30/2009	6/30/2010	% of Total	6/30/2009
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 186,642	0.9%	\$ 334,655	\$ 871,284	83.2%	\$ 1,488,182
Operating grants and contributions	3,622,377	17.2	3,770,516	-	-	-
General Revenues						
Property taxes	16,667,816	81.5	16,594,345	-	-	-
Assessment income	-	-	-	69,340	6.6	68,003
Interest income	82,060	0.4	-	106,407	10.2	57,265
<b>Total revenues</b>	<b>20,558,895</b>	<b>100.0%</b>	<b>20,699,516</b>	<b>1,047,031</b>	<b>100.0%</b>	<b>1,613,450</b>
<b>Expenses</b>						
General						
administration	5,265,508	48.6%	4,951,880	-	-	-
Information and education	307,210	2.8	274,523	-	-	-
Flood Prevention	1,491,586	13.7	6,657,221	-	-	-
Erosion Control	947,121	8.7	1,037,525	-	-	-
Water quality	898,550	8.3	925,810	-	-	-
Recreation	699,183	6.4	1,344,787	-	-	-
Forestry and wildlife	678,605	6.2	1,993,987	-	-	-
Capital improvements	342,100	3.1	124,627	-	-	-
Unallocated depreciation	241,263	2.2	206,709	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Rural water systems	-	-	-	938,416	86.3%	1,024,968
Other proprietary funds	-	-	-	148,785	13.7	265,808
<b>Total expenses</b>	<b>10,865,126</b>	<b>100.0%</b>	<b>17,527,069</b>	<b>1,087,201</b>	<b>100.0%</b>	<b>1,290,776</b>
Change in net assets	9,693,759		3,172,447	(40,170)		322,674
Beginning net assets, as previously stated	112,903,875		109,731,428	6,020,602		5,697,928
Prior period adjustment	8,637,470		-	2,031,967		-
Beginning net assets, as restated	121,541,345		-	8,052,569		-
<b>Ending net assets</b>	<b>\$ 131,235,104</b>		<b>\$112,903,875</b>	<b>\$ 8,012,399</b>		<b>\$ 6,020,602</b>



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Governmental Fund**

The General Fund is the District's primary operating fund. It is used to account for all financial resources except those required to be reported in a separate fund. The fund balance of the General Fund decreased by \$3,092,209 to \$25,403,516.

**Proprietary Funds**

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The major proprietary funds for the District are the Dakota, Washington #1, Washington #2 Rural Water Districts. The fund balances for these funds decreased \$61,932. The fund balance for the non-major proprietary funds increased by \$21,762. The total net assets decreased by \$40,170.

**BUDGETARY HIGHLIGHTS**

The Papio-Missouri River Natural Resources District's Board of Directors adopts a budget each fiscal year that complies with the reporting regulations imposed by the State of Nebraska. This budget can be modified during the year with the approval of the Board. Economic factors, such as property tax rates and the availability of federal and state funding, play a major role in the District's budgeting process.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2010, was \$101,960,182 and \$3,841,152 respectively. The total increase in this net investment was 26.1% for governmental and the total decrease was 19.4% for business-type activities. This investment in capital assets includes land, infrastructure, buildings and improvements, and machinery and equipment. The District elected to fully implement Governmental Accounting Standards Board Statement No. 34 during fiscal year 2007 by valuing and recording the land and infrastructure assets that had not been previously recorded.

**Long-Term Debt**

At the end of the fiscal year, the District had \$17,432,699 in general obligation bonds, notes, and leases outstanding. \$4,132,699 of this debt is attributable to the proprietary funds for construction of the rural water distribution systems. \$13,300,000 is from the general obligation bonds.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2010**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Factors considered in preparing the District's budget for fiscal year 2011 include the following:

- Property tax receipts of \$16.5 million are expected. This is level with the previous fiscal year due primarily to property valuation and the tax levy remaining constant.
- Projects related to flood prevention and recreational trails are again anticipated to require the heaviest expenditures during fiscal year 2010. These projects will be financed by several methods, including federal and/or state funding, cost sharing agreements with other local governments, property taxes and general obligation bond proceeds from special bonding authority granted by the 2009 Nebraska Legislature intended to provide funding of flood control projects.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the District Accountant at 8901 South 154<sup>th</sup> Street, Omaha, NE 68138.



GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2010

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 6,361,923	\$ 1,428,046	\$ 7,789,969
Cash on deposit with County Treasurers	515,004	-	515,004
Certificates of deposit	50,000	660,459	710,459
Taxes receivable	8,332,208	-	8,332,208
Service receivables	22,529	90,310	113,139
Interest receivable	125	1,875	2,000
Current portion of installment receivable	-	337,318	337,318
Prepaid expenses	66,811	-	66,811
Due from funding agency	410,709	-	410,709
Due from other entities	1,681,046	-	1,681,046
Internal balances	89,318	860	90,178
Inventories	-	59,703	59,703
Total current assets	17,529,973	2,578,571	20,108,544
<b>NONCURRENT ASSETS</b>			
Restricted cash and cash equivalents	13,109,775	340,000	13,449,775
Restricted certificates of deposit	-	64,271	64,271
Installment receivable, less current portion	-	358,151	1,358,151
Receivable from developer (\$400,000 non-interest bearing)	580,000	-	580,000
Accrued interest - receivable from developer	57,375	-	57,375
Unamortized discount - receivable from developer	(18,207)	-	(18,207)
<b>Capital assets</b>			
Land	45,303,051	3,000	45,336,051
Construction in progress	12,988,802	-	12,988,802
Capital improvements and infrastructure	108,583,363	9,458,024	118,041,387
Buildings and improvements	4,332,773	-	4,332,773
Vehicles and equipment	3,701,199	82,289	3,783,488
Accumulated depreciation	(59,879,005)	(1,569,462)	(61,248,468)
Total capital assets	115,265,162	7,973,851	123,239,013
Total noncurrent assets	128,989,125	9,736,273	138,725,398
	\$ 146,519,098	\$ 12,314,844	\$ 158,833,942
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 1,227,222	\$ 69,119	\$ 1,296,341
Accrued salaries and payroll withholdings	106,415	-	106,415
Accrued expenses	10,602	11,309	22,211
Internal balances	860	89,318	90,178
Current portion of long-term debt	-	1,400,565	1,400,565
Current portion of accrued compensated absences	282,721	-	282,721
Total current liabilities	1,628,120	1,570,311	3,198,431
<b>LONG-TERM LIABILITIES</b>			
Long-term debt, less current portion	13,300,000	2,732,134	16,032,134
Accrued compensated absences, less current portion	355,874	-	355,874
Total long-term liabilities	13,655,874	2,732,134	16,388,008
Total liabilities	15,283,994	4,302,445	19,586,439
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-	-
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	101,960,182	3,841,152	105,801,334
Restricted	13,109,775	404,271	13,514,046
Unrestricted	16,165,147	3,766,976	19,932,123
Total net assets	131,235,104	8,012,399	139,247,503
	\$ 146,519,098	\$ 12,314,844	\$ 158,833,942

The accompanying notes to financial statements  
are an integral part of these statements



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>						
General administration	\$ 5,265,506	\$ 171,249	\$ 610,835	\$ (4,483,424)	\$ -	\$ (4,483,424)
Information and education	301,310	-	-	(301,210)	-	(301,210)
Flood prevention	1,491,986	-	2,474,094	982,508	-	982,508
Erosion control	847,121	-	-	(947,121)	-	(947,121)
Water quality	898,550	-	50,346	(848,204)	-	(848,204)
Recreation	699,193	15,383	14,193	(669,607)	-	(669,607)
Forestry and wildlife	678,005	-	472,909	(205,696)	-	(205,696)
Capital improvements	342,100	-	-	(342,100)	-	(342,100)
Unallocated depreciation	241,505	-	-	(241,263)	-	(241,263)
	10,865,136	186,642	3,622,377	(7,056,117)	-	(7,056,117)
<b>BUSINESS-TYPE ACTIVITIES</b>						
Dakota County Rural Water	276,562	300,353	-	-	23,771	23,771
Washington County Rural Water #1	325,967	324,558	-	-	(1,401)	(1,401)
Washington County Rural Water #2	335,887	146,868	-	-	(189,019)	(189,019)
Non-Major Proprietary Funds	148,795	535,517	-	-	(49,268)	(49,268)
	1,087,201	871,984	-	-	(215,917)	(215,917)
	\$ 11,952,337	\$ 1,057,926	\$ 3,622,377	(7,056,117)	(215,917)	(7,272,034)
<b>GENERAL REVENUES</b>						
Property taxes				16,667,816	-	16,667,816
Assessment income				-	69,340	69,340
Interest income				82,060	108,407	189,467
				16,749,876	175,747	16,925,623
<b>CHANGE IN NET ASSETS</b>						
				9,693,759	(40,170)	9,653,589
<b>NET ASSETS - BEGINNING OF YEAR, As Previously Stated</b>						
<b>PRIOR PERIOD ADJUSTMENT</b>				112,903,875	6,020,602	118,924,477
<b>NET ASSETS - BEGINNING OF YEAR, As Restated</b>				8,537,470	2,031,967	10,569,437
				121,541,345	8,052,569	129,593,914
<b>NET ASSETS - END OF YEAR</b>				\$ 131,235,104	\$ 8,012,399	\$ 139,247,503

The accompanying notes to financial statements are an integral part of these statements



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUND  
June 30, 2010

ASSETS		General Fund
Cash and cash equivalents	\$	6,361,923
Cash on deposit with County Treasurers		515,004
Certificates of deposit		50,000
Receivables		
Taxes		8,332,208
Services		22,829
Interest		125
Prepaid expenses		66,811
Due from		
Funding agency		410,709
Other entities		1,681,046
Other funds		89,318
Restricted cash and cash equivalents		13,109,775
	\$	<u>30,639,748</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$	1,227,222
Accrued salaries and payroll withholdings		106,415
Accrued expenses		293,623
Internal balances		860
Deferred revenue		3,608,112
Total liabilities		<u>5,236,232</u>
FUND BALANCE		
Fund balance		
Reserved		13,600,283
Unreserved		11,803,233
Total fund balance		<u>25,403,516</u>
	\$	<u>30,639,748</u>

The accompanying notes to financial statements  
are an integral part of these statements



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS  
June 30, 2010

Total Fund Balance - Governmental Fund \$ 25,403,516

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

Other long-term assets:

Receivable from developer - Dial Realty

\$ 580,000

Accrued interest receivable

57,375

Unamortized discount - receivable from developer

(18,207)

619,168

Capital assets used in governmental activities are not financial resources and,  
therefore, are not reported in the fund financial statements:

Land and infrastructure

45,333,051

Construction in progress

12,988,802

Capital improvements

108,583,363

Buildings and improvements

7,332,773

Vehicles and equipment

3,701,199

Accumulated depreciation

(59,679,006)

115,260,182

Liabilities which are not due and payable in the current period are not reported  
in the governmental funds:

Compensated absences

(355,874)

Bond proceeds provide current financial resources to governmental funds.

However, issuing debt increases long-term liabilities in the statement of net assets.

Bond proceeds

(13,300,000)

Property tax revenues, not collected within 60 days of the fiscal year end, are not  
financial resources and, therefore, are not reported in the governmental funds.

3,608,112

Total Net Assets of Governmental Activities

\$ 131,235,104

The accompanying notes to financial statements  
are an integral part of these statements



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -**  
**GOVERNMENTAL FUND**  
**Year Ended June 30, 2010**

**REVENUES**

General administration	\$ 17,633,729
Flood prevention	15,774,398
Forestry and wildlife	472,909
Water quality	50,346
Recreation	15,134
Total revenues	<u>33,946,516</u>

**EXPENDITURES**

Flood prevention	25,699,369
General administration	5,224,845
Erosion control	3,368,774
Recreation	1,004,241
Forestry and wildlife	973,059
Water quality	898,550
Capital improvements	369,644
Information and education	301,210
Total expenditures	<u>37,839,692</u>

<b>EXCESS OF REVENUES UNDER EXPENDITURES</b>	<b>(3,893,176)</b>
----------------------------------------------	--------------------

<b>FUND BALANCE - BEGINNING OF YEAR, As previously stated</b>	<b>28,495,725</b>
---------------------------------------------------------------	-------------------

<b>PRIOR PERIOD ADJUSTMENT</b>	<b>800,967</b>
--------------------------------	----------------

<b>FUND BALANCE - BEGINNING OF YEAR, As restated</b>	<b><u>29,296,692</u></b>
------------------------------------------------------	--------------------------

<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 25,403,516</u></b>
-----------------------------------	-----------------------------

The accompanying notes to financial statements  
 are an integral part of these statements



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE  
IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010**

Net Change in Fund Balance - Total Government Fund \$ (3,893,176)

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

Amortization of imputed interest discount on receivable from developer 38,675

Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays and capital asset expenditures:		
Land and construction in progress additions	\$ 24,313,033	
Building, vehicle, equipment, infrastructure, and capital improvement additions	<u>4,751,329</u>	29,064,362
Depreciation expense		(2,056,966)

Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net assets.

Bond proceeds (13,300,000)

Certain items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities consist of:

Increase in long - term compensated absences (32,843)

Full accrual accounting records revenues when earned. Modified accrual records revenues that are measurable and available.

Difference in property tax revenue accrual (126,293)

**Change in Net Assets of Governmental Activities \$ 9,693,759**

The accompanying notes to financial statements  
are an integral part of these statements



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
June 30, 2010

ASSETS	Total (Memorandum Only)	MAJOR FUNDS			Non-major Proprietary Funds
		Dakota County Rural Water	Washington County Rural Water #1	Washington County Rural Water #2	
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 1,428,046	\$ 118,217	\$ 387,275	\$ 551,019	\$ 371,535
Certificates of deposit	660,459	370,070	290,369	-	-
Service receivables	90,310	28,623	42,362	11,332	7,993
Interest receivable	1,875	922	860	-	31
Due from other funds	660	-	-	-	-
Current portion of installment receivable	337,318	-	-	337,318	-
Inventories	55,103	25,245	17,220	13,096	4,142
Total current assets	2,578,567	543,077	739,028	912,765	383,701
<b>NONCURRENT ASSETS</b>					
Reserved cash and cash equivalents	340,000	-	-	340,000	-
Restricted certificates of deposit	1,558,151	-	-	1,358,151	64,271
Installment receivable, less current portion	-	-	-	-	-
Capital assets					
Land	3,000	1,000	1,000	-	1,000
Capital improvements and infrastructure	9,459,025	1,671,217	1,864,000	4,973,807	949,000
Vehicles and equipment	49,910	49,910	32,379	-	-
Accumulated depreciation	(1,569,462)	(536,924)	(561,003)	(215,305)	(256,230)
Total capital assets	7,973,851	1,185,293	1,336,376	4,758,502	693,770
Total noncurrent assets	9,736,273	1,185,203	1,336,376	6,456,653	758,041
	\$ 12,314,844	\$ 1,728,280	\$ 2,075,404	\$ 7,369,418	\$ 1,141,742
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 69,119	\$ 16,209	\$ 27,237	\$ 16,173	\$ 7,500
Accrued expenses	11,309	1,406	1,056	7,965	882
Due to other funds	89,318	33,011	33,804	12,133	10,370
Current portion of long-term debt	1,400,565	-	-	1,375,000	25,565
Total current liabilities	1,570,311	50,626	62,097	1,413,271	44,317
<b>LONG-TERM LIABILITIES</b>					
Long-term debt, less current portion	2,732,134	-	-	2,325,000	407,134
Total liabilities	4,302,445	50,626	62,097	3,738,271	451,451
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	3,641,152	1,185,203	1,336,376	1,058,502	261,071
Restricted	(404,271)	-	-	340,000	64,271
Unrestricted	3,765,976	492,451	676,931	2,232,645	364,949
Total net assets	8,012,399	1,677,654	2,013,307	3,631,147	690,291
	\$ 12,314,844	\$ 1,728,280	\$ 2,075,404	\$ 7,369,418	\$ 1,141,742

The accompanying notes to financial statements  
are an integral part of these statements



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - PROPRIETARY FUNDS**  
Year Ended June 30, 2010

	MAJOR FUNDS				Non-Major Proprietary Funds
	Total (Memorandum Only)	Dakota	Washington	Washington	
		County Rural Water	County Rural Water #1	County Rural Water #2	
<b>OPERATING REVENUES</b>					
Water sales	\$ 790,167	\$ 283,803	\$ 290,321	\$ 124,556	\$ 91,487
Customer charges and hookup fees	73,464	15,815	33,064	22,312	2,273
Sales	1,794	150	1,181	-	463
Miscellaneous	5,855	565	-	-	5,294
Total operating revenues	871,284	300,333	324,566	146,868	99,517
<b>OPERATING EXPENSES</b>					
Repairs and maintenance	4,415	2,512	-	-	1,904
Supplies and postage	10,483	7,188	266	228	2,801
Professional services	50,667	11,660	7,426	4,151	27,430
Personnel	293,051	104,787	111,223	39,390	37,651
Telephone, utilities, and rent	18,157	4,592	7,754	-	5,451
Miscellaneous	5,633	2,840	1,209	1,550	234
Water purchase	215,289	71,623	99,372	22,197	21,897
Contract costs	76,878	16,890	13,314	34,133	12,541
Project construction and land	59,177	13,525	43,676	1,960	16
Project operation and maintenance	16,203	3,262	5,106	3,369	4,466
Depreciation and amortization	109,286	21,945	28,162	49,686	9,490
Vehicle expense	10,461	5,671	5,421	1,369	-
Indirect cost	1,558	159	228	-	1,171
Total operating expenses	871,299	267,057	321,157	158,033	125,052
<b>OPERATING INCOME (LOSS)</b>	(15)	33,276	3,409	(11,165)	(25,535)
<b>NON-OPERATING INCOME (EXPENSE)</b>					
Assessment revenue	69,340	-	-	-	69,340
Interest income	106,407	7,907	4,818	91,992	1,690
Interest expense	(215,902)	(9,505)	(4,810)	(177,854)	(23,733)
Total non-operating income (expense)	(40,155)	(1,598)	8	(85,862)	47,297
<b>CHANGE IN NET ASSETS</b>	(40,170)	31,678	3,417	(97,027)	21,762
<b>NET ASSETS - BEGINNING OF YEAR, As Previously Stated</b>					
PRIOR PERIOD ADJUSTMENT	6,020,602	1,645,976	2,009,890	1,696,207	668,529
NET ASSETS - BEGINNING OF YEAR, As Restated	2,031,967	-	-	2,031,967	-
	8,052,569	1,645,976	2,009,890	3,728,174	668,529
<b>NET ASSETS - END OF YEAR</b>	\$ 8,012,399	\$ 1,677,654	\$ 2,013,307	\$ 3,631,147	\$ 690,291

The accompanying notes to financial statements  
are an integral part of these statements



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
Year Ended June 30, 2010

	Total (Memorandum Only)	MAJOR FUNDS			Non-Major Proprietary Funds
		Dakota Rural Water	Washington Rural Water #1	Washington Rural Water #2	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 658,823	\$ 301,910	\$ 316,620	\$ 144,156	\$ 97,237
Other operating receipts	7,653	715	1,181	-	5,757
Cash paid to employees	(293,051)	(104,787)	(111,223)	(39,390)	(37,651)
Cash paid to suppliers	(437,669)	(133,464)	(173,464)	(67,414)	(67,414)
Net cash provided (used) by operating activities	146,866	64,354	33,174	51,409	(2,071)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investments (purchased) proceeds	646,015	155,952	110,778	340,000	(715)
Payments from installment receivable	336,490	-	-	336,490	-
Interest received	105,407	7,907	4,816	91,692	1,690
Net cash provided by investing activities	1,088,920	203,859	115,596	768,490	975
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital assets	(5,221)	-	-	(5,221)	-
Payments on long-term debt	(228,532)	(320,000)	(165,000)	(225,000)	(18,532)
Interest paid	(215,902)	(9,505)	(4,810)	(177,654)	(23,733)
Assessments received	159,340	-	-	-	69,340
Net cash provided (used) by capital and related financing activities	(880,315)	(329,505)	(169,810)	(408,315)	27,075
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	355,471	(61,292)	(21,540)	411,624	25,979
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,768,046	\$ 179,509	\$ 408,315	\$ 479,195	\$ 345,556
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS</b>					
Operating income (loss)	\$ (15)	\$ 33,276	\$ 3,409	\$ (11,165)	\$ (25,535)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	109,206	21,540	28,162	49,666	9,460
Changes in assets and liabilities					
(Increase) decrease in receivables	(8,255)	-	(13,403)	760	1,138
(Increase) decrease in due from other funds	10,214	-	10,214	-	-
Increase (decrease) in inventories	(5,668)	(937)	(3,576)	(3,492)	2,339
Increase (decrease) in accounts payable	32,878	5,142	7,742	13,344	6,590
Increase (decrease) in accrued expenses	(3,634)	(1,996)	(1,293)	(416)	31
Increase (decrease) in due to other funds	12,119	3,689	1,899	2,672	3,876
Net cash provided (used) by operating activities	\$ 146,866	\$ 64,354	\$ 33,174	\$ 51,409	\$ (2,071)

The accompanying notes to financial statements are an integral part of these statements



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
June 30, 2010

**ASSETS**

Cash and cash equivalents	\$	510,397
Dues receivable		<u>1,000</u>
	\$	<u>511,397</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Due to City of Omaha	\$	275,997
Deferred revenue		<u>187,500</u>
Total liabilities		463,497

**NET ASSETS**

Restricted		<u>47,900</u>
	\$	<u>511,397</u>

The accompanying notes to financial statements  
are an integral part of these statements



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year Ended June 30, 2010**

**ADDITIONS**

Partnership dues	\$ 369,000
Interest	589
Total additions	<u>369,589</u>

**DEDUCTIONS**

Reimburement to Omaha	275,997
Administration fees	34,576
Software purchases	30,354
Total deductions	<u>340,927</u>

**CHANGE IN NET ASSETS**

28,662

**NET ASSETS - BEGINNING OF YEAR**

19,238

**NET ASSETS - END OF YEAR**

\$ 47,900

The accompanying notes to financial statements  
are an integral part of these statements



NOTES TO FINANCIAL STATEMENTS

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**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Papio-Missouri River Natural Resources District (the District) is presented to assist in understanding the District's government-wide and fund financial statements. These financial statements and notes are representations of the District's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Organization and Principal Activity**

The District is one of 23 natural resource districts organized under the laws of the State of Nebraska to aid in the conservation, protection, development, and management of the natural resources of the State. Furthermore, the District participates in jointly funded governmental improvement projects. These projects are cost-sharing arrangements, as the District does not necessarily retain an ongoing financial interest in or responsibility for the projects.

**Reporting Entity**

The District follows the standards promulgated by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, that define the financial reporting entity as the one consisting of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements include the transactions of the District's primary government and one fiduciary fund. The District has no component units and is not a component unit of any other governmental entity.

**Primary Government**

The primary government has a separately elected governing body, is legally separate, and is fiscally independent of other governments. The primary government of the District consists of all the organizations that comprise the legal entity.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year Ended June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Financial Statements

The financial statements of the District include the government-wide and the fund financial statements. Prior to implementation of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the financial statements emphasized fund types and account groups. In the GASB Statement No. 34 reporting model, the focus is on the District as a whole in the government-wide financial statements, while reporting additional and detailed information about the District's major governmental funds in the fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements (the statement of net assets and statement of activities) report information on all the non-fiduciary activities of the primary government. Governmental activities are normally supported by taxes and grants from other governments.

Internal activities have been eliminated in the government-wide statement of net assets.

In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column (individual funds are not presented). Because of the economic resource measurement focus and accrual basis of accounting, all financial and capital resources of the District, including long-term assets as well as long-term debt, are reported. Liabilities with maturities greater than one year are reported in two components: the amount due within one year and that due in more than one year.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. These revenues are subject to externally imposed restrictions to these program uses. Program revenues include charges for services, which report fees and other charges to users of the District's services, operating grants and contributions which finance annual operating activities including restricted investment income, and capital grants and contributions, which fund the acquisition, construction or rehabilitation of capital assets. Taxes and other items not properly included among program revenues are reported instead as general revenues.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

**Fund Financial Statements**

Separate financial statements are provided for governmental, proprietary, and fiduciary funds. Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. District resources are allocated to and accounted for in an individual fund based upon the purposes for which they are spent and the means by which the spending activities are controlled. The various funds are grouped into generic fund types in the government-wide and fund financial statements of this report as follows:

**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.

**Proprietary Funds**

Proprietary funds are used to account for the operation of the District's activities that are financed and operated in a manner similar to those found in private business enterprises. Generally, the intent of the governing body is that the cost and expense of providing goods or services to others on a continuing basis be financed or recovered primarily through sales or other forms of user charges. All proprietary funds are accounted for on an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their Statement of Net Assets.

The District reports the Dakota County Rural Water Project, and the Washington County Rural Water Projects #1 and #2 as major proprietary funds presented individually in the financial statements. These funds account for fees charged for rural water services provided to residents in their respective counties. The remaining non-major funds are presented in the aggregate to comply with GASB Statement No. 34.

**Fiduciary Fund**

The fiduciary fund is used to account for assets held in a trustee capacity. The District is the administering agent of the Papillion Creek Watershed Partnership (the Partnership). The Partnership is comprised of local governments that are wholly or partially in the Papillion Creek Watershed that have combined resources to fund engineering studies.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

The District complies with the accounting principles generally accepted in the United States of America. The District applies all relevant GASB Pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) Pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements, in which case GASB prevails.

**Measurement Focus/Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property taxes are recognized in the period levied, regardless of when the cash is collected.

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 period, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures, such as principal and interest on general long-term debt, and claims and judgments, are recognized under the modified accrual basis of accounting when the related liability is due.

The proprietary and fiduciary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services.

Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

For financial reporting purposes, the District classifies all highly liquid investments with original maturities of three months or less as cash equivalents.

**Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are recorded at fair value which approximates cost. The District's investment policy allows investment in U.S. government obligations and short-term interest bearing investments consisting of certificates of deposit and other income producing securities. It is also the District's policy to report interest earned but not received in a separate account from the principal.

**Taxes Receivable**

Delinquent taxes are considered fully collectible so no allowance for uncollectible taxes is considered necessary. Tax amounts not received within sixty days are considered deferred revenue in the governmental fund financial statements.

**Inventories**

The proprietary funds' inventories, consisting primarily of maintenance supplies, are stated at cost. Cost is determined using the first-in, first-out method.

**Capital Assets**

Capital assets are recorded at cost. Expenditures for major additions and improvements over \$5,000 are capitalized and minor replacements, maintenance, and repairs are charged to expense accounts as incurred. Interest costs incurred on funds used to construct property, plant, and equipment are capitalized and recorded as part of the asset to which it relates and are amortized over the asset's useful life.

When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation of the individual asset are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The estimated useful lives for significant capital asset categories are as follows:



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets (Continued)**

	<u>Years</u>
Capital improvements and infrastructure	7-100
Buildings and improvements	20-30
Vehicles and equipment	3-10
Water distribution systems	25-50

In the governmental fund financial statements, structural improvements (reservoirs, drainage systems, or any other projects) constructed by the District for any of its purposes are recorded as expenditures at the time of construction. In addition, major acquisitions of land that may have a future saleable value associated with project costs are reported as capital improvements and are recorded as a current period governmental fund expenditure.

In the government-wide financial statements, structural improvements, land acquisitions, equipment purchases, public domain costs, infrastructure costs (such as dams, levees, reservoirs and drainage systems), and similar assets are included as capital assets. The District records proposed infrastructure at the historical cost of the land until the actual infrastructure construction costs are incurred and capitalized.

**Compensated Absences**

The District's employees are granted annual leave and sick pay in varying amounts based on length of service and actual hours worked. Annual leave and unused sick pay may be carried over at year-end up to 53 days and 180 days, respectively. After one year of service, employees are entitled to all accrued vacation leave and 25% of accrued sick leave, upon termination.

**Net Assets**

Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and net of outstanding balances of any debts used to finance those assets.

Restricted net assets – This component of net assets may be used only to finance specific types of transactions. The governmental fund had a total of \$13,109,775 in restricted net assets and the proprietary funds had a total of \$404,271 in restricted net assets at June 30, 2010.

Unrestricted net assets – This component of net assets does not meet the definition of either net assets invested in capital assets, net of related debt or restricted net assets.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance**

Governmental fund equity is classified as fund balance. Fund balances can be reserved, unreserved-designated, and unreserved-undesignated. The portion of the fund balance that has been committed for identified purposes is reserved fund balance.

**Property Taxes**

Property taxes are levied by the counties on September 20 and are delinquent if not paid by April 1 and August 22. The seven counties located within the District collect the taxes. The portion of the property taxes levied by the District is remitted from the counties as the taxes are collected, less a one percent commission. For fiscal year 2010, the taxes levied totaled \$16,667,816 at a tax levy rate of 3.2756%.

The placement of a lien against property with delinquent taxes in the various counties is at the discretion of the respective county attorneys. However, the vast majority of delinquent property taxes are purchased through transactions called tax certificate sales. In the event the property owner does not pay the property taxes to the County Treasurer within three years, the holder of the tax certificate has the right to take ownership of the property.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

**Income Taxes**

The District qualifies as a tax-exempt organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

**Budgetary Data**

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

- a. Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.
- b. The budget is based on the reporting requirements of the State of Nebraska, which prescribe the cash basis method of reporting. The budget caption, general administration, includes the District's cash and investments of the preceding year-end.
- c. All annual appropriations lapse at year-end.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgetary Data (Continued)**

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Actual and Budget (Budgetary Basis) - Governmental Fund presents comparisons of legally adopted budgets to actual data prepared in accordance with the accounting basis indicated above.

Once approved by the Board of Directors, the legally adopted budget can be modified only with the approval of the Board.

**Use of Estimates**

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

**Allocation of Indirect Expenses/Interfund Activity**

The District is responsible for paying all employee wages and vehicle and fuel expenses of the rural water district proprietary funds. The portion of these expenses directly attributable to the proprietary funds, plus a 15 percent surcharge to cover administrative costs, is billed to and reimbursed by each rural water district. General administration services include overall District management, centralized budgetary formulation and oversight, accounting, payroll, investing and cash management, personnel services, and other general administration services. Services provided are treated as revenues and expenses in the respective funds. The actual amount of indirect cost reimbursement received by the District at June 30, 2010, was \$301,090. These reimbursements are included as an offset in the general administration expenses in the Statement of Activities.

**Cost Sharing Reimbursements**

The District participates in multiple cost sharing agreements with various other governmental entities, such as the City of Omaha or other area natural resource districts, on a regular basis. These agreements provide funding for recreational trails, water drainage systems, and other improvements that benefit the general public. The District's share of the cost is stated in each of the cost sharing agreements, most often as a maximum amount to be paid. The District normally does not retain an interest in the projects, with the city or other governmental entities providing the routine maintenance as necessary.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

Management has evaluated subsequent events through December 3, 2010, which is the date the financial statements were available to be issued.

**Economic Dependency**

The District receives the majority of its revenues from property tax rates subject to legislative change and from various grants funded by federal, state, and local governments.

**NOTE B – DEPOSITS AND INVESTMENTS**

Deposits and investments consisted of the following at June 30, 2010:

	Total	General Fund	Proprietary Funds
<b>UNRESTRICTED AND UNRESERVED:</b>			
Cash and cash equivalents	\$7,349,461	\$5,921,415	\$1,428,046
Cash on hand at County Treasurers	515,004	515,004	-
	7,864,465	6,436,419	1,428,046
Certificates of deposit	660,459	-	660,459
Total unrestricted and unreserved cash, cash equivalents and certificates of deposit	8,524,924	6,436,419	2,088,505
<b>UNRESTRICTED BUT RESERVED:</b>			
Cash and cash equivalents	440,508	440,508	-
Certificates of deposit	50,000	50,000	-
Total unrestricted but reserved cash, cash equivalents and certificates of deposit	490,508	490,508	-
<b>RESTRICTED:</b>			
Cash and cash equivalents	13,449,775	13,109,775	340,000
Certificates of deposit	64,271	-	64,271
Total restricted cash, cash equivalents and certificates of deposit	13,514,046	13,109,775	404,271
Total cash and certificates of deposit	<u>\$22,529,478</u>	<u>\$20,036,702</u>	<u>\$2,492,776</u>



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE B – DEPOSITS AND INVESTMENTS (Continued)**

Pooled deposits, consisting of cash and certificates of deposit, as categorized for level of risk, cannot be reasonably apportioned between the General Fund and the Proprietary Funds.

At June 30, 2010, the District's deposits at all financial institutions are fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by investments held by these financial institutions. The FDIC insures accounts up to \$250,000.

The District's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the District at June 30, 2010. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uncollateralized

Deposits, categorized by level of risk, are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Pooled deposits					
Pooled cash and certificates of deposit	\$21,221,615	\$ 250,000	\$20,971,615	\$ -	\$21,121,380
Non-pooled deposits					
General fund	50,000	50,000	-	-	50,000
Proprietary funds	849,388	849,388	-	-	842,897
Total deposits	<u>\$22,121,003</u>	<u>\$1,149,388</u>	<u>\$20,971,615</u>	<u>\$ -</u>	<u>\$22,014,277</u>

Investments are stated at fair value. For fiscal year 2010, the District invested only in U.S. Treasury bills, other federal obligations, or certificates of deposits within federally insured banks. The District records all interest revenue related to investment activities in the respective funds.

**NOTE C – RESERVED/RESTRICTED FUNDS**

The Board of Directors, by resolution, has established a sinking fund and reserved/restricted cash accounts for various purposes. All of the accounts are fully funded at their required levels at June 30, 2010. The following is a summary of the reservations placed on cash and investments for the year ended June 30, 2010:



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year Ended June 30, 2010

NOTE C – RESERVED/RESTRICTED FUNDS (Continued)

General Sinking Funds:

Unrestricted But Reserved Certificate of Deposit: \$ 50,000

Unrestricted But Reserved Cash Accounts:

Reserved for Wetland Mitigation and the development of future wetlands. 244,917

The Board of Directors, by resolution has reserved funds to be spent on costs incurred for Watershed Projects (WPRB-5, DS-15A, and Zorinsky Basin 1). 80,500

The Board of Directors, by resolution and in accordance with the Interlocal Cooperation Act Agreement, has reserved funds to reimburse parties to this agreement that incurred costs as a result of the removal of ice jams. 115,091

Restricted Cash Accounts:

The Board of Directors, by resolution, has established a bond escrow which shall be restricted for use on the specific projects including Pigeon Jones, Western Sarpy Clear Creek, Waterloo Levee, WPRB-5, Dam Site 15-A, and Zorinsky Basin 1. 13,109,775

Total reserves \$ 13,600,283

Proprietary Sinking Funds:

In compliance with loan covenants for the notes described in Note H, the Proprietary Funds have restricted \$404,271. Thurston County has restricted a certificate of deposit in the amount of \$64,271 and Washington County Rural Water #2 has restricted cash in the amount of \$340,000. These amounts are restricted for the issues listed below:

Issue	Amount
Thurston County Rural Water	\$ 48,431
Washington County Rural Water #2	340,000
Total reserve requirement	\$ 388,431

Interest on these funds is reported as District earnings, with earnings on the reserved cash accounts attributed to specific projects.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE D – INTERNAL BALANCES/INTERFUND PAYABLES AND RECEIVABLES**

Outstanding balances between funds reported as "due to/due from other funds" include outstanding charges by one fund to another for services, goods, or other miscellaneous receivables/payables between funds. Balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Interfund balances at June 30, 2010, consisted of the following individual fund receivables and payables:

Due to	Due from	Amount
General Fund	Thurston County Rural Water	\$ 10,370
General Fund	Washington Co. Rural Water #1	33,804
General Fund	Dakota County Rural Water	33,011
General Fund	Washington Co. Rural Water #2	12,133
Improvement Project Area (IPA)	General Fund	860
		<u>\$ 90,178</u>

**NOTE E – DUE TO/FROM FUNDING AGENCIES**

Revenue from governmental grants and contracts are recognized as earned when all applicable eligibility requirements are met. Funds received from the various agencies less than or greater than the expenditures of the program are recorded as assets or liabilities, respectively. At June 30, 2010, \$410,709 was due from funding agencies.

**NOTE F – RECEIVABLE FROM DEVELOPER/INSTALLMENT RECEIVABLES**

**General Fund Receivable:**

The District entered into an agreement with a property developer whereby the District sold approximately 4 acres of land to the developer for \$604,000 in March of 2006. Terms of the agreement called for a cash down payment of \$24,000, a 7.5% interest bearing note in the amount of \$180,000 due, with accrued interest, in March 2011, and a non-interest bearing note in the amount of \$400,000 also due in March 2011. Accounting principles generally accepted in the United States of America require the imputation of interest when a long-term note bears no interest. Accordingly, the non-interest bearing note has been discounted to its present value in the accompanying financial statements.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
Year Ended June 30, 2010

**NOTE F – RECEIVABLE FROM DEVELOPER/INSTALLMENT RECEIVABLES (Continued)**

**Proprietary Funds Receivable:**

Installment receivables due under interlocal agreements bear interest at rates ranging from 4% to 4.5% and have initial terms of 10 years. Installment receivables were reduced for unearned finance charges of \$223,814 at June 30, 2010. Unearned finance charges are amortized to interest income using a method that approximates the interest method.

Details of installment receivables at June 30, 2010 are as follows:

Due in:

2011	\$ 412,471
2012	396,934
2013	383,816
2014	370,062
2015	356,000
Gross installment receivables	1,919,283
Less: unearned finance charges	(223,814)
Installment receivables, net	<u>\$ 1,695,469</u>
Current balance	\$ 337,318
Long-term balance	<u>1,358,151</u>
	<u>\$ 1,695,469</u>

**NOTE G – CAPITAL ASSETS**

The following is a summary of the capital assets of the General Fund under the full accrual basis of accounting. In the government-wide financial statements, these amounts are included in the Statement of Net Assets. These amounts are not reported in the governmental fund financial statements.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE G – CAPITAL ASSETS (Continued)**

	Balance June 30, 2009, As Previously Stated	Balance June 30, 2009, As Restated	Additions	Deletions	Balance June 30, 2010
<b>Not Depreciated</b>					
Land	\$ 26,622,317	\$ 26,622,317	\$ 19,160,734	\$ (450,000)	\$ 45,333,051
Construction in progress	-	7,836,503	5,152,299	-	12,988,802
	26,622,317	34,458,820	24,313,033	(450,000)	58,321,853
<b>Depreciated</b>					
Capital improvements and infrastructure	104,077,805	104,077,805	4,505,558	-	108,583,363
Buildings and improvements	4,244,434	4,244,434	88,338	-	4,332,772
Vehicles and equipment	4,541,581	4,541,581	157,433	(997,814)	3,701,200
	112,863,820	112,863,820	4,751,329	(997,814)	116,617,335
Less accumulated depreciation	(58,610,885)	(58,610,885)	(2,056,966)	988,845	(59,679,006)
	54,252,935	54,252,935	2,694,363	(8,969)	56,938,329
	<u>\$ 86,875,252</u>	<u>\$ 88,711,755</u>	<u>\$27,007,396</u>	<u>\$ (458,969)</u>	<u>\$ 115,260,182</u>

The General Fund allocated depreciation expense in the government-wide financial statements to the primary government functions as follows:

General administration	\$ 150,558
Recreation	231,402
Flood control	1,433,743
Unallocated depreciation	241,263
Total depreciation expense	<u>\$ 2,056,966</u>



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE G – CAPITAL ASSETS (Continued)**

The following is a summary of the capital assets of the Proprietary Funds:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
<b>Not Depreciated</b>				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
<b>Depreciated</b>				
Capital improvements and infrastructure	9,452,803	5,221	-	9,458,024
Vehicles and equipment	82,289	-	-	82,289
	9,535,092	5,221	-	9,540,313
Less accumulated depreciation	(1,460,176)	(109,286)	-	(1,569,462)
	8,074,916	(104,065)	-	7,970,851
	<u>\$ 8,077,916</u>	<u>\$ (104,065)</u>	<u>\$ -</u>	<u>\$ 7,973,851</u>

**NOTE H – LONG-TERM LIABILITIES**

**General Fund Long-Term Debt:**

The following is a summary of the long-term debt for the year ended June 30, 2010. In the government-wide financial statements, this amount is included in the Statement of Net Assets. This amount is not reported in the governmental fund statements.

<u>Fund</u>	<u>Series</u>	<u>Due Date</u>	<u>Principal Payable</u>	<u>Payment Ranges</u>	<u>Interest Rates</u>	<u>Principal Balance</u>
District	2010	December 2030	Semi-Annual	\$485,000 to \$905,000	1.146% to 6.032%	<u>\$ 13,300,000</u>



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE H – LONG-TERM LIABILITIES (Continued)**

**Proprietary Funds Long-Term Debt:**

<u>Fund</u>	<u>Series</u>	<u>Due Date</u>	<u>Principal Payable</u>	<u>Payment Ranges</u>	<u>Interest Rates</u>	<u>Principal Balance</u>
Washington Rural Water #2	2006	June 2022	Semi-Annual	\$200,000 to \$250,000	4.25%	\$ 2,550,000
Washington Rural Water #2	2006	June 2011	Semi-Annual	Interest only	4.65	1,150,000
Thurston Rural Water	1982	December 2022	Annual	Based on water fees	5.00%	230,055
Thurston Rural Water	1993	February 2033	Annual	Based on water fees	5.63%	202,644
Total Long-Term Debt						4,132,699
Less portion due within one year						1,400,565
Long -Term portion						<u>\$ 2,732,134</u>

**General Fund Long-Term Debt:**

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond Payable:					
DA Davidson & Co	\$ -	\$ 13,300,000	\$ -	\$13,300,000	\$ -

**Proprietary Funds Long-Term Debt:**

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable:					
Ameritas Investments	\$ 320,000	\$ -	\$ 320,000	\$ -	\$ -
Ameritas Investments	165,000	-	165,000	-	-
Fremont National Bank	2,775,000	-	225,000	2,550,000	225,000
Fremont National Bank	1,150,000	-	-	1,150,000	1,150,000
Capmark Finance	244,496	-	14,441	230,055	17,182
Rural Economic and Community Development	206,735	-	4,091	202,644	8,383
Business-type Activities Long-Term Liabilities	<u>\$ 4,861,231</u>	<u>\$ -</u>	<u>\$ 728,532</u>	<u>\$4,132,699</u>	<u>\$ 1,400,565</u>



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE H – LONG-TERM LIABILITIES (Continued)**

The annual principal and interest requirements to maturity for long-term debt as of June 30, 2010 are as follows:

Year(s) ending June 30,	General Fund		Proprietary Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ -	\$ 626,928	\$ 1,400,565	\$ 181,594	\$ 1,400,565	\$ 808,522
2012	485,000	625,896	256,099	127,762	741,099	753,648
2013	510,000	619,174	251,951	116,940	761,951	736,114
2014	530,000	609,471	262,848	105,821	792,848	715,292
2015	535,000	596,222	263,792	93,975	798,792	690,197
2016-2020	2,930,000	2,658,588	989,971	326,247	3,919,971	2,984,835
2021-2025	3,375,000	1,906,781	600,808	82,130	3,975,808	1,988,911
2026-2030	4,030,000	896,279	52,140	25,103	4,082,140	921,382
2031-2035	905,000	27,295	54,525	7,271	959,525	34,566
	<u>\$ 13,300,000</u>	<u>\$8,566,634</u>	<u>\$ 4,132,699</u>	<u>\$1,066,833</u>	<u>\$17,432,699</u>	<u>\$9,633,467</u>

**NOTE I – ACCUMULATED UNPAID ANNUAL LEAVE AND SICK PAY**

The estimated current portion of the liability for vested vacation benefits and sick leave is \$227,031 and \$55,690 at June 30, 2010, respectively. These amounts are recorded as expenditures and liabilities in the General Fund in both the government-wide and fund financial statements. The long-term portion is \$88,163 and \$267,711, respectively, at June 30, 2010. These amounts are recorded as non-current liabilities in the government-wide Statement of Net Assets and are not recorded in the governmental fund financial statements. The amount of unvested sick leave benefits payable amounts to \$1,293,604 at June 30, 2010, and is not reported as an expenditure or liability in any of the District's June 30, 2010, financial statements.

The change in compensated absences for the year ended June 30, 2010 was as follows:

Governmental-type Activity:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 585,092	\$ 53,503	\$ -	\$ 638,595	\$ 282,721



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE J – OPERATING LEASE**

The District entered into a leasing agreement for two copy machines in February 2007. The District pays \$705 per month plus applicable taxes for the 60-month lease, as well as a charge per copy that is paid quarterly. During fiscal year 2010, the District's operating lease expense was \$8,458. Following is a schedule of the future minimum lease payments.

Year ending June 30,	Amount
2011	\$ 8,458
2012	5,639
Future minimum lease payments	<u>\$ 14,097</u>

**NOTE K – EMPLOYEES' RETIREMENT PLAN**

All of the District's eligible employees participate in the Nebraska Association of Resources Districts Employees' Governmental Retirement Plan, a statewide multiple-employer retirement system covering all eligible employees of Natural Resources Districts within the State of Nebraska.

All employees who are employed for a minimum of six months, are regularly scheduled to work at least thirty-seven and one-half hours per week, and are age nineteen or older are eligible to participate in the State retirement plan. The District requires all full-time employees to participate. Participants become fully vested after five years, which is applicable only to the employer's contribution.

Plan participants are required to contribute 5.5% of their compensation each pay period, and the District is required to contribute 6.0% of the employee's compensation for each pay period. The District's contributions for the year ended June 30, 2010, were \$163,753, which were the required contributions.

**NOTE L – COMMITMENTS AND CONTINGENCIES**

The District has committed future funds to several ongoing and new projects and cost share agreements. Since the future expenditures will be included in the District's future budgets and are part of the District's function, these commitments have not been recorded in the District's financial statements.

The District engages in land development projects and occasionally invokes eminent domain to acquire the required land to undertake the project. The value of the land acquired by the District when eminent domain is invoked is determined by either a board of appraisers in the affected county, or through the judiciary. The amount of payments that may be required for land, if any, is unknown at June 30, 2010.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE L – COMMITMENTS AND CONTINGENCIES (Continued)**

The District participates in various federal and state assisted grant and contract programs that are subject to review and audit by the grantor agencies. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any revision or disallowance resulting from a federal or state audit may become a liability of the District. The District's management believes such revisions or disallowances, if any, will not be material to the accompanying financial statements.

Certain conditions may exist as of the date of the financial statements which may result in a loss to the District, but which will only be resolved when one or more future events occur or fail to occur. The District's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the District or unasserted claims that may result in such proceedings, the District's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. At June 30, 2010, a reasonable estimate could not be determined for any potential loss contingencies.

The District has a note receivable from a developer. Procedures by the District to collect this note voluntarily have commenced. Under provisions of the District's trust deed, possible collection actions include selling the secured property as a public site.

**NOTE M – TOTAL COLUMNS ON COMBINED AND COMBINING STATEMENTS**

The governmental fund total columns on the combined and combining statements are captioned "memo only" or "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data on the fund financial statements, but have been made on the government-wide financial statements.

**NOTE N – FIDUCIARY FUND: PAPILLION CREEK WATERSHED PARTNERSHIP**

The Papillion Creek Watershed Partnership (PCWP) was created in 2001 through an inter-local agreement to proactively deal with the demands on the Papillion Creek drainage area and to develop an implementation plan that addresses solutions to water quantity and quality problems.

The Papillion Creek Watershed consists of the land area that conveys water to the Missouri River.

The PCWP is comprised of 9 local governments that are wholly or partially in the Papillion Creek Watershed. These local governments fund engineering studies, but do not do any actual construction projects. The District is the administering agent.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**Year Ended June 30, 2010**

**NOTE O – PRIOR PERIOD ADJUSTMENT**

The District has made a prior period adjustment to record amounts due from entities improperly excluded from the general fund in the prior year in the amount of \$576,988. The District has made a prior period adjustment to record grant receivables improperly excluded from the general fund in the prior year in the amount of \$223,979. A prior period adjustment was made to record construction in progress in the amount of \$7,836,503. In addition, the District improperly excluded a notes receivable balance from the Washington County #2 proprietary fund in the prior year in the amount of \$2,031,967. The effect of these three adjustments on net assets is \$10,089,997.

Statement of Activities:

	Beginning balance (As previously reported)	Prior period adjustment	Beginning balance (As restated)
Net Assets	<u>\$ 118,924,477</u>	<u>\$ 10,669,437</u>	<u>\$ 129,593,914</u>

Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Fund:

	Beginning balance (As previously reported)	Prior period adjustment	Beginning balance (As restated)
Fund Balance	<u>\$ 28,495,725</u>	<u>\$ 800,967</u>	<u>\$ 29,296,692</u>

Statement of Revenues, Expenditures, and Change in Fund Balance – Washington County #2:

	Beginning balance (As previously reported)	Prior period adjustment	Beginning balance (As restated)
Fund Balance	<u>\$ 1,696,207</u>	<u>\$ 2,031,967</u>	<u>\$ 3,728,174</u>



REQUIRED SUPPLEMENTAL INFORMATION

DRAFT



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - ACTUAL AND BUDGET  
(BUDGETARY BASIS) - GOVERNMENTAL FUND  
Year Ended June 30, 2010

	Actual	Budget		Variance Favorable (Unfavorable)
		Original	Final	
<b>REVENUES</b>				
General administration	\$ 12,580,944	\$ 17,356,999	\$ 17,356,999	\$ (4,776,055)
Flood prevention	13,899,060	10,498,000	10,498,000	3,401,060
Water quality	50,346	125,000	125,000	(74,654)
Recreation	15,134	656,200	656,200	(641,066)
Forestry and wildlife	472,909	1,261,000	1,261,000	(788,091)
Total revenues	27,018,393	29,897,199	29,897,199	(2,878,806)
<b>EXPENDITURES</b>				
General administration	2,280,038	6,441,495	6,441,495	4,161,457
Information and education	301,210	288,000	288,000	(13,210)
Flood prevention	27,372,344	36,754,152	36,754,152	9,381,808
Erosion control	3,368,774	6,324,455	6,324,455	2,955,681
Water quality	898,550	1,153,825	1,153,825	255,275
Recreation	1,004,241	6,563,688	6,563,688	5,559,447
Forestry and wildlife	973,059	5,078,500	5,078,500	4,105,441
Indirect cost reimbursement	(301,090)	(233,500)	(233,500)	67,590
Cost sharing reimbursement	-	(150,000)	(150,000)	(150,000)
Capital improvements	369,644	-	-	(369,644)
Total expenditures	36,246,770	62,220,615	62,220,615	25,973,845
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (BUDGETARY BASIS) AND OTHER SOURCES</b>	(9,228,377)	\$ (32,323,416)	\$ (32,323,416)	\$ 23,095,039
<b>ADJUSTMENTS REQUIRED UNDER ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA</b>				
To adjust revenues for accruals	-	-	-	-
To adjust expenditures for accruals	(88,163)	-	-	(88,163)
<b>(US GAAP BASIS) AND OTHER SOURCES</b>	(9,316,540)	-	-	(9,316,540)
<b>FUND BALANCE - BEGINNING OF YEAR, As Previously Stated</b>	28,495,725	-	-	-
<b>PRIOR PERIOD ADJUSTMENT</b>	800,967	-	-	-
<b>FUND BALANCE - BEGINNING OF YEAR, As Restated</b>	29,296,692	-	-	-
<b>FUND BALANCE - END OF YEAR</b>	\$ 19,980,152	-	-	-

The accompanying notes to budgetary comparison schedule  
are an integral part of this statement.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2010**

**NOTE A – BUDGETS AND BUDGETARY ACCOUNTING**

The District follows these procedures in establishing the budgetary data reflected in the required supplementary information in accordance with the statutory requirements of the Nebraska Budget Act:

On or before August 1, District management prepares and transmits a budget for each District fund showing the projected requirements, outstanding warrants, operating reserve, cash on hand at the close of the preceding fiscal year, projected revenue collected from sources other than property tax and amount to be raised by property taxation. At least one public hearing must be held by the District's Board of Directors.

On or before September 20, the budget is adopted by the Board of Directors and the amounts provided therein are appropriated. Once approved by the Board of Directors, the legally adopted budget can be modified only with the approval of the Board.

The District Board is authorized to transfer budgeted amounts between departments within any fund through resolution. The Board may allow certain accounts to exceed 110% of their budgeted amount if District personnel provide reasonable justification for doing so before the expenditures occur.

**NOTE B – BASIS OF ACCOUNTING**

The accompanying budgetary comparison schedule is presented on the cash basis of accounting.

**NOTE C – BUDGET LAW**

The District is required by state law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. Any revisions to the adopted budget of total expenditures to any fund require a public hearing.



SUPPLEMENTAL INFORMATION

DRAFT



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**STATEMENT OF FUNCTIONAL REVENUES, EXPENDITURES, AND CHANGE**  
**IN FUND BALANCE - GOVERNMENTAL FUND**  
**Year Ended June 30, 2010**

**REVENUES**

Property tax	\$ 16,794,112
Bond proceeds	13,300,000
State and agency grants	2,142,628
Federal grants	890,035
Miscellaneous	604,807
Rental income	169,448
Interest income	43,385
Sales	2,101
Total revenues	<u>33,946,516</u>

**EXPENDITURES**

Project construction and land	22,185,865
Special projects	3,658,476
Personnel	3,018,622
Professional services	2,655,289
Contract works	2,211,292
Conservation assistance program	929,817
Employee benefits	720,326
Repairs and maintenance	420,670
Fees	352,872
Project legal costs	296,728
Information and education	234,739
Payroll taxes	226,805
Machinery and equipment	153,921
Insurance	152,705
Project operation and maintenance	149,096
Telephone, utilities, and rent	137,260
Miscellaneous	112,611
Vehicle expense	110,813
Vehicles	107,645
Travel	103,898
Printing and publications	91,155
Board of directors	57,777
Supplies and postage	50,400
Bonds and amortization	2,000
Indirect cost reimbursement	(301,090)
Total expenditures	<u>37,839,692</u>

**EXCESS OF REVENUES OVER EXPENDITURES**

(3,893,176)

**FUND BALANCE - BEGINNING OF YEAR, As Previously Stated**

28,495,725

**PRIOR PERIOD ADJUSTMENT**

800,967

**FUND BALANCE - BEGINNING OF YEAR, As Restated**

29,296,692

**FUND BALANCE - END OF YEAR**

\$ 25,403,516



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - ACTUAL AND BUDGET - PROPRIETARY FUNDS  
Year Ended June 30, 2010

	Total (Memorandum Only)			Dakota Rural Water			Washington Rural Water #1		
	Actual	Original	Final	Actual	Original	Final	Actual	Original	Final
<b>OPERATING REVENUES</b>									
Water sales	\$ 790,167	\$ 850,000	\$ 850,000	\$ 283,893	\$ 320,000	\$ 320,000	\$ 290,321	\$ 300,000	\$ 300,000
Customer charges and hookup fees	73,464	75,475	75,475	15,616	29,700	29,700	33,064	17,000	17,000
Sales	1,784	750	750	150	750	750	1,161	500	500
Miscellaneous	5,859	40,160	487,500	569	500	500	-	-	-
Total operating revenues	871,284	1,415,725	1,413,725	300,333	350,450	350,450	324,566	317,500	317,500
<b>OPERATING EXPENSES</b>									
Repairs and maintenance	10,416	4,950	4,550	2,512	4,000	4,000	-	300	300
Supplies and postage	10,483	12,450	12,450	7,108	7,700	7,700	266	2,350	2,350
Professional services	50,667	59,400	59,650	11,660	12,200	12,200	7,426	15,500	15,500
Personnel	23,051	310,500	311,500	104,787	120,000	120,000	111,223	95,000	95,000
Insurance	2,200	2,200	2,200	-	1,200	1,200	-	600	600
Telephone, utilities, and rent	18,157	20,600	20,600	4,892	6,600	6,600	7,754	7,830	7,930
Miscellaneous	5,633	7,785	7,785	2,640	2,200	2,200	1,209	3,450	3,450
Water purchases	215,288	228,000	228,000	71,823	75,000	75,000	99,372	105,000	105,000
Contract costs	76,878	174,250	176,250	16,890	25,000	25,000	13,314	25,000	25,000
Project construction and land	69,177	13,325	13,325	13,325	16,700	16,700	43,676	24,550	24,550
Depreciation and amortization	16,203	30,400	30,400	3,352	4,100	4,100	5,106	15,000	15,000
Vehicle expense	105,286	-	-	21,948	-	-	28,152	-	-
Bond expenditures	10,461	16,500	16,500	5,671	8,000	8,000	3,421	7,000	7,000
Indirect cost	1,558	356,000	356,000	159	75,000	75,000	-	40,000	40,000
Total operating expense	871,289	1,261,480	1,261,480	267,897	388,200	388,200	321,157	342,230	342,230
<b>OPERATING INCOME (LOSS)</b>	(15)	132,235	132,235	63,776	(7,750)	(7,750)	3,409	(24,730)	(24,730)
<b>NON-OPERATING INCOME (EXPENSE)</b>									
Assessment revenue	69,340	61,000	61,000	-	-	-	-	-	-
Interest income	106,407	43,600	43,600	7,907	14,000	14,000	4,816	12,500	12,500
Interest expense	(219,907)	(223,680)	(223,680)	(19,506)	(12,830)	(12,830)	(4,810)	(6,100)	(6,100)
Total non-operating income (expense)	(40,155)	(119,080)	(119,080)	(1,599)	(1,170)	(1,170)	8	6,400	6,400
<b>CHANGE IN NET ASSETS</b>	(40,170)	\$ 13,155	\$ 13,155	3,678	\$ (6,200)	\$ (6,200)	3,417	\$ (18,330)	\$ (18,330)
<b>NET ASSETS - BEGINNING OF YEAR</b>	6,020,602			1,645,976			2,009,890		
<b>PRIOR PERIOD ADJUSTMENT</b>	2,031,967			-			-		
<b>NET ASSETS - BEGINNING OF YEAR, As Restated</b>	8,052,569			1,645,976			2,009,890		
<b>NET ASSETS - END OF YEAR</b>	\$ 8,012,399			\$ 1,677,554			\$ 2,013,307		



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - ACTUAL AND BUDGET - PROPRIETARY FUNDS (Continued)  
Year Ended June 30, 2010

	Washington Rural Water #2			Non-Major Proprietary Funds		
	Actual	Original	Budget	Actual	Original	Budget
<b>OPERATING REVENUES</b>						
Water sales	\$ 124,556	\$ 120,000	\$ 120,000	\$ 91,487	\$ 110,000	\$ 119,000
Customer charges and hookup fees	22,312	25,500	25,500	2,273	3,275	3,275
Sales	-	-	-	-	-	500
Miscellaneous	145,868	534,500	439,000	5,293	47,800	47,500
Total operating revenues				99,317	161,275	161,275
<b>OPERATING EXPENSES</b>						
Repairs and maintenance	-	-	-	1,904	250	250
Supplies and postage	228	750	750	2,801	1,650	1,650
Professional services	8,151	8,200	8,200	27,430	23,750	23,750
Personnel	30,390	30,000	30,000	37,651	69,500	69,500
Insurance	-	-	-	-	250	250
Telephone, utilities, and rent	-	-	-	5,451	6,150	6,150
Miscellaneous	1,550	1,000	1,000	234	1,135	1,135
Water purchase	22,187	23,000	23,000	21,897	25,000	25,000
Contract costs	34,133	31,000	31,000	12,541	83,250	83,250
Project construction and land	1,960	50	50	16	2,025	2,025
Project operation and maintenance	3,369	12,300	12,300	4,486	9,000	9,000
Depreciation and amortization	49,686	-	-	9,490	-	-
Vehicle expense	1,369	3,500	3,500	-	-	-
Bond expenditures	-	225,000	225,000	-	16,000	16,000
Indirect cost	-	100	100	1,171	1,200	1,200
Total operating expense	158,033	331,800	331,800	125,252	249,180	249,180
<b>OPERATING INCOME (LOSS)</b>	(11,165)	252,600	252,600	(25,935)	(87,905)	(87,905)
<b>NON-OPERATING INCOME (EXPENSE)</b>						
Assessment revenue	-	-	-	59,340	61,000	61,000
Interest income	91,992	10,000	10,000	1,690	7,100	7,100
Interest expense	(177,864)	(178,250)	(178,250)	(23,733)	(26,500)	(26,500)
Total non-operating income (expense)	(85,862)	(168,250)	(168,250)	47,297	41,600	41,600
<b>CHANGE IN NET ASSETS</b>	(97,027)	\$ 84,350	\$ 84,350	21,762	\$ (46,285)	\$ (46,285)
<b>NET ASSETS - BEGINNING OF YEAR, As Previously Stated</b>	1,695,207			558,529		
<b>PRIOR PERIOD ADJUSTMENT</b>	2,031,967			-		
<b>NET ASSETS - BEGINNING OF YEAR, As Restated</b>	3,728,174			558,529		
<b>NET ASSETS - END OF YEAR</b>	\$ 3,631,147			\$ 680,291		



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF NET ASSETS - NON-MAJOR - PROPRIETARY FUNDS  
June 30, 2010

ASSETS	Total (Memorandum Only)	Thurston County Rural Water	Ekhorn River Stabilization	Elm/Pigeon Creek Drainage	Western Sappy Drainage	Ekhorn Breakout
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 371,536	\$ 87,125	\$ 99,398	\$ 45,334	\$ 132,963	\$ 6,715
Certificates of deposit	-	-	-	-	-	-
Service receivables	7,898	7,898	-	-	-	95
Interest receivable	31	31	-	-	-	-
Due from other funds	-	-	-	-	-	-
Current Portion of Installment Receivable	-	-	-	-	-	-
Inventories	4,142	4,142	-	-	-	-
Total current assets	383,701	99,196	99,398	45,334	132,963	6,810
<b>NONCURRENT ASSETS</b>						
Restricted cash and cash equivalents	-	-	-	-	-	-
Restricted certificates of deposit	54,271	54,271	-	-	-	-
Installment Receivable, less current portion	-	-	-	-	-	-
Capital assets						
Land	1,000	1,000	-	-	-	-
Capital improvements and infrastructure	948,070	948,070	-	-	-	-
Vehicles and equipment	-	-	-	-	-	-
Accumulated depreciation	(256,230)	(256,230)	-	-	-	-
Total capital assets	693,770	693,770	-	-	-	-
Total noncurrent assets	758,041	758,041	-	-	-	-
	\$ 1,141,742	\$ 857,237	\$ 99,398	\$ 45,334	\$ 132,963	\$ 6,810
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 7,500	\$ 7,500	-	-	-	-
Accrued expenses	882	882	-	-	-	-
Due to other funds	10,370	10,370	-	-	-	-
Current portion of long-term debt	29,565	29,565	-	-	-	-
Total current liabilities	48,317	48,317	-	-	-	-
<b>NONCURRENT LIABILITIES</b>						
Long-term debt, less current portion	407,134	407,134	-	-	-	-
Total liabilities	455,451	455,451	-	-	-	-
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	261,071	261,071	-	-	-	-
Restricted	64,271	64,271	-	-	-	-
Unrestricted	364,949	364,949	99,398	45,334	132,963	6,810
Total net assets	690,291	690,291	99,398	45,334	132,963	6,810
	\$ 1,141,742	\$ 857,237	\$ 99,398	\$ 45,334	\$ 132,963	\$ 6,810



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - NON-MAJOR - PROPRIETARY FUNDS  
Year Ended June 30, 2010

	Total (Memorandum Only)				Thurston Rural Water				Elkhorn River Stabilization			
	Budget		Budget		Budget		Budget		Budget		Budget	
	Actual	Original	Final	Actual	Original	Final	Actual	Original	Final	Actual	Original	Final
<b>OPERATING REVENUES</b>												
Water sales	\$ 91,487	\$ 110,000	\$ 110,000	\$ 91,487	\$ 110,000	\$ 110,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	2,273	3,275	3,275	2,273	3,275	3,275	-	-	-	-	-	-
Sales	463	500	500	463	500	500	-	-	-	-	-	-
Miscellaneous	5,294	47,500	47,500	-	-	-	-	-	-	-	-	-
Total operating revenues	99,517	161,275	161,275	94,223	113,775	113,775	-	-	-	-	-	-
<b>OPERATING EXPENSES</b>												
Repairs and maintenance	1,904	250	250	1,904	250	250	-	-	-	-	-	-
Supplies and postage	2,801	1,650	1,650	2,801	1,600	1,600	-	50	50	-	50	50
Professional services	27,436	23,750	23,750	1,877	7,200	7,200	-	-	-	-	-	-
Personnel	37,651	63,500	63,500	25,142	30,000	30,000	-	-	-	-	-	-
Insurance	-	250	250	-	250	250	-	-	-	-	-	-
Telephone, utilities, and rent	5,451	6,150	6,150	5,451	6,150	6,150	-	-	-	-	-	-
Miscellaneous	234	1,135	1,135	234	1,000	1,000	-	-	-	-	-	-
Water purchase	21,897	25,000	25,000	21,897	25,000	25,000	-	-	-	-	-	-
Contract costs	12,541	93,250	93,250	8,291	8,250	8,250	-	-	-	-	-	-
Project construction and land	16	2,025	2,025	-	25	25	-	-	-	-	-	-
Project operation and maintenance	4,466	9,000	9,000	9,490	-	-	-	5,000	5,000	-	-	5,000
Depreciation and amortization	9,490	-	-	-	-	-	-	-	-	-	-	-
Vehicle expense	-	-	-	-	-	-	-	-	-	-	-	-
Bond expenditures	-	-	-	-	-	-	-	-	-	-	-	-
Indirect cost	1,171	16,000	16,000	-	-	-	-	-	-	-	-	-
Total operating expenses	125,052	249,180	249,160	78,236	16,850	16,850	16,850	5,600	5,600	5,600	5,600	5,600
<b>OPERATING INCOME (LOSS)</b>	(25,535)	(87,885)	(87,885)	15,965	16,850	16,850	-	(5,600)	(5,600)	-	(5,600)	-
<b>NON-OPERATING INCOME (EXPENSE)</b>												
Assessment revenue	69,340	61,000	61,000	-	-	-	-	-	-	-	-	-
Interest income	1,690	7,100	7,100	993	2,000	2,000	260	1,600	1,600	-	1,600	1,600
Interest expense	(23,733)	(26,500)	(26,500)	(23,733)	(26,500)	(26,500)	-	-	-	-	-	-
Total non-operating income (expense)	47,297	41,600	41,600	(22,740)	(24,500)	(24,500)	260	1,600	1,600	-	1,600	1,600
<b>CHANGE IN NET ASSETS</b>	21,762	\$ (46,285)	\$ (46,285)	(6,775)	\$ (7,650)	\$ (7,650)	260	\$ (4,000)	\$ (4,000)	260	\$ (4,000)	\$ (4,000)
<b>NET ASSETS - BEGINNING OF YEAR</b>	668,529			412,561			99,138			99,138		
<b>NET ASSETS - END OF YEAR</b>	\$ 690,291			\$ 405,786			\$ 99,398			\$ 99,398		



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - NON-MAJOR - PROPRIETARY FUNDS (Continued)**  
**Year Ended June 30, 2010**

	Elk/Pigeon Creek Drainage			Western Sappy Drainage			Elkhorn Breakout		
	Actual	Original	Budget	Actual	Original	Budget	Actual	Original	Budget
<b>OPERATING REVENUES</b>									
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-
Miscellaneous	5,294	47,500	47,500	-	-	-	-	-	-
Total operating revenues	5,294	47,500	47,500	-	-	-	-	-	-
<b>OPERATING EXPENSES</b>									
Repairs and maintenance	-	-	-	-	-	-	-	-	-
Supplies and postage	-	-	-	-	-	-	-	-	-
Professional services	25,553	15,500	15,500	-	1,000	1,000	-	-	-
Personnel	9,007	9,000	9,000	3,502	30,000	30,000	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Telephone, utilities, and rent	-	-	-	-	-	-	-	-	-
Miscellaneous	-	135	135	-	-	-	-	-	-
Water purchase	-	-	-	-	-	-	-	-	-
Contract costs	4,250	80,000	80,000	-	5,000	5,000	-	-	-
Project construction and land	-	1,000	1,000	16	1,000	1,000	-	-	-
Project operation and maintenance	-	3,000	3,000	4,466	1,000	1,000	-	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-	-
Vehicle expense	-	-	-	-	-	-	-	-	-
Bond expenditures	-	-	-	-	-	-	-	-	-
Indirect cost	-	-	-	-	-	-	-	-	-
Total operating expenses	38,810	108,635	108,635	7,984	38,000	38,000	-	-	-
<b>OPERATING INCOME (LOSS)</b>	(33,516)	(61,135)	(61,135)	(7,984)	(38,000)	(38,000)	-	-	-
<b>NON-OPERATING INCOME (EXPENSE)</b>									
Assessment revenue	50,354	45,000	45,000	18,986	16,000	16,000	-	-	-
Interest income	82	1,500	1,500	337	2,000	2,000	18	100	100
Interest expense	-	-	-	-	-	-	-	-	-
Total non-operating income (expense)	50,436	46,500	46,500	19,323	18,000	18,000	18	100	100
<b>CHANGE IN NET ASSETS</b>	16,920	\$ (14,635)	\$ (14,635)	11,339	\$ (20,000)	\$ (20,000)	18	\$ 100	\$ 100
<b>NET ASSETS - BEGINNING OF YEAR</b>	28,414			121,624			6,792		
<b>NET ASSETS - END OF YEAR</b>	\$ 45,334			\$ 132,963			\$ 6,810		



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF CERTIFICATE OF DEPOSIT - GOVERNMENTAL FUND  
June 30, 2010

	<u>Cost</u>	<u>Interest Rate</u>
General fund		
Certificate of deposit		
Great Western Bank	<u>\$         50,000</u>	1.55%
General fund - unrestricted but reserved investments	<u><u>\$         50,000</u></u>	

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF CERTIFICATES OF DEPOSIT - PROPRIETARY FUNDS  
June 30, 2010

	<u>Cost</u>	<u>Interest Rate</u>
Proprietary funds		
Certificates of deposit		
Dakota County		
Northwest Bank	104,048	1.71%
Nebraska-Iowa State Bank	66,000	1.75%
Siouxland National Bank	100,000	1.99%
Great Western Bank	100,022	0.75%
	<u>370,070</u>	
Washington County #1		
American National Bank	115,311	0.74%
Centennial Bank	100,000	1.40%
Great Southern Bank	75,078	1.70%
	<u>290,389</u>	
Thurston County		
American National Bank	7,523	0.79%
American National Bank	51,748	0.89%
Centennial Bank	5,000	1.25%
	<u>64,271</u>	
	724,730	
Less unrestricted portion	<u>(660,459)</u>	
Proprietary funds - restricted certificates of deposit	<u>\$ 64,271</u>	



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF INSURANCE POLICIES AND BONDS  
JUNE 30, 2010**

**SCHEDULED PROPERTY FLOATER AND EQUIPMENT**

Covering property, vehicle, and equipment; total limit \$10,918,572; deductible/\$5,000; Flood coverage/\$1,000,000 with deductible/\$5,000; Earthquake and earth movement limit/\$1,000,000 with deductible/\$5,000.

**GENERAL LIABILITY**

Medical payments/\$10,000; Personal injury and advertising injury/\$1,000,000; Wrongful acts/\$1,000,000 with deductible/\$10,000; Employee benefits liability/\$1,000,000; Professional liability/\$1,000,000; Employment-related practices injury/\$1,000,000 with deductible/\$10,000; Damage to premises rented to you/\$1,000,000; bodily injury and property damage \$1,000,000 per occurrence, \$3,000,000 aggregate.

**COMMERCIAL AUTOMOBILE**

Each accident/\$1,000,000; Medical payments/\$5,000; Uninsured and underinsured motorists/\$1,000,000; Collision deductible/\$500.

**WORKERS' COMPENSATION**

Bodily injury by accident/\$500,000; Bodily injury by disease/\$500,000.

**EMPLOYEE DISHONESTY BONDS**

Public employees/\$100,000 with the exception of one \$15,000 Notary Bond. Forgery/\$250,000 with deductible/\$500; Computer fraud/\$100,000 with deductible/\$500; Theft, disappearance, and destruction/\$250,000 with deductible/\$500.

**COMMERCIAL UMBRELLA POLICY**

Combined bodily injury and property damage/\$10,000,000.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF TAXES RECEIVABLE - GOVERNMENTAL FUND  
June 30, 2010

COUNTY

Douglas	\$ 4,675,060
Sarpy	2,765,399
Washington	435,337
Dakota	358,330
Burt	53,051
Thurston	44,755
Dodge	<u>276</u>
	<u>\$ 8,332,208</u>

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF CASH BALANCES HELD BY COUNTY TREASURERS  
June 30, 2010

GENERAL FUND

Douglas	\$	444,791
Sarpy		54,094
Washington		6,735
Dakota		5,168
Burt		2,916
Thurston		349
Dodge		<u>951</u>
	\$	<u><u>515,004</u></u>



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
INFORMATION REQUIRED BY SECTION 2-3223, N.R.S - 1943  
Year Ended June 30, 2010

Gross income from all sources	\$ 35,482,137
Amount expended for	
Maintenance	\$ 565,150
Improvements and other such programs	3,946,567
	\$ 4,511,717
Amount of depreciation on property during previous year	\$ 2,166,252
Number of employees as of June 30, 2010	56
Gross salaries	\$ 3,602,648
Less amount reimbursed by projects	(301,090)
Net salaries paid to employees	\$ 3,301,558



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DRAFT



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2010

Program	Pass-Through Grantor's Number	Federal CFDA Number	Contract Amount	Expenditures
U.S. Department of Agriculture - Natural Resource Conservation Service				
Turtle Creek 2 Rehabilitation **	69-6526-6-478	10.904	\$ 329,813	\$ 148,379
Emergency Watershed Protection Project - Cambridge Oaks Cambridge Estates, Mockingbird Heights **	69-6526-8-536	10.904	587,400	480,252
U.S. Department of Federal Emergency Management Assistance				
Floodway Mapping: floodplain mapping of Washington County, NE	EM-2008-CA-8006	97.045	169,100	40,844
Multi-Jurisdictional Multi-Hazard Mitigation Plan	DR-1770-NE-0005	97.039	225,000	120,313
King Lake Floodway Purchase Program	DR-1674-NE-0079	97.039	450,200	73,154
U.S. Department of Transportation				
West Douglas County Trails (4)	STB-28 (87)	20.206	500,000	14,194
Pass-thru program to the State of Nebraska - U.S. Environmental Protection Agency				
Section 319 Project 56-0788 Whitted Creek Rehabilitation Project	56-0788	66.460	Unknown	298,785
Total				<u>\$ 1,175,921</u>

\*\* Major program

The accompanying note to schedule of expenditures of federal awards is an integral part of this statement



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2010

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Papio-Missouri River Natural Resources District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

For the year ended June 30, 2010, the District exceeded the \$500,000 expenditure threshold, which requires additional audit procedures and reporting in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

DRAFT



**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 Directors  
Papio-Missouri River Natural Resources District  
Omaha, Nebraska

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Papio-Missouri River Natural Resources District (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (2010-1, 2010-2, and 2010-3) to be material weaknesses.

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



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

with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs (2010-4) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's 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*.

We noted other matters involving the internal control over financial reporting that we have reported to the District's management in a separate letter dated December 3, 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Omaha, Nebraska  
December 3, 2010

BLAND + ASSOCIATES, P.C.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

DRAFT



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Papio-Missouri River Natural Resources District  
Omaha, Nebraska

**Compliance**

We have audited the compliance of the Papio-Missouri River Natural Resources District (the District) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. The District's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with these requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BLAND & ASSOCIATES, P.C.

Omaha, Nebraska  
December 3, 2010



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010**

**A. SUMMARY OF AUDIT FINDINGS**

**FINANCIAL STATEMENT AUDIT**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

Material weakness(es) identified: Yes   X   No       

Significant deficiency(ies) identified that are not considered to be a material weakness(es): Yes   X   No       

Noncompliance material to the financial statements noted: Yes        No   X  

**MAJOR FEDERAL AWARD PROGRAM AUDIT**

Internal control over major programs:

Material weakness(es) identified: Yes        No   X  

Significant deficiency(ies) identified that are not considered to be a material weakness(es): Yes        No   X  

Type of auditor's report issued on compliance for major programs: **Unqualified**

Audit findings disclosed that are required to be reported in accordance with 510(a) OMB Circular A-133: Yes        No   X



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010

A. SUMMARY OF AUDIT FINDINGS (Continued)

MAJOR FEDERAL AWARD PROGRAM AUDIT (Continued)

The only program tested for compliance was the Watershed Protection and Flood Prevention program (CFDA No. 10.904) which is funded through the U.S. Department of Agriculture – Natural Resources Conservation.

Threshold used for distinguishing between Type A and B programs: \$300,000

Is the Papio-Missouri River Natural Resources District  
considered to be a low-risk auditee:

Yes   X  

No           

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**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESSES**

2010-1 Condition: During fieldwork we noted that the District did not properly record receivables due from other entities as of the year end. In addition, the District did not properly record the balance of two note receivables for the proprietary fund Washington County #2.

Criteria: The responsibility for the proper reporting of receivables resides with the management of the District.

Cause: These receivables were part of an interlocal agreement and while they were properly tracked by the project manger, the balances were not properly recorded by the accounting department.

Effect: Failure to record these receivables due from other entities and notes receivable resulted in a material misstatement of the District's financial statements.

Recommendation: We recommend the District develop a process for communication and accounting of such receivables.

Response: This timing issue resulted from ongoing receivables that initially should have been recorded several years ago. Now that the current accounting staff is aware of these receivables, we can make adjustments at the end of the year to recognize the revenue in the proper period for the financial statements. For our budget reports, the revenue has been recognized when received, as is appropriate under the cash basis.



**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESSES (Continued)**

2010-2 Condition: Federal expenditures were improperly reported in prior years' Schedule of Expenditures of Federal Awards. In addition, a prior period adjustment in the amount of \$223,979 was made to correct the beginning due from agency amount for the Section 319 Project 56-0788 Whitted Creek Rehabilitation Project.

Criteria: The responsibility for the proper reporting of federal expenditures and federal awards resides with the management of the District.

Cause: The District has a history of lack of communication between the accounting department and project managers regarding federal funding.

Effect: The District failed to record grant revenues in the proper period. While this adjustment did not affect our major program determination in prior years, failure to track federal expenditures or reimbursement created inaccuracies in the District's Schedule of Expenditures of Federal Awards and the information reported on the Data Collection Form.

Recommendation: We recommend continued adherence to the District's grant monitoring process necessitating strong cooperation and communication between the accounting department and project manager.

Response: Although the process improved greatly during FY10, we did discover a few issues from prior years while working on the current year. Staff recommends an information session with Bland and Associates, the project managers, and accounting to make sure that everyone involved understands reporting requirements. The reorganization of our chart of accounts by project beginning in FY11 will also help us to make sure that expenditures are reported correctly.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESSES (Continued)**

2010-3 Condition: During fieldwork we noted that the District did not properly capitalize construction in progress in the years the work was completed. This resulted in a prior period adjustment in the amount of \$7,836,503.

Criteria: The responsibility for the proper tracking of property, plant and equipment additions is required by *Governmental Accounting Standards Board Statement No. 34*.

Cause: The District capitalizes projects at completion and does not have a formal procedure to ensure that construction in progress is reported each year.

Effect: Failure to record these resulted in a material misstatement of the District's financial statements.

Recommendation: The District currently tracks the construction in progress costs for each project. We recommend the District capitalize all capital improvements and infrastructure costs in a construction in progress account in the year they are incurred for financial reporting purposes.

Response: Now that the District is aware of the issue, steps will be taken to ensure the proper entries are recorded next year.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCY**

2010-4 Condition: Property and equipment disposals are not reconciled to the general ledger. During our fixed asset disposal testing we tested fourteen assets, from which we noted that two assets marked for deletion are still used by the District.

Criteria: The responsibility for the proper tracking of property, plant and equipment disposals is required by *Governmental Accounting Standards Board Statement No. 34*.

Cause: The District does not have a formal procedure to ensure that disposals of fixed assets are reported to the accounting department as they occur.

Effect: Without such a procedure, the likelihood increases that disposals are not being recorded.

Recommendation: We recommend a formal policy to ensure the reporting of fixed asset disposals should be adopted and should include the necessary level of approval for the disposal. This information should be reported to the accounting department on a timely basis. A standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to the District policy.

Response: We attempted this year to purge the asset listing of items suspected to have been disposed in the past. Staff agrees with the recommendation that a standard form be used for both additions and disposals to facilitate communication between departments. This standard form is being drafted for immediate implementation.



PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
Year Ended June 30, 2010

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

No significant deficiencies or material weaknesses were noted during the major federal awards program audit.

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PRIOR YEAR AUDIT FINDINGS

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**PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT  
PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2010**

**FINANCIAL STATEMENT AUDIT**

No significant deficiencies were noted during the prior year.

**MAJOR FEDERAL AWARD PROGRAM AUDIT**

No significant deficiencies were noted during the prior year.

**DRAFT**



To the Board of Directors  
Papio-Missouri River Natural Resources District  
Omaha, Nebraska

In planning and performing our audit of the financial statements of Papio-Missouri River Natural Resources District (the District) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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.

We consider the following deficiencies in the Company's internal control to be material weaknesses:

#### **Recording Receivables**

During fieldwork we noted that the District did not properly record receivables due from other entities as of the year end. These receivables were part of an interlocal agreement and while they were properly tracked by the project manager, the balances were not properly recorded by the accounting department. We recommend the District develop a process for communication and accounting of such receivables.

#### **Schedule of Expenditures of Federal Awards**

The District has a history of a lack of communication between the accounting department and project managers regarding federal funding. As a result, federal expenditures were improperly reported on the prior years' Schedule of Expenditures of Federal Awards. Should this control deficiency persist it will continue to impact OMB Circular A-133 Compliance, the District's Schedule of Expenditures of Federal Awards, and the information contained on the Data Collection Form. We strongly recommend adherence to the District's



grant monitoring process necessitating stronger cooperation and communication between the accounting department and project managers.

### **Construction in Progress**

During our fieldwork we noted that the District did not properly capitalize construction in progress in the years the work was completed. This resulted in a prior period adjustment in the amount of \$7,836,503. The District capitalizes projects at completion and does not have a formal procedure in place to ensure construction in progress is reported each year. The District currently tracks the construction in progress costs for each project. We recommend the District capitalize all capital improvements and infrastructure costs in a construction in progress account in the year they are incurred for financial reporting purposes.

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. We consider the following deficiency in the District's internal control to be a significant deficiency:

### **Fixed Asset Disposals**

During our fixed asset disposal testing we tested fourteen assets, from which we noted that two assets marked for deletion are still used by the District. The District does not have a formal procedure to ensure that disposals of fixed assets are reported to the accounting department as they occur. Without such a procedure, the likelihood increases that disposals are not being recorded. This often leads to a situation where fixed assets that physically exist within an entity and the asset listing used for accounting purposes do not reconcile. We recommend a formal policy to ensure the reporting of fixed asset disposals should be adopted and should include the necessary level of approval for the disposal. This information should be reported to the accounting department on a timely basis. A standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to the District policy.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated December 3, 2010 on the financial statements of the District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:



### **Journal Entries**

During the audit, it was noted that some of the journal entries were not reviewed and the General Journal Entry Form was not being used for all entries. Journal entry testing is an important test of management's ability to override controls. We recommend that management use the General Journal Entry form for all entries. The District's accounting personnel should review and initial every entry made. In addition, journal entries should always be supported by appropriate documentation and approval. Good documentation serves as an accounting record and facilitates future follow-up as well as additional insight for other users.

### **Segregation of Duties**

On occasion, the receptionist will enter the water receipts and take the deposit to the bank. While effective segregation of duties policies and procedures have been designed by the District, as noted above these policies and procedures are not always adhered to by the District's staff. Duties should be segregated to serve as a check and balance of the employee's integrity and to maintain the best control system possible. For this reason, we feel that the District should adhere to their segregation of duties policies as closely as possible.

### **Accounts Payable**

We noted that the District dated all checks signed at the July Board meeting as of year end causing the checks to be improperly excluded from the accounts payable balance at year end. We understand that the District requires this for budgetary purposes. We recommend the District make a reclassification entry to report the expenses in the proper period for financial reporting.

In addition, during our search for unrecorded liabilities we found several invoices that were improperly excluded from the accounts payable balance at year end. This is not unusual given the nature of many of the construction invoices that the District receives. These invoices are commonly submitted months after the services take place. Cutoffs are critical for the accuracy of the accounts payable balance and we recommend the District closely scrutinize invoices several months subsequent to year end.

### **Leased Copiers**

Copiers and scanners contain a hard drive that stores images of the documents used by the machines. These images have the potential to contain sensitive information. When an entity leases rather than purchases their copiers we recommend they consider wiping the hard drive clean for confidentiality purposes.



#### **Accounting Department Office Facilities**

The accounting department maintains a significant amount of sensitive files and data and we feel it is important to provide proper safeguards over these assets. Currently, the accounting department is located in an open desk area of a public building. We recommend the District consider moving the accounting department in a more secure location.

#### **Contract Review**

The District enters into a significant amount of complex contracts throughout the ordinary course of business. We recommend the District consider an additional contract review engagement be performed to ensure all contracts are being properly followed by all parties involved.

#### **Bond Projection**

The District recently issued a significant amount of revenue bonds. Should the District have concerns regarding their ability to continue to meet bonding debt requirements, we recommend they have a more formal projection performed.

#### **Recent Accounting Pronouncement**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The District will be required to adopt GASB 54 in its 2011 annual financial statements.

We believe that the implementation of these recommendations will provide the District with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

*BLAND + ASSOCIATES, P.C.*



## MEMORANDUM

To: Board of Directors  
Subject: Response to FY 2010 Audit Management Letter  
Date: November 5, 2010  
From: Carey Fry, District Accountant  
John Winkler, General Manager

Below are our responses to the issues raised in the draft management letter from Bland and Associates received on November 3, 2010.

### Recording Receivables

This timing issue resulted from ongoing receivables that initially should have been recorded several years ago. Now that the current accounting staff is aware of these receivables, we can make adjustments at the end of the year to recognize the revenue in the proper period for the financial statements. For our budget reports, the revenue has been recognized when received, as is appropriate under the cash basis.

### Schedule of Expenditures of Federal Awards

Although the process improved greatly during FY10, we did discover a few issues from prior years while working on the current year. Staff recommends an information session with Bland and Associates, the project managers, and accounting to make sure that everyone involved understands reporting requirements. The reorganization of our chart of accounts by project beginning in FY11 will also help us to make sure that expenditures are reported correctly.

### Fixed Asset Disposals

We attempted this year to purge the asset listing of items suspected to have been disposed in the past. Staff agrees with the recommendation that a standard form be used for both additions and disposals to facilitate communication between departments. This standard form is being drafted for immediate implementation.

### Journal Entries

During FY10, the accounting department kept a binder of handwritten journal entry forms with signed approvals. We are not aware that any forms are missing. The new system implemented in FY11 generates journal entry sheets with information on which user created and posted each entry. We feel this will be an improvement from an audit standpoint for several reasons. Data entry from a handwritten form may be prone to error, and it would be harder to tamper with approval information captured electronically. At a time when many businesses are moving towards paperless offices, there is no reason to continue handwritten forms.



Documentation is mostly maintained separately from the journal entries, as the bank statements and the rural water reports are kept in their own files. We have found this to be the most efficient organization.

#### Segregation of Duties

For cross-training purposes, the receptionist was taught to enter receipts into the rural water system. Although her work was reviewed by the accounting assistant, we will take better care in future to ensure that she does not take the same deposits to the bank. It should be noted that, especially in smaller departments and agencies, perfect segregation of duties at all times is unrealistic.

#### Accounts Payable

Checks to be approved at July board meetings need to be dated June 30 to arrive at the cash on hand balance at the end of the year for budget purposes. Otherwise it would appear that we had quite a bit more money for the following fiscal year than we actually did, as June's expenditures would not have been deducted. We can make an adjusting entry to reverse this for the audited statements in future years.

To some degree, unrecorded liabilities are an unfortunate fact of life. Our auditors are correct in that invoices continue to trickle in months after the fiscal year ends. However, we must cut them off at some point to submit our trial balance for their review, which takes place well before the recommended "several months subsequent to year end."

#### Leased Copiers

The District will work with the vendor and our I.T. Department to wipe the hard drive clean before the copier leaves the District's possession.

#### Accounting Department Office Facilities

The District has presented plans to the Board of Directors to remodel the District offices and to move the Accounting Department into a locked and secured area. However, due to budgetary constraints the District is not in a position to undertake this effort at this particular point in time.

#### Contract Review

The District will take this recommendation under advisement, however, budgetary constraints and other factors will need to be weighed.

#### Bond Projection

The District does not have concerns regarding its bonding debt requirements at this time.

#### Recent Accounting Requirements



The District understands the GASB-54 reporting requirements and understands it will need to adopt GASB 54 in its 2011 financial statements.

District management works cooperatively with the current District Auditor Bland and Associates to implement recommendations to make the District's internal control system more effective and efficient. As noted in the above responses to the auditor's recommendations, the District has proactively taken steps to address the issues raised by the auditor and to further strengthen its financial processes and procedures.