

Agenda Item: 6.

Discussion of Draft FY 2011 Audit – Carey Fry and Gene Garrelts and Rick Braasch,
Orizon Group – There is no memorandum for this item.

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL INFORMATION
AND**

ACCOMPANYING INDEPENDENT AUDITORS' REPORTS

YEAR ENDED JUNE 30, 2011

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

TABLE OF CONTENTS

DRAFT

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3-9
BASIC FINANCIAL STATEMENTS	
<i>Government-wide Financial Statements</i>	
Statement of Net Assets	10
Statement of Activities	11
<i>Governmental Fund Financial Statements</i>	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Change in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities	15
<i>Proprietary Funds Financial Statements</i>	
Statement of Net Assets	16
Statement of Revenues, Expenses, and Change in Net Assets	17
Statement of Cash Flows	18
<i>Fiduciary Fund Financial Statements</i>	
Statement of Fiduciary Net Assets	19
Statement of Changes in Net Assets	20
Notes to Financial Statements	21-38
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures, and Change in Fund Balance – Actual and Budget (Budgetary Basis) – Governmental Fund	39
Notes to Budgetary Comparison Schedule	40
OTHER SUPPLEMENTARY INFORMATION	
Statement of Functional Revenues, Expenditures, and Change in Fund Balance – Governmental Fund	41
Statement of Revenues, Expenses, and Change in Net Assets – Actual and Budget – Proprietary Funds	42
Combining Statement of Net Assets – Non-Major – Proprietary Funds	43
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Non-Major – Proprietary Funds	44-46

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

TABLE OF CONTENTS, CONTINUED

DRAFT

	<u>Page</u>
Schedule of Certificate of Deposit – Governmental Fund	47
Schedule of Certificates of Deposit – Proprietary Funds	48
Schedule of Insurance Policies and Bonds	49
Schedule of Taxes Receivable – Governmental Fund	50
Schedule of Cash Balances Held by County Treasurers	51
Information Required by Section 2-3223, N.R.S. – 1943	52
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Schedule of Expenditures of Federal Awards	53
Note to Schedule of Expenditures of Federal Awards	54
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	55-56
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	57-58
Schedule of Findings and Questioned Costs	59-60
Prior Year Audit Findings	61

_____, 2011

INDEPENDENT AUDITOR'S REPORT

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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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof 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 _____, 2011, 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 should be considered in assessing the results of our audit.

Management's discussion and analysis (pages 3 – 9) and the budgetary comparison information (pages 41 – 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 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 other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 basic financial statements. The Schedule of Expenditures of Federal Awards 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 basic financial statements taken as a whole. The other supplementary information has not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on them.

~~Original~~ **DRAFT** LLC
ORIZON CPAS LLC

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2011

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ASSETS

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
CURRENT ASSETS:			
Cash and cash equivalents	\$ 12,861,690	\$ 954,467	\$ 13,816,157
Cash on deposit with County Treasurers	219,082	-	219,082
Certificates of deposit	50,000	846,951	896,951
Taxes receivable	8,238,856	-	8,238,856
Service receivables	7,542	80,771	88,313
Interest receivable	101	7,426	7,527
Current portion of installment receivable	-	338,171	338,171
Prepaid expenses	905,547	-	905,547
Due from funding agencies	2,974,743	-	2,974,743
Intrafund balances	103,996	(103,874)	122
Inventories	-	56,219	56,219
Land held for sale	785,000	-	785,000
Total current assets	26,146,557	2,180,131	28,326,688
NONCURRENT ASSETS:			
Restricted cash and cash equivalents	9,542,876	197,700	9,740,576
Restricted certificates of deposit	-	64,661	64,661
Installment receivable, less current portion	-	1,019,979	1,019,979
Capital assets			
Land	45,370,814	3,000	45,373,814
Construction in progress	18,592,133	-	18,592,133
Capital improvements and infrastructure	108,792,431	9,458,024	119,250,455
Buildings and improvements	4,472,748	-	4,472,748
Vehicles and equipment	3,557,441	60,071	3,617,512
Accumulated depreciation	(61,487,456)	(1,657,864)	(63,145,320)
Total capital assets	120,298,111	7,863,231	128,161,342
Total noncurrent assets	129,840,987	9,145,571	138,986,558
	\$ 155,987,544	\$ 11,325,702	\$ 167,313,246

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:			
Accounts payable	\$ 1,572,730	\$ 43,875	\$ 1,616,605
Accrued salaries and payroll withholdings	152,918	-	152,918
Accrued expenses	308,587	7,263	315,850
Current portion of long-term debt	838,588	365,376	1,203,964
Current portion of accrued compensated absences	146,973	-	146,973
Total current liabilities	3,019,796	416,514	3,436,310
LONG-TERM LIABILITIES:			
Long-term debt, less current portion	14,361,412	3,173,214	17,534,626
Accrued compensated absences, less current portion	497,002	-	497,002
Total long-term liabilities	14,858,414	3,173,214	18,031,628
Total liabilities	17,878,210	3,589,728	21,467,938
NET ASSETS:			
Invested in capital assets, net of related debt	105,098,111	4,323,641	109,421,752
Restricted	9,542,876	64,661	9,607,537
Unrestricted	23,468,347	3,347,672	26,816,019
Total net assets	138,109,334	7,735,974	145,845,308
	\$ 155,987,544	\$ 11,325,702	\$ 167,313,246

See Accompanying Notes to the Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

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**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues				Net Revenue (Expenses) & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	
						Total	Total
GOVERNMENTAL ACTIVITIES:							
General administration	\$ 6,174,473	\$ 248,804	\$ 661,035	10,000	\$ (5,254,634)	\$ -	\$ (5,254,634)
Information and education	314,226	-	-	-	(314,226)	-	(314,226)
Flood prevention	4,196,969	34,400	301,885	2,612,243	(1,248,441)	-	(1,248,441)
Erosion control	1,715,794	-	0	28,963	(1,686,831)	-	(1,686,831)
Water quality	942,429	1,020	86,948	-	(854,461)	-	(854,461)
Recreation	645,463	13,475	42,028	-	(589,960)	-	(589,960)
Forestry and wildlife	591,520	506	125,724	493,246	(27,956)	-	27,956
	<u>14,580,874</u>	<u>298,205</u>	<u>1,217,620</u>	<u>3,144,452</u>	<u>(9,920,597)</u>	<u>-</u>	<u>(9,920,597)</u>
BUSINESS-TYPE ACTIVITIES:							
Washington County Rural Water #2	391,252	142,809	-	-	-	(248,443)	(248,443)
Non-major proprietary funds	831,418	690,664	-	-	-	(140,754)	(140,754)
	<u>1,222,670</u>	<u>833,473</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(389,197)</u>	<u>(389,197)</u>
	<u>\$ 15,803,544</u>	<u>\$ 1,131,676</u>	<u>\$ 1,217,620</u>	<u>\$ 3,144,452</u>	<u>(9,920,597)</u>	<u>(389,197)</u>	<u>(10,309,794)</u>
GENERAL REVENUES:							
Property taxes					16,709,219	-	16,709,219
Assessment income					-	78,782	78,782
Interest income					25,608	93,990	119,598
Transfers					60,000	(60,000)	-
					<u>16,794,827</u>	<u>112,772</u>	<u>16,907,599</u>
CHANGE IN NET ASSETS					<u>6,874,230</u>	<u>(276,425)</u>	<u>6,597,805</u>
NET ASSETS - BEGINNING OF YEAR					<u>131,235,104</u>	<u>8,012,399</u>	<u>139,247,503</u>
NET ASSETS - END OF YEAR					<u>\$ 138,109,334</u>	<u>\$ 7,735,974</u>	<u>\$ 145,845,308</u>

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011**

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General Fund

ASSETS:

Cash and cash equivalents	\$ 12,861,690
Cash on deposit with County Treasurers	219,082
Certificates of deposit	50,000
Receivables:	
Taxes	8,238,856
Services	7,542
Interest	101
Prepaid expenses	905,547
Due from:	
Funding agency	348,359
Other entities	2,626,384
Other funds	135,093
Restricted cash and cash equivalents	9,542,876
Land held for sale	785,000
	<hr/>
	\$ 35,720,530
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable	\$ 1,572,730
Accrued salaries and payroll withholdings	152,918
Accrued expenses	455,560
Deferred revenue	1,855,623
Due to other funds	31,097
Total liabilities	<hr/> 4,067,928

FUND BALANCE:

Nonspendable	905,547
Restricted	9,540,155
Committed	369,128
Assigned	50,000
Unassigned	20,787,772
Total fund balance	<hr/> 31,652,602
	<hr/> <hr/>
	\$ 35,720,530
	<hr/> <hr/>

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUND
JUNE 30, 2011

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Total Fund Balance - Governmental Fund \$ 31,652,602

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

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

Land and infrastructure	\$ 45,370,814	
Construction in progress	18,592,133	
Capital improvements	109,792,431	
Buildings and improvements	4,472,748	
Vehicles and equipment	3,557,441	
Accumulated depreciation	<u>(61,487,456)</u>	
		120,298,111

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

Compensated absences	(497,002)
Bonds and notes payable	(15,200,000)

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.

1,855,623

Total Net Assets of Governmental Activities

\$ 138,109,334

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

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REVENUES:

General administration	\$ 17,927,993
Flood prevention	2,948,811
Erosion control	88,963
Forestry and wildlife	373,357
Water quality	87,968
Recreation	55,503
Total revenues	<u>21,482,595</u>

EXPENDITURES:

Flood prevention	5,018,781
General administration	8,781,446
Erosion control	2,016,093
Recreation	642,820
Forestry and wildlife	1,515,256
Water quality	942,429
Information and education	314,226
Total expenditures	<u>19,231,051</u>

OTHER SOURCES

Exchange of note receivable for land held for sale	618,476
Proceeds from issuance of note payable	1,900,000
Total sources	<u>2,518,476</u>

EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES 4,770,020

FUND BALANCE - BEGINNING OF YEAR, as previously reported 25,403,516

PRIOR PERIOD ADJUSTMENT 1,479,066

FUND BALANCE - BEGINNING OF YEAR, as restated 26,882,582

FUND BALANCE - END OF YEAR \$ 31,652,602

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

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Net Change in Fund Balance - Total Government Fund \$ 4,770,020

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

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	\$ 6,786,517	
Building, vehicle, equipment, infrastructure, and capital improvement additions	<u>412,867</u>	7,199,384
Depreciation expense		(2,137,456)
Loss on disposal of equipment		(23,999)

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

Note payable proceeds		(1,900,000)
Exchange of note receivable for land held for sale		(618,476)

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		(141,128)
--	--	-----------

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

Difference in property tax revenue accrual		<u>(274,115)</u>
--	--	------------------

Change in Net Assets of Governmental Activities \$ 6,874,230

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2011

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ASSETS	Total (Memorandum Only)	Washington County Rural Water #2	Non-major Proprietary Funds
CURRENT ASSETS:			
Cash and cash equivalents	\$ 954,467	\$ 319,830	\$ 634,637
Certificates of deposit	846,951	-	846,951
Service receivables	80,771	11,939	68,832
Interest receivable	7,426	5,916	1,510
Current portion of installment receivable	338,171	338,171	-
Inventories	56,219	15,042	41,177
Total current assets	2,284,005	690,898	1,593,107
NON-CURRENT ASSETS:			
Reserved cash and cash equivalents	197,700	197,700	-
Restricted certificates of deposit	64,661	-	64,661
Installment receivable, less current portion	1,019,979	1,019,979	-
Capital assets			
Land	3,000	-	3,000
Capital improvements and infrastructure	9,458,024	4,973,807	4,484,217
Vehicles and equipment	60,071	-	60,071
Accumulated depreciation	(1,657,864)	(265,909)	(1,391,955)
Total capital assets	7,863,231	4,707,898	3,155,333
Total non-current assets	9,145,571	5,925,577	3,219,994
	\$ 11,429,576	\$ 6,616,475	\$ 4,813,101
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 43,875	1,624	\$ 42,251
Accrued expenses	7,263	3,913	3,350
Due to other funds	103,874	20,124	83,750
Current portion of long-term debt	365,376	345,000	20,376
Total current liabilities	520,388	370,661	149,727
LONG-TERM LIABILITIES			
Long-term debt, less current portion	3,173,214	2,780,000	393,214
Total liabilities	3,693,602	3,150,661	542,941
NET ASSETS:			
Invested in capital assets, net of related debt	4,323,641	1,582,898	2,740,743
Restricted	64,661	-	64,661
Unrestricted	3,347,672	1,882,916	1,484,756
Total net assets	7,735,974	3,465,814	4,270,160
	\$ 11,429,576	\$ 6,616,475	\$ 4,813,101

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

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	Total (Memorandum Only)	Washington County Rural Water #2	Non-Major Proprietary Funds
OPERATING REVENUES:			
Water sales	\$ 757,283	\$ 133,928	\$ 623,355
Customer charges and hookup fees	73,489	8,699	64,790
Miscellaneous	2,701	182	2,519
Total operating revenues	<u>833,473</u>	<u>142,809</u>	<u>690,664</u>
OPERATING EXPENSES:			
Repairs and maintenance	23,741	5,562	18,179
Supplies and postage	10,678	1,478	9,200
Professional services	46,167	3,572	42,595
Personnel	332,978	35,050	297,928
Telephone, utilities, and rent	19,128	-	19,128
Miscellaneous	3,978	545	3,433
Water purchase	217,183	33,791	183,392
Contract costs	218,066	52,472	165,594
Project construction and land	794	-	794
Project operation and maintenance	1,089	-	1,089
Depreciation and amortization	109,234	50,604	58,630
Vehicle expense	7,599	-	7,599
Indirect cost	673	-	673
Total operating expenses	<u>991,308</u>	<u>183,074</u>	<u>808,234</u>
OPERATING LOSS	(157,835)	(40,265)	(117,570)
NON-OPERATING INCOME (EXPENSE):			
Assessment revenue	78,782	-	78,782
Interest income	93,990	83,110	10,880
Interest expense	(231,362)	(208,178)	(23,184)
Transfer to other funds	(60,000)	-	(60,000)
Total non-operating income (expense)	<u>(118,590)</u>	<u>(125,068)</u>	<u>6,478</u>
CHANGE IN NET ASSETS	(276,425)	(165,333)	(111,092)
NET ASSETS - BEGINNING OF YEAR	8,012,399	3,631,147	4,381,252
NET ASSETS - END OF YEAR	\$ 7,735,974	\$ 3,465,814	\$ 4,270,160

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

DRAFT

	Total (Memorandum Only)	Washington Rural Water #2	Non-Major Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 843,012	\$ 142,202	\$ 700,810
Cash paid to employees	(332,978)	(35,050)	(297,928)
Cash paid to suppliers	(559,486)	(111,976)	(447,510)
Net cash provided (used) by operating activities	(49,452)	(4,824)	(44,628)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments (purchased) proceeds	(186,882)	-	(186,882)
Payments from installment receivable	337,319	337,319	-
Interest received	88,439	77,194	11,245
Net cash provided by investing activities	238,876	414,513	(175,637)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfer to other funds	(60,000)	-	(60,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments on long-term debt	(592,723)	(575,000)	(17,723)
Interest paid	(231,362)	(208,178)	(23,184)
Assessments received	78,782	-	78,782
Net cash provided (used) by capital and related financing activities	(745,303)	(783,178)	37,875
DECREASE IN CASH AND CASH EQUIVALENTS	(615,879)	(373,489)	(242,390)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,768,046	891,019	877,027
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,152,167	\$ 517,530	\$ 634,637
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS			
Operating loss	\$ (157,835)	\$ (40,265)	\$ (117,570)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization	109,234	50,604	58,630
Changes in assets and liabilities			
(Increase) decrease in receivables	9,539	(607)	10,146
(Increase) decrease in due from other funds	860	-	860
(Increase) decrease in inventories	3,484	(1,946)	5,430
Increase (decrease) in accounts payable	(25,244)	(16,549)	(8,695)
Increase (decrease) in accrued expenses	(4,046)	(4,052)	6
Increase (decrease) in due to other funds	14,556	7,991	6,565
Net cash provided used in operating activities	\$ (49,452)	\$ (4,824)	\$ (44,628)

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**STATEMENT OF NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011**

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ASSETS

Cash and cash equivalents	\$	292,969
	\$	<u>292,969</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$	12
Due to other funds		123
Deferred revenue		<u>187,500</u>
Total liabilities		187,635

NET ASSETS

Held in trust for other organizations		<u>105,334</u>
	\$	<u>292,969</u>

See Accompanying Notes to Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**STATEMENT OF CHANGE IN NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

DRAFT

ADDITIONS	
Partnership dues	\$ 369,000
Interest	704
Total additions	<u>369,704</u>
DEDUCTIONS	
Reimburement to Omaha	275,997
Administration fees	34,400
Miscellaneous expenses	1,873
Total deductions	<u>312,270</u>
CHANGE IN NET ASSETS	57,434
NET ASSETS - BEGINNING OF YEAR	<u>47,900</u>
NET ASSETS - END OF YEAR	<u>\$ 105,334</u>

See Accompanying Notes to the Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

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 primary government has a separately elected governing body, is legally separate, and is fiscally independent of other governments. The District has no component units and is not a component unit of any other governmental entity.

Financial Statement Presentation

The accompanying financial statements of the District have been prepared in conformity with generally accepted accounting principles ("GAAP") applicable to governmental organizations in the United States. Such principles are prescribed by Government Accounting Standards Board ("GASB"), which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. In accordance with these principles, the financial statements include government-wide financial statements and fund financial statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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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, which are normally supported by taxes and grants from other governments are reported separately from business-type activities, which rely to a significant extent on fees and charges to support its operations.

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 Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in four categories:

Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – expendable include resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purposes of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets consist of net assets that do not meet the definition of the three preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 fund financial statements of this report as follows:

Governmental 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 Washington County Rural Water Project #2 as a major proprietary fund presented individually in the financial statements. This fund accounts for fees charged for rural water services provided to residents in the respective counties. The remaining non-major funds are presented in accordance with the criteria set forth by GASB.

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.

Governmental fund equity is reported as fund balance. For governmental funds, the fund balance is divided into five classifications, based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- a. Nonspendable - This fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Board of Directors to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the District can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- c. Committed - This fund balance classification includes amounts that can only be used for the specific purposes imposed by formal action (resolution) of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board of Directors, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the Board of Directors or the General Manager delegated that authority by the Board of Directors.
- e. Unassigned - This fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and the unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Measuring Focus/Basis of Accounting, Continued

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. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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.

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

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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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:

	<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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property Taxes

Property taxes are levied by the counties on December 31 and are delinquent if not paid by March or April 1 and August or September 1 following the levy date. The seven counties located within the District collect the taxes levied by the District. 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 2011, the taxes levied totaled \$16,728,179 at a tax levy rate of \$0.032753 per \$100 of valuation.

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.

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% 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, 2011, was \$350,529. 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.

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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

2. COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted each fiscal year for the General and Enterprise Funds on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America ("GAAP") as required by statute. 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. No supplemental appropriations or modifications were made from the original budget.

All appropriations lapse at the end of the budget year.

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.

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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

3. DEPOSITS AND INVESTMENTS

Statutes authorize the District to invest excess cash in deposits at banks designated as depositories of the District, certificates of deposit, time deposits and in any securities in which the State investment officer is authorized to invest and as provided in the investment guidelines of the Nebraska Investment Council.

Deposits and investments consisted of the following at June 30, 2011:

	<u>Total</u>	<u>General Fund</u>	<u>Proprietary Funds</u>
UNRESTRICTED AND UNRESERVED:			
Cash and cash equivalents	\$ 13,447,029	\$ 12,492,562	\$ 954,467
Cash on hand at County Treasurers	219,082	219,082	-
Certificates of deposit	<u>846,951</u>	<u>-</u>	<u>846,951</u>
Total unrestricted and unreserved cash, cash equivalents and certificates of deposit	<u>14,513,062</u>	<u>12,711,644</u>	<u>1,801,418</u>
UNRESTRICTED BUT RESERVED:			
Cash and cash equivalents	369,128	369,128	-
Certificates of deposit	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total unrestricted but reserved cash, cash equivalents and certificates of deposit	<u>419,128</u>	<u>419,128</u>	<u>-</u>
RESTRICTED:			
Cash and cash equivalents	9,882,876	9,542,876	197,700
Certificates of deposit	<u>64,661</u>	<u>-</u>	<u>64,661</u>
Total restricted cash, cash equivalents and certificates of deposit	<u>9,805,237</u>	<u>9,542,876</u>	<u>262,361</u>
Total cash and certificates of deposit	<u>\$ 24,737,427</u>	<u>\$ 22,673,648</u>	<u>\$ 2,063,779</u>

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.

The carrying amount of the District's deposits was \$24,518,345 and the bank balances were \$25,172,594 at June 30, 2011. Certificates of deposit have been included in the bank and book balances for cash. At June 30, 2011, the entire balance was covered by federal depository insurance coverage, the full faith and credit of the United States government or collateral held by the District's agent in the District's name.

Investments are stated at fair value. For fiscal year 2011, 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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

3. DEPOSITS AND INVESTMENTS, CONTINUED

The District mitigates the following types of deposit and investment risks through compliance with the State Statutes referred to above, but has not adopted a policy to manage these risks. The three types of deposit and investment risks are the following:

- Custodial Credit Risk – for deposits and investments, custodial credit risk is the risk that in the event of the failure of a bank or other counterparty, the District will not be able to recover the value of its deposits or investments or collateral securities in the possession of a third-party.
- Credit Risk – for deposits and investments, credit risk is the risk that a bank or other counterparty defaults on its principal and/or interest payments owed to the District.
- Interest Rate Risk – for deposits and investments, interest rate risk is the risk that the value of deposits and investments will decrease as a result of a rise in interest rates.

4. 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, 2011. The following is a summary of the reservations placed on cash and investments for the year ended June 30, 2011:

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. 5,417

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). 219,063

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. 144,648

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. 9,542,876

Total general fund reserves \$ 9,962,004

Proprietary Sinking Funds:

In compliance with loan covenants for the notes described in Note 9, the Proprietary Funds have restricted \$262,361. Thurston County has restricted a certificate of deposit in the amount of \$64,661 and Washington County Rural Water #2 has restricted cash in the amount of \$197,700.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS

DRAFT

5. 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, 2011, consisted of the following individual fund receivables and payables:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
General Fund	Thurston County Rural Water	\$ 15,378
General Fund	Washington Co. Rural Water #1	32,456
General Fund	Dakota County Rural Water	34,120
General Fund	Washington Co. Rural Water #2	20,124
General Fund	Other Proprietary Funds	<u>1,796</u>
		<u>\$ 103,874</u>

6. DUE 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, 2011, \$2,626,384 was due from funding agencies.

The District has entered into several construction agreements that involve reimbursement from the federal government for a portion of the District's expenses associated with those construction projects. At June 30, 2011 the District had receivables due from the federal government in the amount of \$348,359.

7. RECEIVABLE FROM DEVELOPER/INSTALLMENT RECEIVABLES

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 \$148,662 at June 30, 2011. Unearned finance charges are amortized to interest income using a method that approximates the interest method.

Details of installment receivables at June 30, 2011 are as follows:

Due in:	
2012	\$ 396,934
2013	383,816
2014	370,062
2015	<u>356,000</u>
Gross installment receivables	1,506,812
Less: unearned finance charges	<u>(148,662)</u>
Installment receivables, net	<u>\$ 1,358,150</u>
Current balance	\$ 338,171
Long-term balance	<u>1,019,979</u>
	<u>\$ 1,358,150</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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8. CAPITAL ASSETS

The following is a summary of the capital assets of the governmental activities. 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.

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Not depreciated				
Land	\$ 45,333,051	\$ 37,763	\$ -	\$ 45,370,814
Construction in progress	<u>12,988,802</u>	<u>6,748,754</u>	<u>(1,145,423)</u>	<u>18,592,133</u>
	<u>58,321,853</u>	<u>6,786,517</u>	<u>(1,145,423)</u>	<u>63,962,947</u>
Depreciated				
Capital improvements and infrastructure	108,583,363	1,209,068	-	109,792,431
Buildings and improvements	4,332,773	201,811	(61,836)	4,472,748
Vehicles and equipment	<u>3,701,200</u>	<u>1,091,529</u>	<u>(1,235,288)</u>	<u>3,557,441</u>
	116,617,336	2,502,408	(1,297,124)	117,822,620
Less accumulated depreciation	<u>(59,679,006)</u>	<u>(2,274,028)</u>	<u>465,578</u>	<u>(61,487,456)</u>
	<u>56,938,330</u>	<u>228,380</u>	<u>(831,546)</u>	<u>56,335,164</u>
	<u>\$ 115,260,183</u>	<u>\$ 7,014,897</u>	<u>\$ (1,976,969)</u>	<u>\$ 120,298,111</u>

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

General administration	\$ 236,857
Recreation	269,544
Flood control	<u>1,631,055</u>
Total depreciation expense	<u>\$ 2,137,456</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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8. CAPITAL ASSETS, CONTINUED

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

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Not depreciated				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Depreciated				
Capital improvements and infrastructure	9,458,024	-	-	9,458,024
Vehicles and equipment	<u>82,289</u>	<u>-</u>	<u>(22,218)</u>	<u>60,071</u>
	9,540,313	-	(22,218)	9,518,095
Less accumulated depreciation	<u>(1,569,462)</u>	<u>(105,960)</u>	<u>17,558</u>	<u>(1,657,864)</u>
	<u>7,970,851</u>	<u>(105,960)</u>	<u>(4,660)</u>	<u>7,860,231</u>
	<u>\$ 7,973,851</u>	<u>\$ (105,960)</u>	<u>\$ (4,660)</u>	<u>\$ 7,863,231</u>

9. LONG-TERM LIABILITIES

General Fund Long-Term Debt:

In March 2011, the District obtained financing from a local bank for \$1,900,000 for the new service center in Blair, Nebraska. The note is secured by the building.

The Board of Directors approved the refunding of the remaining balance of the 2006A and 2006B Washington County Rural Water Project No. 2 bonds by issuing \$2,425,000 of Water Project Refunding Revenue Bonds, Series 2011A and \$700,000 of Junior Lien Water Project Revenue Refunding Bonds, Series 2011B. These refundings occurred in June 2011.

The following is a summary of the long-term debt for the year ended June 30, 2011. 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>
General	2011	December 2030	Semi-Annual	\$485,000 to \$905,000	1.146% to 6.032%	\$ 13,300,000
General		March 2016	Semi-Annual	\$352,000 to \$408,000	3.69%	<u>1,900,000</u>
						<u>\$15,200,000</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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9. LONG-TERM LIABILITIES, CONTINUED

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Flood Protection and Water Quality Enhancement Bonds Note Payable	\$13,300,000	\$ -	\$ -	\$13,300,000	\$ 485,000
American National Bank	-	1,900,000	-	1,900,000	353,588
Total	<u>\$13,300,000</u>	<u>\$1,900,000</u>	<u>\$ -</u>	<u>\$15,200,000</u>	<u>\$ 838,588</u>

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	2011A	June 2032	Annual	\$45,000 to \$295,000	1.00%- 5.00%	\$ 2,425,000
Washington Rural Water #2	2011B	June 2014	Annual	\$50,000 to \$600,000	5.25%	700,000
Thurston Rural Water	1982	December 2022	Annual	Based on water fees	5.00%	215,510
Thurston Rural Water	1993	February 2033	Annual	Based on water fees	5.63%	198,080
Total long-term debt						3,538,590
Less portion due within one year						365,376
Long-term portion						<u>\$ 3,173,214</u>

<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>
Bonds Payable:					
Fremont National Bank	\$ 2,550,000	\$ -	\$ 2,550,000	\$ -	\$ -
Fremont National Bank	1,150,000	-	1,150,000	-	-
Water Project Refunding Revenue Bonds-2011A	-	2,425,000	-	2,425,000	295,000
Water Project Refunding Revenue Bonds-2011B	-	700,000	-	700,000	50,000
Notes Payable					
Capmark Finance	230,055	-	14,545	215,510	15,555
Rural Economic and Community Development	202,644	-	4,564	198,080	4,821
Business-type Activities Long-Term Liabilities	<u>\$ 4,132,699</u>	<u>\$3,125,000</u>	<u>\$ 3,719,109</u>	<u>\$3,538,590</u>	<u>\$ 365,376</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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9. LONG-TERM LIABILITIES, CONTINUED

The annual principal and interest requirements to maturity for long-term debt as of June 30, 2011 are as follows:

Year(s) ending June 30,	General Fund		Proprietary Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 838,588	\$ 692,781	\$ 365,376	\$ 129,472	\$ 1,203,964	\$ 822,253
2013	875,867	672,924	366,426	121,879	1,242,293	794,803
2014	909,492	649,596	917,527	114,611	1,827,019	764,207
2015	928,625	622,215	318,687	77,378	1,247,312	699,593
2016	992,428	591,150	69,907	70,701	1,062,335	661,851
2017-2021	2,975,000	2,527,867	395,158	312,392	3,370,158	2,840,259
2022-2026	3,490,000	1,729,803	361,490	232,364	3,851,490	1,972,167
2027-2031	4,190,000	651,456	431,297	145,468	4,621,297	796,924
2032-2035	-	-	312,722	16,558	312,722	16,558
	<u>\$ 15,200,000</u>	<u>\$8,137,792</u>	<u>\$ 3,538,590</u>	<u>\$1,220,823</u>	<u>\$18,738,590</u>	<u>\$9,358,615</u>

Bond Defeasance

In June 2011, the District issued \$2,425,000 of Water Project Refunding Revenue Bonds, Series 2011A and \$700,000 of Junior Lien Water Project Revenue Refunding Bonds, Series 2011B to advance refund the 2006A and 2006B Washington County Rural Water Project No. 2 bonds in the amount of \$3,192,395. As a result of the refunding, the District increased its total debt service payments over the next 21 years by approximately \$300,884 and resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of approximately \$1,000.

10. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

For governmental funds, the fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The District has identified fund balances on the Balance Sheet-Governmental Fund as of June 30, 2011 as follows:

Nonspendable	
Prepaid expenses	\$ 905,547
Restricted	
Bond escrow	9,540,155
Committed	
Wetland mitigation	5,417
Watershed fees	219,063
Ice jam	<u>144,648</u>
Total committed	<u>369,128</u>
Assigned	
Uninsured liability	50,000
Unassigned	<u>20,787,772</u>
Total fund balance	<u>\$ 31,652,602</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

DRAFT

11. ACCUMULATED UNPAID ANNUAL LEAVE AND SICK PAY

The estimated current portion of the liability for vested vacation benefits and sick leave is \$119,750 and \$27,223 at June 30, 2011, 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 \$215,874 and \$281,128, respectively, at June 30, 2011. 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 \$925,051 at June 30, 2011, and is not reported as an expenditure or liability in any of the District's June 30, 2011, financial statements.

The change in compensated absences for the year ended June 30, 2011 was as follows:

<u>Governmental-type Activity:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	<u>\$ 638,595</u>	<u>\$ 5,380</u>	<u>\$ _____</u>	<u>\$ 643,975</u>	<u>\$ 146,973</u>

12. 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 2011, the District's operating lease expense was \$8,458. Following is a schedule of the future minimum lease payments.

<u>Year ending June 30,</u>	<u>Amount</u>
2012	<u>\$ 5,639</u>

13. 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, 2011, were \$181,701, which were the required contributions.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

DRAFT

14. COMMITMENTS AND CONTINGENCIES

The District has committed future funds to several ongoing and new projects and cost share agreements. The total commitments under signed contracts at year-end were approximately \$5,400,000. 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, 2011.

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, 2011, a reasonable estimate could not be determined for any potential loss contingencies.

During the year, the District agreed to accept the deed to nine residential lots subject to special assessments payable in exchange for a \$580,000 note from a developer that was in default. On November 30, 2010, the District received a professional appraiser's report stating that the aggregate retail value of the nine lots, if sold separately, was \$785,000. The lots had accrued special assessments and accrued interest of \$258,977. The lots are included in the financial statements as land held for sale and the assessments payable are included in accrued expenses. Management is in the process of listing and selling the lots and the assessments payable were paid in September 2011.

In October 2010, the District agreed to the purchase of \$1,500,000 of real estate from Union Pacific Railroad with a closing date in July 2011.

15. FIDUCIARY FUND: PAPIILLION 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

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16. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage to, or destruction of assets, errors or omissions, injuries to employees or acts of God. These risks are transferred to independent insurance carriers and no self-insurance program is maintained by the District. District management believes adequate coverage exists for potential exposures as of June 30, 2011. The District did not pay any settlement amounts, which exceeded its insurance coverage for the year ending June 30, 2011.

17. PRIOR PERIOD ADJUSTMENT

The District has made a prior period adjustment to restate deferred revenue in the governmental fund to comply with the District's policy regarding when revenues are susceptible to accrual. Prior year deferred revenue was reduced and beginning fund balance was increased by \$1,479,066.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 ACTUAL AND BUDGET (BUDGETARY BASIS)
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

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	Actual	Budget		Variance Favorable (Unfavorable)
		Original	Final	
REVENUES				
General administration	\$ 19,518,599	\$ 19,944,438	\$ 19,944,438	\$ 425,839
Watershed	138,563	5,307,295	5,307,295	5,168,732
Information and education	12,640	21,500	21,500	8,860
Flood control	1,898,507	8,055,889	8,055,889	6,157,382
Erosion control	147,982	6,338,000	6,338,000	6,190,018
Water quality	87,969	118,140	118,140	30,171
Recreation	55,478	2,359,000	2,359,000	2,303,522
Forestry and wildlife	327,434	2,658,417	2,658,417	2,330,983
Total revenues	22,187,172	44,802,679	44,802,679	22,615,507
EXPENDITURES				
General administration	7,353,044	9,011,628	9,011,628	1,658,584
Watershed	1,112,027	10,040,000	10,040,000	8,927,973
Information and education	315,080	333,300	333,300	18,240
Flood control	4,937,984	12,296,500	12,296,500	7,358,516
Erosion control	2,014,393	5,115,227	5,115,227	3,100,834
Water quality	1,051,902	1,279,364	1,279,364	227,462
Recreation	877,059	6,045,661	6,045,661	5,368,602
Forestry and wildlife	2,175,725	5,171,000	5,171,000	2,995,275
Total expenditures	19,637,194	49,292,680	49,292,680	29,655,486
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (BUDGETARY BASIS) AND OTHER SOURCES	2,549,978	\$ (4,490,001)	\$ (4,490,001)	\$ 7,039,979
ADJUSTMENTS REQUIRED UNDER ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA				
To adjust revenues for accruals	820,100			
To adjust expenditures for accruals and prepaids	1,399,942			
(US GAAP BASIS) AND OTHER SOURCES	\$ 4,770,020			

See Accompanying Notes to the Basic Financial Statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

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NOTE 1 – BASIS OF ACCOUNTING

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

NOTE 2 – 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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF FUNCTIONAL REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

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REVENUES	
Property tax	\$ 16,885,535
State grants	1,358,643
Federal grants	1,270,951
Local agency grants	1,587,846
Miscellaneous	211,424
Rental income	142,593
Interest income	25,603
Total revenues	<u>21,482,595</u>
EXPENDITURES	
Project construction and land	2,587,897
Special projects	160,303
Personnel	3,086,305
Professional services	3,021,161
Contract works	1,236,661
Cost-sharing and conservation assistance program	3,864,572
Employee benefits	865,725
Repairs and maintenance	357,932
Fees	178,474
Project legal costs	160,703
Information and education	101,062
Payroll taxes	238,752
Machinery and equipment	149,417
Insurance	168,497
Interest expense	676,453
Project operation and maintenance	234,951
Telephone, utilities, and rent	164,900
Miscellaneous	30,207
Vehicle expense	274,915
Vehicles	64,963
Travel	55,221
Printing and publications	78,999
Board of directors	59,971
Supplies and postage	115,015
Buildings	1,497,238
Uncollectible revenue	148,876
Indirect cost reimbursement	<u>(348,119)</u>
Total expenditures	<u>19,231,051</u>
OTHER SOURCES AND USES	
Exchange of note receivable for land held for sale	618,476
Proceeds from note payable	<u>1,900,000</u>
Total other sources	<u>2,518,476</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	4,770,020
FUND BALANCE - BEGINNING OF YEAR, as previously reported	25,403,516
PRIOR PERIOD ADJUSTMENT	1,479,066
FUND BALANCE - BEGINNING OF YEAR, as restated	<u>26,882,582</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 31,652,602</u></u>

PATIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

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STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
ACTUAL AND BUDGET
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Total (Memorandum Only)			Washington Rural Water #2			Non-Major Proprietary Funds		
	Actual	Budget		Actual	Budget		Actual	Budget	
		Original	Final		Original	Final		Original	Final
OPERATING REVENUES:									
Water sales	\$ 757,283	\$ 833,000	\$ 833,000	\$ 133,928	\$ 123,000	\$ 123,000	\$ 623,355	\$ 710,000	\$ 710,000
Customer charges and hookup fees	73,489	62,775	62,775	8,699	22,200	22,200	64,790	40,575	40,575
Sales	-	500	500	-	-	-	-	500	500
Miscellaneous	2,701	415,270	415,270	182	414,000	414,000	2,519	1,270	1,270
Total operating revenues	833,473	1,311,545	1,311,545	142,809	559,200	559,200	690,664	752,345	752,345
OPERATING EXPENSES:									
Repairs and maintenance	23,741	15,750	15,750	5,562	-	-	18,179	15,750	15,750
Supplies and postage	10,678	11,890	11,890	1,478	740	740	9,200	11,150	11,150
Professional services	46,167	75,700	75,700	3,572	8,000	8,000	42,595	67,700	67,700
Personnel	332,978	342,910	342,910	35,050	39,000	39,000	297,928	303,910	303,910
Insurance	-	4,500	4,500	-	-	-	-	4,500	4,500
Telephone, utilities, and rent	19,128	19,550	19,550	-	-	-	19,128	19,550	19,550
Miscellaneous	3,978	5,300	5,300	545	1,300	1,300	3,433	4,000	4,000
Water purchase	217,183	228,000	228,000	33,791	22,000	22,000	183,392	206,000	206,000
Contract costs	218,068	124,050	124,050	52,472	30,000	30,000	165,594	94,050	94,050
Project construction and land	794	42,275	42,275	-	50	50	794	42,225	42,225
Project operation and maintenance	1,089	28,600	28,600	-	3,000	3,000	1,089	25,600	25,600
Depreciation and amortization	109,234	-	-	50,604	-	-	59,630	-	-
Vehicle expense	7,599	16,500	16,500	-	3,000	3,000	7,599	13,500	13,500
Bond expenditures	-	241,000	241,000	-	225,000	225,000	-	16,000	16,000
Indirect cost	673	2,150	2,150	-	100	100	673	2,050	2,050
Total operating expense	991,308	1,158,175	1,158,175	183,074	332,190	332,190	808,234	825,985	825,985
OPERATING INCOME (LOSS)	(157,835)	153,370	153,370	(40,265)	227,010	227,010	(117,570)	(73,640)	(73,640)
NON-OPERATING INCOME (EXPENSE):									
Assessment revenue	78,782	61,000	61,000	-	-	-	78,782	61,000	61,000
Interest income	93,990	25,355	25,355	83,110	4,000	4,000	10,880	21,355	21,355
Interest expense	(231,362)	(195,185)	(195,185)	(208,178)	(168,685)	(168,685)	(23,184)	(26,500)	(26,500)
Transfers	(60,000)	(38,000)	(38,000)	-	-	-	(60,000)	(38,000)	(38,000)
Total non-operating income (expense)	(118,590)	(146,830)	(146,830)	(125,068)	(164,685)	(164,685)	6,478	17,855	17,855
CHANGE IN NET ASSETS	(276,425)	6,540	6,540	(165,333)	62,325	62,325	(111,092)	(55,785)	(55,785)
NET ASSETS - BEGINNING OF YEAR	8,012,399			3,631,147			4,381,252		
NET ASSETS - END OF YEAR	\$ 7,735,974			\$ 3,465,814			\$ 4,270,160		

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 NON-MAJOR - PROPRIETARY FUNDS
 JUNE 30, 2011

ASSETS	Total	Thurston County Rural Water	Elkhorn River Stabilization	Elk/Pigeon Creek Drainage	Western Saryp Drainage	Elkhorn Breakout	Dakota Rural Water	Washington Rural Water #1
CURRENT ASSETS								
Cash and cash equivalents	\$ 634,637	\$ 19,200	\$ 91,389	\$ 17,067	\$ 106,211	\$ 6,587	\$ 81,979	\$ 812,204
Certificates of deposit	846,951	-	-	-	-	-	471,873	375,078
Service receivables	68,832	8,044	-	-	-	95	26,281	33,402
Interest receivable	1,510	21	-	-	-	-	733	756
Due from other funds	-	-	-	-	-	-	-	-
Current portion of installment receivable	-	-	-	-	-	-	-	-
Inventories	41,177	6,436	-	-	-	-	-	-
Total current assets	1,593,107	34,701	91,389	17,067	106,211	6,682	600,771	14,846
NONCURRENT ASSETS								
Restricted certificates of deposit	64,661	64,661	-	-	-	-	-	-
Capital assets								
Land	3,000	1,000	-	-	-	-	1,000	1,000
Capital improvements and infrastructure	4,484,217	948,000	-	-	-	-	1,871,217	1,864,000
Vehicles and equipment	80,071	-	-	-	-	-	30,726	28,345
Accumulated depreciation	(1,391,955)	(265,720)	-	-	-	-	(539,454)	(586,781)
Total capital assets	3,155,333	684,280	-	-	-	-	1,163,489	1,307,564
Total noncurrent assets	3,219,994	748,941	-	-	-	-	1,163,489	1,307,564
LIABILITIES AND NET ASSETS								
Long-term debt, less current portion	\$ 4,813,101	\$ 783,642	\$ 91,389	\$ 17,067	\$ 106,211	\$ 6,682	\$ 1,764,260	\$ 2,043,850
CURRENT LIABILITIES								
Accounts payable	\$ 42,251	\$ 496	\$ -	\$ -	\$ -	\$ -	\$ 16,347	\$ 25,408
Accrued expenses	3,350	914	-	-	-	-	1,412	1,024
Due to other funds	83,760	15,378	329	1,304	162	-	34,120	32,457
Current portion of long-term debt	20,376	20,376	-	-	-	-	-	-
Total current liabilities	149,727	37,164	329	1,304	162	-	51,879	58,889
NONCURRENT LIABILITIES								
Long-term debt, less current portion	393,214	393,214	-	-	-	-	-	-
Total liabilities	542,941	430,376	329	1,304	162	-	51,879	58,889
NET ASSETS								
Invested in capital assets, net of related debt	2,740,743	270,690	-	-	-	-	1,162,489	1,307,564
Restricted	64,661	64,661	-	-	-	-	-	-
Unrestricted	1,464,756	17,913	91,060	15,763	105,049	6,682	548,682	677,397
Total net assets	4,270,160	353,264	91,060	15,763	105,049	6,682	1,712,361	1,984,961
	\$ 4,813,101	\$ 783,642	\$ 91,389	\$ 17,067	\$ 106,211	\$ 6,682	\$ 1,764,260	\$ 2,043,850

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
NON-MAJOR - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Total		Thurston Rural Water		Elkhorn River Stabilization	
	Actual	Budget	Actual	Budget	Actual	Budget
OPERATING REVENUES						
Water sales	\$ 623,355	\$ 710,000	\$ 90,555	\$ 105,000	\$ -	\$ -
Customer charges and hookup fees	64,790	40,575	1,959	3,075	-	-
Sales	-	500	-	500	-	-
Miscellaneous	2,519	1,270	1,006	-	-	-
Total operating revenues	690,664	752,345	93,520	108,575	-	-
OPERATING EXPENSES						
Repairs and maintenance	18,179	15,750	1,545	250	-	-
Supplies and postage	9,200	11,150	781	1,850	-	50
Professional services	42,595	67,700	4,036	7,150	19,875	30,050
Personnel	297,928	303,910	31,703	31,000	465	500
Insurance	-	4,500	-	1,000	-	-
Telephone, utilities, and rent	19,128	19,550	5,623	5,900	-	-
Miscellaneous	3,433	4,000	1,935	1,000	-	-
Water purchase	183,392	206,000	25,783	27,000	-	-
Contract costs	165,594	94,050	42,026	37,250	-	-
Project construction and land	794	42,225	-	25	-	-
Project operation and maintenance	1,089	25,600	-	-	-	5,000
Depreciation and amortization	58,630	-	9,490	-	-	-
Vehicle expense	7,599	13,500	-	-	-	-
Bond expenditures	-	16,000	0	16,000	-	-
Indirect cost	673	2,050	541	1,200	-	-
Total operating expenses	809,234	825,985	123,473	129,625	20,340	35,600
OPERATING INCOME (LOSS)	(117,570)	(73,640)	(29,953)	(21,050)	(20,340)	(35,600)
NON-OPERATING INCOME (EXPENSE)						
Assessment revenue	78,782	61,000	-	-	11,799	-
Interest income	10,880	21,355	615	1,000	203	275
Interest expense	(23,184)	(26,500)	(23,184)	(26,500)	-	-
Transfers	(60,000)	(38,000)	0	-	-	-
Total non-operating income (expense)	6,478	17,855	(22,569)	(25,500)	12,002	275
CHANGE IN NET ASSETS	(111,092)	(55,785)	(52,522)	(46,550)	(8,338)	(35,325)
NET ASSETS - BEGINNING OF YEAR	4,381,252		405,786		99,398	
NET ASSETS - END OF YEAR	\$ 4,270,160		\$ 353,264		\$ 91,060	

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
NON-MAJOR - PROPRIETARY FUNDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	Elk/Pigeon Creek Drainage Budget		Western Sarpy Drainage Budget		Elkhorn Breakout Budget	
	Actual	Final	Actual	Final	Actual	Final
OPERATING REVENUES						
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total operating revenues	-	-	-	-	-	-
OPERATING EXPENSES						
Repairs and maintenance	-	-	-	-	-	-
Supplies and postage	788	-	3,515	5,000	-	-
Professional services	6,251	6,410	28,064	30,000	143	-
Personnel	-	-	-	-	-	-
Insurance	-	-	-	-	-	-
Telephone, utilities, and rent	11	100	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Water purchase	9,504	-	14,580	6,800	-	-
Contract costs	-	50	-	1,000	-	-
Project construction and land	-	500	1,089	1,000	-	-
Project operation and maintenance	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-
Vehicle expense	-	-	-	-	-	-
Bond expenditures	-	-	-	-	-	-
Indirect cost	-	-	-	-	-	-
Total operating expenses	16,554	7,060	47,248	43,800	143	-
OPERATING INCOME (LOSS)	(16,554)	(7,060)	(47,248)	(43,800)	(143)	-
NON-OPERATING INCOME (EXPENSE)						
Assessment revenue	46,930	45,000	20,053	16,000	-	-
Interest income	53	60	281	2,000	15	20
Interest expense	-	-	-	-	-	-
Transfers	(60,000)	(38,000)	-	-	-	-
Total non-operating income (expense)	(13,017)	(38,000)	20,334	18,000	15	20
CHANGE IN NET ASSETS	(29,571)	\$ -	(26,914)	\$ (25,800)	(128)	\$ 20
NET ASSETS - BEGINNING OF YEAR	45,334		132,963		6,810	
NET ASSETS - END OF YEAR	\$ 15,763		\$ 106,049		\$ 6,682	

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
NON-MAJOR - PROPRIETARY FUNDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

	Dakota Rural Water		Washington Rural Water #1		Final
	Actual	Budget	Original	Final	
OPERATING REVENUES					
Water sales	\$ 287,626	\$ 305,000	\$ 305,000	\$ 265,174	\$ 300,000
Customer charges and hookup fees	13,949	21,000	21,000	48,882	16,500
Sales	-	-	-	-	-
Miscellaneous	1,160	770	770	353	500
Total operating revenues	282,735	326,770	326,770	314,409	317,000
OPERATING EXPENSES					
Repairs and maintenance	5,363	4,000	4,000	11,271	11,500
Supplies and postage	7,115	7,900	7,900	1,294	1,350
Professional services	6,875	15,000	15,000	7,506	10,500
Personnel	119,584	120,000	120,000	111,718	116,000
Insurance	-	2,500	2,500	-	1,000
Telephone, utilities, and rent	4,531	5,800	5,800	8,974	7,850
Miscellaneous	679	1,500	1,500	808	1,400
Water purchase	60,659	75,000	75,000	98,950	104,000
Contract costs	18,829	25,000	25,000	80,655	25,000
Project construction and land	659	14,600	14,600	135	26,550
Project operation and maintenance	-	4,100	4,100	-	15,000
Depreciation and amortization	21,714	-	-	27,426	-
Vehicle expense	7,599	8,000	8,000	-	5,500
Bond expenditures	-	-	-	-	-
Indirect cost	107	500	500	25	350
Total operating expenses	253,714	283,900	283,900	346,762	326,000
OPERATING INCOME (LOSS)	29,021	42,870	42,870	(32,353)	(9,000)
NON-OPERATING INCOME (EXPENSE)					
Assessment revenue	-	-	-	-	-
Interest income	5,706	8,000	8,000	4,007	10,000
Interest expense	-	-	-	-	-
Transfers	-	-	-	-	-
Total non-operating income (expense)	5,706	8,000	8,000	4,007	10,000
CHANGE IN NET ASSETS	34,727	\$ 50,870	\$ 50,870	(28,346)	\$ 1,000
NET ASSETS - BEGINNING OF YEAR	1,677,654			2,013,307	
NET ASSETS - END OF YEAR	\$ 1,712,381			\$ 1,984,961	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

SCHEDULE OF CERTIFICATE OF DEPOSIT
GOVERNMENTAL FUND
JUNE 30, 2011

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	<u>Cost</u>	<u>Interest Rate</u>
General fund		
Certificate of deposit		
Great Western Bank	<u>\$ 50,000</u>	0.25%
General fund - unrestricted but reserved investments	<u>\$ 50,000</u>	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**SCHEDULE OF CERTIFICATES OF DEPOSIT
 PROPRIETARY FUNDS
 JUNE 30, 2011**

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	<u>Cost</u>	<u>Interest Rate</u>
Proprietary funds		
Certificates of deposit		
Dakota County		
Northwest Bank	\$ 105,827	1.71%
Nebraska-Iowa State Bank	66,000	1.40%
Siouxland National Bank	100,000	1.10%
Great Western Bank	100,022	0.35%
Wells Fargo Securites	100,025	0.55%
	<u>471,874</u>	
Washington County #1		
American National Bank	200,000	0.39%
Centennial Bank	100,000	0.90%
Great Southern Bank	75,078	0.93%
	<u>375,078</u>	
Thurston County		
American National Bank	52,095	0.59%
American National Bank	7,565	0.50%
Centennial Bank	5,000	0.80%
	<u>64,660</u>	
	911,612	
Less unrestricted portion	<u>(846,951)</u>	
Proprietary funds - restricted certificates of deposit	<u>\$ 64,661</u>	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**SCHEDULE OF INSURANCE POLICIES AND BONDS
JUNE 30, 2011**

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SCHEDULED PROPERTY FLOATER AND EQUIPMENT

Covering property; total limit \$14,191,538; 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.

PUBLIC OFFICIAL

Wrongful acts / \$1,000,000 each; \$3,000,000 aggregate; \$10,000 deductible.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

SCHEDULE OF TAXES RECEIVABLE
GOVERNMENTAL FUND
JUNE 30, 2011

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COUNTY

Douglas	\$ 4,630,300
Sarpy	2,740,809
Washington	414,689
Dakota	352,790
Burt	53,371
Thurston	46,660
Dodge	<u>237</u>
	<u>\$ 8,238,856</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
SCHEDULE OF CASH BALANCES HELD BY COUNTY TREASURERS
JUNE 30, 2011

DRAFT

GENERAL FUND

Douglas	\$ 151,682
Sarpy	50,968
Washington	9,250
Dakota	3,931
Burt	1,592
Thurston	717
Dodge	<u>942</u>
	<u><u>\$ 219,082</u></u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**INFORMATION REQUIRED BY SECTION 2-3223, N.R.S - 1943
FOR THE YEAR ENDED JUNE 30, 2011**

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Gross income from all sources	<u>\$ 22,393,958</u>
Amount expended for	
Maintenance	\$ 1,065,130
Improvements and other such programs	<u>8,629,412</u>
	<u>\$ 9,694,542</u>
Amount of depreciation on property during previous year	<u>\$ 2,137,456</u>
Number of employees as of June 30, 2011	<u>\$ 60</u>
Gross salaries	\$ 3,086,305
Less amount reimbursed by projects	<u>(332,179)</u>
Net salaries paid to employees	<u>\$ 2,754,126</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

DRAFT

Program	Pass-Through Grantor's Number	Federal CFDA Number	Contract Amount	Expenditures
U.S. Department of Agriculture - Natural Resource Conservation Service				
Watershed Rehabilitation Program**		10.916	\$ 785,001	\$ 346,173
Environmental Quality Incentives		10.912	Unknown	28,963
U.S. Department of Homeland Security				
Cooperating Technical Partners Program		97.045	23,930	23,730
Passed through the Nebraska Energy Management Agency				
Hazard Mitigation Grants	DR-1770-NE-0005	97.039	675,200	126,362
Disaster Grants-Public Assistance	FEMA-1924-DR-NE	97.036	540,484	129,061
U.S. Department of Transportation				
Passed through the Nebraska Department of Roads				
Highway Planning and Construction**	ENH-28(89)	20.205	3,603,033	246,623
Total				\$ 900,912

** Major program

See Notes to the Schedule of Expenditures of Federal Awards.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

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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.

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_____, 2011

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

Board of 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, 2011, and have issued our report thereon dated _____, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we did identify a deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency. 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.

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*.

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.

Original **DRAFT** CPAs LLC
ORIZON CPAs LLC

DRAFT

_____, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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 each of its major federal programs for the year ended June 30, 2011. The District's major federal programs 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 programs 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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.

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.


ORIZON CPAs LLC

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

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SECTION 1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:

Material weakness(es) identified: Yes _____ No X

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

The major programs tested for compliance were the Watershed Protection and Flood
Prevention program (CFDA No. 10.916) and the Highway Planning and Construction
program (CFDA No. 20.205).

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 _____ No X

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011

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SECTION 2. FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2011-1 Condition: During our audit, we identified significant adjustments that needed to be made in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America.

Criteria: Management is responsible for achieving appropriate financial objectives, including maintaining complete accounting records and preparing the financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Intentional and unintentional errors could be made and not detected within a timely period by District personnel in the normal course of performing their assigned functions.

Recommendation: Management should allocate more personnel resources to allow for a more thorough review of year-end accounting information, financial statements and supporting workpapers concentrating on the unique accounting and financial reporting requirements of the District.

Response: Over the past few years, staff has assumed more responsibility for year-end accounting and reporting matters. A new audit firm resulted in different processes and expectations from the prior firm. The District has limited accounting personnel, and as management has noted on several occasions, the District could increase its existing accounting staff to handle all of the demands and requirements imposed upon it. However, the District has limited resources and has been adverse to expanding staff, as that would result in increased expenses and ultimately require more property tax revenue. However, the District will work with the new audit firm and take appropriate steps to make improvements to these matters. Since this is the firm year of working with a new firm, we anticipate both firms will learn to work together more effectively on future engagements.

SECTION 3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

**PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

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FINANCIAL STATEMENT AUDIT

Material Weaknesses

- 2010-1 Planned corrective action was completed this fiscal year.
- 2010-2 Planned corrective action was completed this fiscal year.
- 2010-3 Planned corrective action was completed this fiscal year.

Significant Deficiency

- 2010-4 Planned corrective action was completed this fiscal year.

MAJOR FEDERAL AWARD PROGRAM AUDIT

No material weaknesses were noted during the prior year.