

MEMORANDUM

To: FEL Subcommittee

Subject: FY2006 Audit

Date: January 3, 2007

From: Jack Lawless

It is staff's recommendation that the FEL Subcommittee recommend to the Board of Directors that the FY2006 Audit Report and management letter, prepared by Bland and Associates, be accepted and that the General Manager be directed to file an authenticated copy of the audit report with the Nebraska Auditor of Public Accounts and the Nebraska Natural Resources Commission.

8712 West Dodge Road • Suite 200 • Omaha, NE 68114 • (402) 397-8822 • Fax (402) 397-8649

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

In planning and performing our audit of the financial statements of Papio-Missouri River Natural Resources District (the District) for the year ended June 30, 2006, we considered its system of internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the system of internal control. However, we noted certain matters involving the internal control system and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control system that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We believe Papio-Missouri River Natural Resources District should consider implementing the following suggestions, which will continue to improve the overall system of internal control.

Review of Collateral Position

Two of the District's bank account balances slightly exceeded the Federal Deposit Insurance Corporation (FDIC) insurance amount at year-end. We recommend the District's collateral position be reviewed quarterly, or as often as necessary, to ensure that all accounts are properly insured by FDIC or other forms of collateral. Interest paid on investments should be reviewed to ensure it is being paid to the District instead of added to the principal of the investment, raising the balance over the collateralized or insured amount.

Review of Authorized Signers

The District's Dakota County State Bank checking account and all investment accounts at various banks continue to list Mr. Steven G. Oltmans as an authorized signer on their signature cards. We recommend that Mr. Oltmans be removed from all accounts as an authorized signer to ensure that the District's funds are secure and only authorized transactions occur on accounts.

Tracking of Capital Assets

The District's implementation of Government Accounting Standards Board (GASB) Statement No. 34 requires that the District track its capital assets. In the past the District has tracked only the assets that it purchases or disposes of, and the auditor has tracked the total capital assets for reporting purposes. During fiscal year 2006 the District began to inventory its machinery and equipment. We commend the District for its effort so far, but recommend that the District continue to fully inventory and value its fixed assets (including office equipment, capital improvements, land and infrastructure, etc.) to update the listing and remove outdated items. The District would then be equipped to maintain the asset listing internally.

Board of Directors
Papio-Missouri River Natural Resources District
Omaha, Nebraska
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Segregation of Duties

Due to the limited number of accounting staff, the District has a lack of segregation of duties within the accounting department. A good system of internal accounting control includes segregation of duties so that no one person handles a transaction from inception to completion. Segregation problems occur in almost all small and medium sized organizations, and it is often not economically feasible to permit an adequate segregation of duties in all respects. The District's management and Board of Directors should continue to be diligent in providing additional separation where possible.

* * *

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control system would not necessarily disclose all matters in the system of internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. **We do not consider any of the foregoing reportable conditions to be material weaknesses.**

We have discussed these comments and suggestions with the District personnel and would be pleased to discuss them in greater detail at your convenience.

This letter is solely for the information and use of the Board of Directors and management of Papio-Missouri River Natural Resources District and should not be used for any other purposes.

Omaha, Nebraska
September 29, 2006

Blond & Associates, P.C.

Papio-Missouri River Natural Resources District

FINANCIAL REPORT

Management's Discussion and Analysis

**Basic Financial Statements
with
Supplemental Information
and
Accompanying Independent Auditors' Reports**

Year ended June 30, 2006

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2006

This discussion and analysis of the financial performance of Papio-Missouri River Natural Resources District (the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. It should be read in conjunction with the District's financial statements, which follow. The discussion primarily focuses on the District's general fund, although the proprietary funds are also discussed.

FINANCIAL HIGHLIGHTS

- With the exception of the increase in Land and Infrastructure, the District's net assets remained virtually unchanged for the year. Net assets increased by \$4,758,346 which is an 11.6% increase when compared to the previous fiscal period.
- Total net assets are comprised of the following:
 - 1) Capital assets, net of related debt, of \$25,439,527. Depreciable and non-depreciable assets, net of accumulated depreciation, are reduced for the outstanding debt related to the purchase or construction of capital assets.
 - 2) Restricted and Sinking Fund net assets in the aggregate of \$1,829,906. These funds are subject to debt covenants, federal laws, and related regulations.
 - 3) Unrestricted net assets of \$17,841,051. These assets are available to maintain the District's continuing obligations.
- During the year, the District generated \$21,347,669 of property taxes and other revenues. This is an increase from last year's revenues of \$13,697,744.
- Total long-term debt of the District increased by \$4,371,076 to \$5,940,018 for the fiscal year ended June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

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

Statement of Net Assets

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

Statement of Activities

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

Fund Financial Statements

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

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

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

Budgetary comparison statements are included in the basic financial statements for the general fund. These demonstrate compliance with the District's adopted and final revised budget.

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

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

Notes to the Financial Statements

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

Supplemental Information

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

Summary of Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 18,493,895	\$ 2,578,619	\$ 21,072,514
Capital assets, net of accumulated depreciation	<u>25,527,895</u>	<u>7,248,103</u>	<u>32,775,998</u>
Total assets	44,021,790	9,826,722	53,848,512
Long-term liabilities	193,019	5,385,944	5,578,963
Other liabilities	<u>2,578,821</u>	<u>580,244</u>	<u>3,159,065</u>
Total liabilities	2,771,840	5,966,188	8,738,028
Net assets:			
Invested in capital assets, net of related debt	25,439,527	-	25,439,527
Restricted	634,863	507,808	1,142,671
Unrestricted	14,488,325	3,352,726	17,841,051
Sinking Fund	<u>687,235</u>	<u>-</u>	<u>687,235</u>
Total net assets	<u>\$ 41,249,950</u>	<u>\$ 3,860,534</u>	<u>\$ 45,110,484</u>

The District reported positive balances in net assets for both governmental and business-type activities. The change net assets, an increase of \$4,758,346 for governmental activities and \$338,964 for business-type activities, was due to the respective excesses of revenues over expenditures during fiscal year 2006.

The table on the next page summarizes the District's changes in net assets from revenues and expenditures. The District is heavily reliant on property taxes to support governmental operations, since taxes provide 83% of the District's total governmental revenues.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

Summary of Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>% of Total</u>	<u>2006</u>	<u>% of Total</u>	<u>2006</u>	<u>% of Total</u>
Revenues:						
Program revenues						
Charges for services	\$ 195,648	1.0%	\$ 1,340,570	91.4%	\$ 1,536,218	7.6%
Operating grants & contributions	2,881,923	15.3	-	-	2,881,923	14.2
Capital grants	-	-	-	-	-	-
General revenues						
Property taxes	15,730,261	83.7	-	-	15,730,261	77.7
Assessment income	-	-	58,341	4.0	58,341	0.2
Interest income	-	-	67,654	4.6	67,654	0.3
Total revenues	18,807,832	<u>100.0%</u>	1,466,565	100.0%	20,274,397	<u>100.0%</u>
Expenses:						
General administration	4,026,485	28.7	-	-	4,026,485	26.6
Information & education	165,012	1.2	-	-	165,012	1.1
Flood prevention	5,116,207	36.4	-	-	5,116,207	33.7
Erosion control	1,940,135	13.8	-	-	1,940,135	12.8
Water quality	667,222	4.7	-	-	667,222	4.4
Recreation	975,009	6.9	-	-	975,009	6.4
Forestry & wildlife	1,245,290	8.9	-	-	1,245,290	8.2
Capital Improvements	250,070	1.8	-	-	250,070	1.7
Cost sharing reimbursement	(618,305)	(4.4)	-	-	(618,305)	(4.1)
Unallocated depreciation	276,618	2.0	-	-	276,618	1.8
Interest on long-term debt	5,743	0.0	-	-	5,743	0.0
Rural Water Districts	-	-	939,347	83.3	939,347	6.2
Other proprietary funds	-	-	188,254	16.7	188,254	1.2
Total expenses	14,049,486	<u>100.0%</u>	1,127,601	100.0%	15,177,087	<u>100.0%</u>
Change in net assets	4,758,346		338,964		5,097,310	
Beginning net assets	40,233,561		3,521,570		43,755,131	
Prior period adjustment	(3,731,957)		-		(3,731,957)	
Beginning net assets restated	36,491,604		3,521,570		40,013,174	
Ending net assets	\$ 41,249,950		\$ 3,860,534		\$ 45,110,484	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Fund

The General Fund is the District's primary operating fund. It is used to account for all financial resources except those required to be reported in a separate fund. The fund balance of the General Fund increased by \$5,261,985 to \$9,519,725.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information for the current fiscal year. The major proprietary funds for the District are the Dakota, Washington #1, Washington #2, and Thurston County Rural Water Districts. The fund balances for these funds increased \$377,711. The fund balance for the non-major proprietary funds decreased by \$38,746. The total net assets increased by \$338,964 to \$3,860,534.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2006, was \$25,527,895 and \$7,248,103, respectively. The total increase in this net investment was 7.5% for governmental and 29.7% for business-type activities. The table on the next page summarizes the District's capital assets net of accumulated depreciation and compares the balances at the current year-end to the previous year-end balances.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

Capital Assets Net of Accumulated Depreciation

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total % Chg</u>
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	
Non-Depreciable Assets:							
Land and							
Infrastructure	\$18,879,935	\$21,122,675	\$ 19,125	\$ 19,125	\$18,899,060	\$21,141,800	11.9%
Construction in							
Process	-	-	3,180,409	-	3,180,409	-	(100)
Depreciable Assets:							
Capital							
Improvements	2,055,772	2,074,977	2,968,052	7,936,638	5,023,824	10,011,615	99.3
Buildings and							
Improvements	3,872,057	3,895,893	1,755,601	1,755,601	5,627,658	5,651,494	0.4
Vehicles and							
Equipment	4,160,960	4,287,259	34,207	34,207	4,195,167	4,321,466	3.0
Depreciation	<u>(5,469,677)</u>	<u>(5,852,909)</u>	<u>(2,369,496)</u>	<u>(2,497,468)</u>	<u>(7,839,173)</u>	<u>(8,350,377)</u>	<u>6.5</u>
Total	<u>\$23,499,047</u>	<u>\$25,527,895</u>	<u>\$5,587,898</u>	<u>\$7,248,103</u>	<u>\$28,086,945</u>	<u>\$32,775,998</u>	<u>16.7%</u>

Long-Term Debt

At the end of the fiscal year, the District had \$5,940,018 in bonds and notes outstanding. The table below summarizes the District's outstanding debt at June 30, 2006.

Outstanding Debt at Year-end

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Notes Payable	\$ 151,991	\$ 88,368	\$ 1,416,951	\$ 5,851,651	\$ 1,568,942	\$ 5,940,019
Line of Credit	<u>-</u>	<u>-</u>	<u>2,065,000</u>	<u>-</u>	<u>2,065,000</u>	<u>-</u>
Total	<u>\$ 151,991</u>	<u>\$ 88,368</u>	<u>\$ 3,481,951</u>	<u>\$ 5,851,651</u>	<u>\$ 3,633,942</u>	<u>\$ 5,940,019</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
BASIC FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL INFORMATION
AND
ACCOMPANYING INDEPENDENT AUDITORS' REPORTS
YEAR ENDED JUNE 30, 2006

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of 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, 2006, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2006, 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.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, 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,

Independent Auditors' Report on Basic Financial Statements and
Supplemental Schedule of Expenditures of Federal Awards (Continued)
Page 2

and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 32 to 41 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 on pages 42 and 43 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Omaha, Nebraska
September 29, 2006

Bland & Associates, P.C.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

EXHIBIT A

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (Notes A and B)	\$ 7,575,085	\$ 1,093,114	\$ 8,668,199
Cash on deposit with County Treasurers (Note B)	284,009	348	284,357
Unrestricted investments (Notes A and B)	-	862,513	862,513
Taxes receivable (Note A)	9,111,446	-	9,111,446
Service receivables	14,934	97,936	112,870
Assessments receivable	-	11,955	11,955
Interest receivable	317	2,202	2,519
Due from funding agency (Note D)	139,674	-	139,674
Internal balances (Note C)	46,332	(46,332)	-
Inventories (Note A)	-	49,075	49,075
	<u>17,171,797</u>	<u>2,070,811</u>	<u>19,242,608</u>
NONCURRENT ASSETS			
Restricted assets (Note H)			
Cash and cash equivalents (Note H)	634,863	-	634,863
Investments (Note H)	687,235	507,808	1,195,043
Capital assets (Notes A and F)			
Land and infrastructure	21,122,675	19,125	21,141,800
Capital improvements	2,074,977	7,936,638	10,011,615
Buildings and improvements	3,895,893	1,755,601	5,651,494
Vehicles and equipment	4,287,259	34,207	4,321,466
Accumulated depreciation	(5,852,909)	(2,497,468)	(8,350,377)
Total capital assets	<u>25,527,895</u>	<u>7,248,103</u>	<u>32,775,998</u>
	<u>26,849,993</u>	<u>7,755,911</u>	<u>34,605,904</u>
	<u>\$ 44,021,790</u>	<u>\$ 9,826,722</u>	<u>\$ 53,848,512</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 2,424,459	\$ 55,528	\$ 2,479,987
Accrued salaries and payroll withholdings	31,510	-	31,510
Accrued expenses	35,839	56,153	91,992
Deferred revenue (Note A)	-	2,856	2,856
Current portion of long-term debt (Note G)	66,680	465,707	532,387
Current portion of accrued compensated absences (Note J)	20,333	-	20,333
	<u>2,578,821</u>	<u>580,244</u>	<u>3,159,065</u>
NONCURRENT LIABILITIES			
Long-term debt, net of current portion (Note G)	21,688	5,385,944	5,407,632
Accrued compensated absences, net of current portion (Note J)	171,331	-	171,331
	<u>193,019</u>	<u>5,385,944</u>	<u>5,578,963</u>
	<u>2,771,840</u>	<u>5,966,188</u>	<u>8,738,028</u>
NET ASSETS			
Invested in capital assets, net of related debt	25,439,527	-	25,439,527
Restricted	634,863	507,808	1,142,671
Unrestricted	14,488,325	3,352,726	17,841,051
Sinking fund	687,235	-	687,235
	<u>41,249,950</u>	<u>3,860,534</u>	<u>45,110,484</u>
	<u>\$ 44,021,790</u>	<u>\$ 9,826,722</u>	<u>\$ 53,848,512</u>

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2006

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue & Change in Net Assets	
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
GOVERNMENTAL ACTIVITIES						
General administration	\$ 4,026,485	\$ 194,223	\$ 1,104,998	\$ -	\$ (2,727,264)	\$ -
Information and education	165,012	-	-	-	(165,012)	-
Flood prevention	5,116,207	29,543	1,117,929	-	(3,968,735)	-
Erosion control	1,940,135	201,262	-	-	(1,738,873)	-
Water quality	667,222	387,500	75,420	-	(204,302)	-
Recreation	975,009	1,425	329,088	-	(644,496)	-
Forestry and wildlife	1,245,280	-	254,488	-	(990,802)	-
Capital improvements	250,070	-	-	-	(250,070)	-
Unallocated depreciation	276,618	-	-	-	(276,618)	-
Interest on long-term debt	5,743	-	-	-	(5,743)	-
	14,667,791	813,953	2,881,923	-	(10,971,915)	-
BUSINESS-TYPE ACTIVITIES						
Dakota County Rural Water	287,449	377,442	-	-	-	89,993
Thurston County Rural Water	122,858	101,728	-	-	-	(21,130)
Washington County Rural Water #1	305,674	380,334	-	-	-	74,660
Washington County Rural Water #2	223,366	402,063	-	-	-	178,697
Non-major Proprietary Funds	188,254	79,003	-	-	-	(109,251)
	1,127,601	1,340,570	-	-	-	212,969
	\$ 15,795,392	\$ 2,154,523	\$ 2,881,923	\$ -	(10,971,915)	212,969
GENERAL REVENUES						
Property taxes					15,730,261	-
Assessment income					-	58,341
Interest income					-	67,654
					15,730,261	15,856,256
CHANGE IN NET ASSETS						
NET ASSETS - Beginning					4,758,346	338,964
PRIOR PERIOD ADJUSTMENT (Note L)					40,223,561	3,521,570
NET ASSETS - Beginning as Restated					(3,731,957)	-
NET ASSETS - Ending					36,491,604	3,521,570
					\$ 41,249,950	\$ 3,860,534
						\$ 45,110,484

Note: Unallocated depreciation does not include depreciation attributable to specific functions.

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
FUND FINANCIAL STATEMENTS

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTBALANCE SHEET - GENERAL FUND

June 30, 2006

	<u>General Fund (Note A)</u>
<u>ASSETS AND OTHER DEBITS</u>	
Cash and cash equivalents (Notes A and B)	\$ 7,575,085
Cash on deposit with County Treasurers (Note B)	284,009
Receivables	
Taxes (Note A)	9,111,446
Services	14,934
Interest	317
Due from	
Funding agency (Note D)	139,674
Other funds (Note C)	46,332
Prepaid expenses (Note E)	-
Restricted assets (Note H)	
Cash and cash equivalents (Note H)	634,863
Investments (Note H)	687,235
	<u>\$ 18,493,895</u>
<u>LIABILITIES, FUND EQUITY, AND OTHER CREDITS</u>	
LIABILITIES	
Accounts payable	\$ 2,424,459
Accrued salaries and payroll withholdings	31,510
Accrued expenses (Note J)	56,172
Deferred revenue (Note A)	6,462,029
	<u>8,974,170</u>
FUND EQUITY AND OTHER CREDITS	
Fund balance	
Reserved	634,863
Sinking fund	687,235
Unreserved	8,197,627
	<u>9,519,725</u>
	<u>\$ 18,493,895</u>

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTRECONCILIATION OF THE GENERAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balances - Governmental Funds		\$	9,519,725
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	\$	21,122,675	
Capital improvements		2,074,977	
Buildings and improvements		3,895,893	
Vehicles and equipment		4,287,259	
Accumulated depreciation		<u>(5,852,909)</u>	
			25,527,895
Liabilities which are not due and payable in the current period are therefore not reported in the governmental funds:			
Long-term debt			(88,368)
Compensated absences			(171,331)
Revenues deferred in the prior period now recognized as revenue			<u>6,462,029</u>
Net Assets of Governmental Activities		\$	<u>41,249,950</u>

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

EXHIBIT D

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GENERAL FUND

Year ended June 30, 2006

REVENUES

General administration	\$ 19,569,319
Flood prevention	1,117,929
Water quality	75,420
Recreation	330,513
Forestry and wildlife	254,488
	<hr/>
	21,347,669

EXPENDITURES

Current

General administration	4,069,883
Information and education	165,012
Flood prevention	5,199,750
Erosion control	3,845,462
Water quality	667,222
Recreation	890,873
Forestry and wildlife	1,518,364
Indirect cost reimbursement	(158,835)
Cost sharing reimbursement	(618,306)
Capital improvements	436,893
Debt service	
Principal retirement	63,623
Interest	5,743
	<hr/>
	16,085,684

EXCESS OF REVENUES OVER EXPENDITURES 5,261,985

FUND BALANCE - BEGINNING

4,257,740

FUND BALANCE - ENDING

\$ 9,519,725

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTRECONCILIATION OF THE CHANGE IN FUND BALANCE - GENERAL FUND
TO THE CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2006

Net Change in Fund Balances - Total Government Funds	\$ 5,261,985
--	--------------

Amounts reported for governmental activities in the statement of net assets 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	2,520,631
Depreciation expense	(499,056)

Repayment of long-term debt is reported as an expenditure in governmental funds. In the statement of net assets, the repayment reduces long-term liabilities.

Repayments	63,623
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Full accrual accounting records revenues when earned. Modified accrual records revenues that are measurable and available.

Difference in property tax revenue accrual	<u>(2,588,837)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 4,758,346</u>
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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2006

	Total (Memo Only)	Dakota County Rural Water	Thurston County Rural Water	Washington County Rural Water #1	Washington County Rural Water #2	Non-major Proprietary Funds (Exhibit K)
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Notes A and B)	\$ 1,093,114	\$ 143,757	\$ 74,561	\$ 450,242	\$ 152,086	\$ 272,468
Cash on deposit with County Treasurers (Note B)	348	-	-	-	-	348
Unrestricted investments (Note A)	862,513	498,956	-	363,557	-	-
Receivables						
Services	97,936	36,726	9,534	38,553	13,123	-
Assessments	11,955	-	-	-	-	11,955
Interest	2,202	813	517	355	517	-
Due from other funds (Note C)	-	-	-	-	-	-
Inventories (Note A)	49,075	28,735	4,757	8,056	7,527	-
Prepaid expenses (Note E)	-	-	-	-	-	-
	<u>2,117,143</u>	<u>708,987</u>	<u>88,369</u>	<u>860,763</u>	<u>173,253</u>	<u>284,771</u>
NONCURRENT ASSETS						
Restricted investments (Note H)	507,808	72,500	58,308	37,000	340,000	-
Capital assets (Notes A and F)						
Land and infrastructure	19,125	18,125	1,000	-	-	-
Construction in progress	-	-	-	-	-	-
Capital Improvements	7,936,638	-	1,365,030	1,603,022	4,968,586	-
Buildings and improvements	1,755,601	1,755,601	-	-	-	-
Vehicles and equipment	34,207	34,207	-	-	-	-
Accumulated depreciation	(2,497,468)	(916,222)	(564,473)	(1,000,211)	(16,562)	-
Total capital assets	<u>7,248,103</u>	<u>891,711</u>	<u>801,557</u>	<u>602,811</u>	<u>4,952,024</u>	<u>-</u>
	<u>7,755,911</u>	<u>964,211</u>	<u>859,865</u>	<u>639,811</u>	<u>5,292,024</u>	<u>-</u>
	<u>\$ 9,873,054</u>	<u>\$ 1,673,198</u>	<u>\$ 949,234</u>	<u>\$ 1,500,574</u>	<u>\$ 5,465,277</u>	<u>\$ 284,771</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	\$ 55,528	\$ 16,513	\$ 9,546	\$ 23,240	\$ 6,229	\$ -
Accrued expenses	56,153	5,911	26,076	3,215	20,951	-
Due to other funds (Note C)	46,332	25,234	5,256	14,552	1,290	-
Deferred revenue	2,856	-	-	-	-	2,856
Construction note payable	-	-	-	-	-	-
Current portion of long-term debt (Note G)	<u>465,707</u>	<u>70,000</u>	<u>12,905</u>	<u>35,000</u>	<u>347,802</u>	<u>-</u>
	<u>626,576</u>	<u>117,658</u>	<u>53,783</u>	<u>76,007</u>	<u>376,272</u>	<u>2,856</u>
NONCURRENT LIABILITIES						
Long-term debt, net of current portion (Note G)	<u>5,385,944</u>	<u>460,000</u>	<u>488,746</u>	<u>235,000</u>	<u>4,202,198</u>	<u>-</u>
TOTAL LIABILITIES	<u>6,012,520</u>	<u>577,658</u>	<u>542,529</u>	<u>311,007</u>	<u>4,578,470</u>	<u>2,856</u>
NET ASSETS						
Restricted	507,808	72,500	58,308	37,000	340,000	-
Unrestricted	<u>3,352,726</u>	<u>1,023,040</u>	<u>348,397</u>	<u>1,152,567</u>	<u>546,807</u>	<u>281,915</u>
	<u>3,860,534</u>	<u>1,095,540</u>	<u>406,705</u>	<u>1,189,567</u>	<u>886,807</u>	<u>281,915</u>
	<u>\$ 9,873,054</u>	<u>\$ 1,673,198</u>	<u>\$ 949,234</u>	<u>\$ 1,500,574</u>	<u>\$ 5,465,277</u>	<u>\$ 284,771</u>

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS

Year ended June 30, 2006

	Total (Memorandum Only)			Dakota Rural Water			Thurston Rural Water		
	Actual	Budget		Actual	Budget		Actual	Budget	
		Original	Final		Original	Final		Original	Final
OPERATING REVENUES									
Water sales	\$ 790,644	\$ 781,000	\$ 781,000	\$ 347,595	\$ 340,000	\$ 340,000	\$ 97,443	\$ 136,000	\$ 136,000
Customer charges and hookup fees	154,304	104,375	104,375	28,249	30,200	30,200	3,278	3,175	3,175
Sales	160	150	150	160	150	150	-	-	-
Miscellaneous	395,462	2,628,500	2,628,500	1,438	500	500	1,007	1,200	1,200
	1,340,570	3,514,025	3,514,025	377,442	370,850	370,850	101,728	140,375	140,375
OPERATING EXPENSES									
Repairs and maintenance	3,099	5,700	5,700	2,656	5,000	5,000	443	200	200
Supplies and postage	11,540	14,980	14,980	6,329	8,200	8,200	2,183	3,980	3,980
Professional services	169,484	285,650	285,650	9,409	11,700	11,700	954	5,750	5,750
Personnel	161,987	188,075	188,075	92,918	95,000	95,000	19,240	23,000	23,000
Insurance	1,567	1,950	1,950	878	900	900	172	250	250
Telephone, utilities, and rent	16,626	17,300	17,300	4,556	5,900	5,900	5,268	4,900	4,900
Miscellaneous	7,484	4,575	4,575	1,976	1,150	1,150	1,017	575	575
Water purchase	192,267	209,000	209,000	86,251	80,000	80,000	19,384	52,000	52,000
Contract costs	233,089	274,500	274,500	8,904	25,000	25,000	14,951	9,500	9,500
Project construction and land	67,333	2,310,700	2,310,700	4,040	20,500	20,500	-	-	-
Project operation and maintenance	5,671	8,800	8,800	3,647	4,800	4,800	-	-	-
Depreciation and amortization	128,124	-	-	40,677	-	-	29,719	-	-
Vehicle expense	11,540	6,650	6,650	6,131	5,050	5,050	-	-	-
Bond expenditures	45,761	110,000	110,000	-	65,000	65,000	-	10,000	10,000
Indirect cost	3,004	1,650	1,650	355	500	500	2,535	1,000	1,000
	1,056,576	3,419,530	3,419,530	268,729	328,700	328,700	95,866	111,155	111,155
OPERATING INCOME (LOSS)	281,994	94,495	94,495	108,713	42,150	42,150	5,862	29,220	29,220
NONOPERATING INCOME (EXPENSE)									
Assessment revenue	58,341	44,000	44,000	-	-	-	-	-	-
Interest income	67,654	27,850	27,850	20,865	12,000	12,000	5,807	1,350	1,350
Interest expense	(69,025)	(153,720)	(153,720)	(16,720)	(18,720)	(18,720)	(26,992)	(26,000)	(26,000)
	56,970	(81,870)	(81,870)	2,145	(6,720)	(6,720)	(21,185)	(24,650)	(24,650)
CHANGE IN NET ASSETS	338,964	\$ 12,625	\$ 12,625	110,858	\$ 35,430	\$ 35,430	(15,323)	\$ 4,570	\$ 4,570
TOTAL NET ASSETS - BEGINNING	3,521,570			984,662			422,028		
TOTAL NET ASSETS - ENDING	\$ 3,860,534			\$ 1,095,540			\$ 406,705		

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS (Continued)

Year ended June 30, 2006

	Washington Rural Water #1			Washington Rural Water #2			Non-Major Proprietary Funds (Exhibit L)		
	Actual	Original	Final	Actual	Original	Final	Actual	Original	Final
OPERATING REVENUES									
Water sales	\$ 291,513	\$ 265,000	\$ 265,000	\$ 54,093	\$ 40,000	\$ 40,000	\$ -	\$ -	\$ -
Customer charges and hookup fees	64,879	35,600	35,600	57,998	35,400	35,400	-	-	-
Sales	-	-	-	-	-	-	-	-	-
Miscellaneous	23,942	500	500	290,072	2,515,000	2,515,000	79,003	111,300	111,300
	380,334	301,100	301,100	402,063	2,590,400	2,590,400	79,003	111,300	111,300
OPERATING EXPENSES									
Repairs and maintenance	-	500	500	-	-	-	-	-	-
Supplies and postage	2,415	2,300	2,300	613	500	500	-	-	-
Professional services	12,656	16,800	16,800	128,725	226,400	226,400	17,740	6,500	6,500
Personnel	49,829	65,000	65,000	-	75	75	-	5,000	5,000
Insurance	517	800	800	-	-	-	-	-	-
Telephone, utilities, and rent	6,800	6,300	6,300	-	-	-	-	-	-
Miscellaneous	2,222	1,750	1,750	2,250	1,000	1,000	19	100	100
Water purchase	80,008	77,000	77,000	6,624	-	-	-	-	-
Contract costs	33,222	20,000	20,000	6,386	-	-	169,626	220,000	220,000
Project construction and land	62,548	40,075	40,075	70	2,250,100	2,250,100	675	-	-
Project operation and maintenance	1,830	1,500	1,500	-	1,000	1,000	194	1,500	1,500
Depreciation and amortization	41,166	-	-	16,562	-	-	-	-	-
Vehicle expense	2,757	1,800	1,800	2,852	-	-	-	-	-
Bond expenditures	-	35,000	35,000	45,761	-	-	-	-	-
Indirect cost	114	150	150	-	-	-	-	-	-
	296,084	268,975	268,975	209,643	2,479,075	2,479,075	188,254	233,100	233,100
OPERATING INCOME (LOSS)	84,250	32,125	32,125	192,420	111,325	111,325	(109,251)	(121,800)	(121,800)
NONOPERATING INCOME (EXPENSE)									
Assessment revenue	-	-	-	-	-	-	58,341	44,000	44,000
Interest income	24,747	13,000	13,000	4,072	1,500	1,500	12,163	-	-
Interest expense	(9,590)	(9,000)	(9,000)	(13,723)	(100,000)	(100,000)	-	-	-
	15,157	4,000	4,000	(9,651)	(98,500)	(98,500)	70,504	44,000	44,000
CHANGE IN NET ASSETS	99,407	\$ 36,125	\$ 36,125	182,769	\$ 12,825	\$ 12,825	(38,746)	\$ (77,800)	\$ (77,800)
TOTAL NET ASSETS - BEGINNING	1,090,160			704,036			320,661		
TOTAL NET ASSETS - ENDING	\$ 1,189,567			\$ 886,807			\$ 281,915		

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2006

	TOTAL (Memo only)	MAJOR FUNDS				NONMAJOR FUNDS
		Dakota Rural Water	Thurston Rural Water	Washington Rural Water #1	Washington Rural Water #2	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 910,056	\$ 362,614	\$ 97,938	\$ 358,680	\$ 90,824	\$ -
Other operating receipts (disbursements)	395,622	1,598	1,007	23,942	290,072	79,003
Cash paid to suppliers and employees	(1,323,188)	(229,741)	(62,306)	(257,633)	(585,254)	(188,254)
Net cash provided (used) by operating activities	(17,510)	134,471	36,639	124,989	(204,358)	(109,251)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investments purchased	(349,174)	(1,940)	(1,657)	(5,577)	(340,000)	-
Interest received	67,655	20,865	5,807	24,747	4,072	12,164
Net cash provided (used) by investing activities	(281,519)	18,925	4,150	19,170	(335,928)	12,164
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of debt	2,485,000	-	-	-	2,485,000	-
Payments on long-term debt	(115,300)	(65,000)	(15,300)	(35,000)	-	-
Interest paid	(69,025)	(18,720)	(26,992)	(9,590)	(13,723)	-
Construction in progress	3,180,409	-	-	-	3,180,409	-
Capital improvements	(4,968,586)	-	-	-	(4,968,586)	-
Assessments received	58,341	-	-	-	-	58,341
Net cash provided (used) by capital and related financing activities	570,839	(83,720)	(42,292)	(44,590)	683,100	58,341
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Change in due to (from) other funds	565	(710)	1,483	5,806	(6,014)	-
Net cash provided (used) by noncapital financing activities	565	(710)	1,483	5,806	(6,014)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	272,375	68,966	(20)	105,375	136,800	(38,746)
CASH AND CASH EQUIVALENTS (RESTRICTED AND UNRESTRICTED) - BEGINNING OF YEAR	820,739	74,791	74,581	344,867	15,286	311,214
CASH AND CASH EQUIVALENTS (RESTRICTED AND UNRESTRICTED) - END OF YEAR	\$ 1,093,114	\$ 143,757	\$ 74,561	\$ 450,242	\$ 152,086	\$ 272,468
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS						
CASH FLOWS FROM OPERATING ACTIVITIES						
Operating income (loss)	\$ 281,994	\$ 108,713	\$ 5,862	\$ 84,250	\$ 192,420	\$ (109,251)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation and amortization	128,124	40,677	29,719	41,166	16,562	-
Changes in assets and liabilities						
(Increase) decrease in receivables	(15,249)	(4,156)	(1,911)	4,458	(13,640)	-
(Increase) decrease in inventories	(19,642)	(9,074)	(871)	(2,170)	(7,527)	-
Increase (decrease) in accounts payable	(410,144)	(3,436)	3,393	(3,795)	(406,306)	-
Increase (decrease) in accrued expenses	17,407	1,747	447	1,080	14,133	-
Net cash provided (used) by operating activities	\$ (17,510)	\$ 134,471	\$ 36,639	\$ 124,989	\$ (204,358)	\$ (109,251)

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
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Year ended June 30, 2006

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PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Papio-Missouri River Natural Resources District (the District) is presented to assist in understanding the District's government-wide and governmental 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 have been consistently applied in the preparation of the government-wide and governmental fund financial statements.

District Activities

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 retain an ongoing financial interest in or responsibility for the projects.

Reporting Entity

The District, for financial reporting purposes, includes all funds relevant to the operations of the District. The financial statements of the District include those entities that are separately administered organizations controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and legislative intent.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying government-wide and fund financial statements:

- Dakota County Rural Water Project
- Elkhorn River Bank Stabilization Project
- Thurston County Rural Water Project
- Washington County Rural Water Project #1
- Washington County Rural Water Project #2
- Elkhorn Breakout
- Elk/Pigeon Creek Drainage
- Western Sarpy Drainage Project

Of these funds, the Dakota, Thurston, and Washington County #1 and #2 Rural Water Projects are major funds presented individually in the government-wide financial statements. These funds account for fees charged for rural water services provided to residents in their respective counties. The remaining non-major funds are presented in the aggregate to comply with Government Accounting Standards Board (GASB) Statement No. 34. The District has no component units and is not a component unit of any other government entity.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

The operations of each fund of the District are accounted for with a separate set of self-balancing accounts comprised of its assets, liabilities, fund equity, revenues, and expenditures (or expenses), as appropriate. District resources are allocated to and accounted for in an individual fund based upon the purposes for which they are spent and the means by which the spending activities are controlled. The various funds are grouped into generic fund types in the government-wide and fund financial statements of this report as follows:

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds

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

The Proprietary Funds apply all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities, which report financial information for the District as a whole. Individual funds are not displayed nor are internal activity between or within funds eliminated. The accrual basis of accounting and the total economic resources measurement focus are used. The statements distinguish governmental activities, which are generally supported by property taxes and grants from other governments, from business-type activities, which are generally financed with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Program revenues include:

1. Charges for services, which report fees and other charges to users of the District's services,
2. Operating grants and contributions, which finance annual operating activities including restricted investment income, and
3. Capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred.

Operating revenue reported in the 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.

Allocation of Indirect Expenses

The District is responsible for paying all employee wages and vehicle and fuel expenses of the rural water district proprietary funds. The portion of these expenses directly attributable to the proprietary funds, plus a 15 percent surcharge to cover administrative costs, is billed to and reimbursed by each rural water district. General administration services include overall District management, centralized budgetary formulation and oversight, accounting, payroll, investing and cash management, personnel services, and other general administration services. The actual amount of indirect cost reimbursement received by the District at June 30, 2006, was \$158,835. These reimbursements are included as an offset in the general administration expenses in the Statement of Activities.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Basis of Accounting

Basis of accounting refers to the timing of the recognition of revenues and expenditures, or expenses, in the accounts and the financial statements.

Property taxes are levied by the counties on September 20 and are delinquent if not paid by April 1 and August 22. The seven counties located within the District collect the taxes. The portion of the property taxes levied by the District is remitted from the counties as the taxes are collected, less a one percent commission. For fiscal year 2006, the taxes levied totaled \$15,730,261 at a tax levy rate of 3.9094%.

In the government-wide financial statements (Exhibits A and B), the governmental funds are accounted for using the accrual basis of accounting. On the accrual basis, all revenue from property taxes is recognized in the period levied, regardless of when the cash is collected.

In the fund financial statements, the governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Property tax revenues not collected within 60 days after year-end are recorded as deferred revenues. Delinquent taxes are considered fully collectible, so no allowance for uncollectible taxes is considered necessary.

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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Grants are recognized when the funds are received or receivable. Expenditures are recognized on the modified accrual basis of accounting as the related expenditures are incurred.

Proprietary Funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

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.

Budgetary Data

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

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

The statement of revenues, expenditures, and changes in fund balances-budget and actual-General Fund presents comparisons of legally adopted budgets to actual data prepared in accordance with the accounting basis indicated above.

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

Use of Estimates

Preparing the District's basic 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.

Amortization of Bond Expense

The cost of issuing bonds is amortized on the straight-line method over the life of the bonds.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The interest cost incurred and capitalized at June 30, 2006 was \$162,520 for Washington County Rural Water #2.

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>
Buildings	30
Equipment	5-10
Vehicles	5
Water distribution systems	25-50
Other capital improvements	20-40

Inventories

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

Project Costs

In the governmental fund financial statements, structural improvements (tunnels, 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. Major acquisitions of land that may have a future saleable value associated with project costs are reported as capital improvements; land is reported as a current period General Fund expenditure.

The District, for financial statement purposes, capitalizes its public domain costs, infrastructure costs (such as dams, levees, reservoirs and drainage systems), and similar assets. It is the District's policy to record infrastructure at the historical cost of the land. In the government-wide financial statements, structural improvements, land acquisitions, and equipment purchases are included as capital assets in the financial statements.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The District classifies only actual cash as cash and cash equivalents.

Income Taxes

The District is exempt from federal and state income taxes based upon its status as a local government.

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments consisted of the following at June 30, 2006:

	<u>Total</u>	<u>General Fund</u>	<u>Proprietary Funds</u>
UNRESTRICTED:			
Cash and cash equivalents	\$ 8,668,199	\$ 7,575,085	\$ 1,093,114
Cash on hand at County Treasurers	<u>284,357</u>	<u>284,009</u>	<u>348</u>
	8,952,556	7,859,094	1,093,462
Investments:			
Certificates of deposit	<u>862,513</u>	<u>-</u>	<u>862,513</u>
Total unrestricted cash, cash equivalents and investments	9,820,069	7,859,094	1,955,975
RESTRICTED:			
Cash and cash equivalents	634,863	634,863	-
Investments:			
Certificates of deposit	557,808	50,000	507,808
U.S. Government Money Market	<u>637,235</u>	<u>637,235</u>	<u>-</u>
	1,195,043	687,235	507,808
Total restricted cash, cash equivalents and investments	<u>1,829,906</u>	<u>1,332,098</u>	<u>507,808</u>
Total cash and investments	\$ <u>11,644,975</u>	\$ <u>9,181,192</u>	\$ <u>2,463,783</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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

At June 30, 2006, the District's deposits at all financial institutions, except two, are fully insured by the Federal Deposit Insurance Corporation or collateralized by investments held by these financial institutions. The amount not fully collateralized is \$343, which is due to interest earned on a certificate of deposit added to the principal instead of paid out to the District.

The District's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the District at June 30, 2006. The categories are described as follows:

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

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

Category 3 – Uncollateralized

Deposits, categorized by level of risk, are:

	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Pooled deposits					
Pooled cash and certificates of deposit	\$ 9,701,563	\$ 100,000	\$ 9,601,563	\$ -	\$ 9,596,570
Non-pooled deposits					
General fund	50,000	50,000	-	-	50,000
Proprietary funds	<u>1,069,820</u>	<u>841,078</u>	<u>228,399</u>	<u>343</u>	<u>1,069,820</u>
Total deposits	\$ <u>10,821,384</u>	\$ <u>991,078</u>	\$ <u>9,829,962</u>	\$ <u>343</u>	\$ <u>10,716,390</u>

Investments are stated at cost. For fiscal year 2006, 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 BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

State of Nebraska statutes authorize the District to invest any surplus funds, including monies in sinking funds, in certificates of deposit within federally insured banks, or in direct debt securities of the United States. It is the District's policy, in accordance with Nebraska statutes, to invest in only direct obligations of the United States, excluding certificates of deposit, and not to require collateral to be pledged to secure these investments. The District's non-pooled investments are categorized to give an indication of the level of risk assumed by the District at June 30, 2006. These categories are as follows:

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

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name.

Investments, categorized by level of risk, are:

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>amount</u>	<u>Value</u>
Non-pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -
US Government					
Money market					
General fund	-	637,235	-	637,235	637,235
Proprietary funds	-	-	-	-	-
Total non-pooled investments	\$ -	\$ <u>637,235</u>	\$ -	\$ <u>637,235</u>	\$ <u>637,235</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE C – 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, 2006, 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	\$ 5,255
General Fund	Washington Co. Rural Water #1	14,552
General Fund	Dakota County Rural Water	25,235
General Fund	Washington Co. Rural Water #2	<u>1,290</u>
		\$ <u><u>46,332</u></u>

NOTE D - DUE TO/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, 2006, \$139,674 was due from funding agencies.

NOTE E - DEFERRED CHARGES

It is the District's policy to capitalize loan fees and amortize them over the term of the respective loans. Washington County Rural Water #1 had prepaid loan fees that were being amortized over 20 years. As of June 30, 2006, amortization expense for these fees was \$153 and the prepaid loan fees are fully amortized.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE F – CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Not Depreciated				
Land and infrastructure	\$ 18,404,872	\$ 2,242,740	\$ -	\$ 20,647,612
Water control structures	<u>475,063</u>	<u>-</u>	<u>-</u>	<u>475,063</u>
	18,879,935	2,242,740	-	21,122,675
Depreciated				
Buildings	3,872,057	23,836	-	3,895,893
Machinery and equipment	2,525,596	90,355	-	2,615,951
Office equipment	1,078,675	69,214	-	1,147,889
Vehicles	556,689	82,554	115,824	523,419
Other capital and infrastructure improvements	<u>2,055,772</u>	<u>19,205</u>	<u>-</u>	<u>2,074,977</u>
	10,088,789	285,164	115,824	10,258,129
Less accumulated depreciation	<u>(5,469,677)</u>	<u>(499,056)</u>	<u>(115,824)</u>	<u>(5,852,909)</u>
	<u>4,619,112</u>	<u>(213,892)</u>	<u>-</u>	<u>4,405,220</u>
	\$ <u><u>23,499,047</u></u>	\$ <u><u>2,028,848</u></u>	\$ <u><u>-</u></u>	\$ <u><u>25,527,895</u></u>

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

General administration	\$ 138,302
Recreation	84,136
Unallocated depreciation	<u>276,618</u>
Total depreciation expense	\$ <u><u>499,056</u></u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE F – CAPITAL ASSETS (Continued)

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

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Land	\$ 19,125	\$ -	\$ -	\$ 19,125
Construction in progress	3,180,409	-	3,180,409	-
Buildings	67,097	-	-	67,097
Office equipment	17,559	-	-	17,559
Vehicles	16,648	-	-	16,648
Water distribution system	<u>4,656,556</u>	<u>4,968,586</u>	<u>-</u>	<u>9,625,142</u>
	7,957,394	4,968,586	3,180,409	9,745,571
Less accumulated depreciation	<u>(2,369,496)</u>	<u>(127,972)</u>	<u>-</u>	<u>(2,497,468)</u>
	\$ <u>5,587,898</u>	\$ <u>4,840,614</u>	\$ <u>3,180,409</u>	\$ <u>7,248,103</u>

The construction in progress represents the water tower and water distribution system built by WCRW #2. Construction was started during fiscal year 2005 and was completed during fiscal year 2006. The actual construction costs and the interest on the construction note payable were capitalized as of June 30, 2006. The related line of credit was converted to bonds and is shown as long-term debt on the Statement of Net Assets (Exhibits A and E). The Proprietary Funds recorded depreciation expense of \$127,972 for the year ended June 30, 2006.

NOTE G - LONG-TERM DEBT

The following is a summary of the long-term debt of the General Fund for the year ended June 30, 2006. 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.

<u>Financial Institution</u>	<u>Due Date</u>	<u>Principal Payable</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Principal Balance</u>
Case Credit	Dec, 2007	Annual	\$ 21,800	5.5%	\$ 42,664
Road Builders Machinery Co.	Mar, 2007	Annual	\$ 45,704	4%	<u>45,704</u>
					\$ <u>88,368</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE G - LONG-TERM DEBT (Continued)

Principal additions of debt and principal retirement expenditures for the General Fund for the year ended June 30, 2006, are shown on the following schedule.

		Principal additions		Principal payments
Case Credit	\$	-	\$	19,680
Road Builders Machinery Co.		-		43,943
	\$	-	\$	63,623

Proprietary Fund Notes Payable:

<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 #1	2003	April, 2013	Annual	\$35,000 to \$45,000	3.36%	\$ 270,000
Washington Rural Water #2	2006	Dec, 2022	Semi-Annual	\$70,000 to \$148,000	4.65%	3,400,000
Washington Rural Water #2	2006	Dec, 2011	Semi-Annual	\$104,000 to \$126,000	4.65%	1,150,000
Dakota Rural Water	2003	April, 2013	Annual	\$65,000 to \$85,000	3.36%	530,000
Thurston Rural Water	1982	Jul, 2021	Annual	\$11,000 to \$24,000	5.00%	283,054
Thurston Rural Water	1993	Jul, 2032	Annual	\$3,000 to \$15,000	5.63%	218,596
						<u>\$ 5,851,650</u>

The District established a line of credit during fiscal year 2005 for the construction of the water system for Washington County Rural Water #2. Revenue bonds were issued in March 2006 which retired the line of credit.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE G – LONG-TERM DEBT (Continued)

The annual principal and interest requirements to maturity for long-term debt as of June 30, 2006 are as follows:

Year(s) ending June 30,	General Fund		Proprietary Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 66,465	\$ 4,171	\$ 468,646	\$ 273,361	\$ 535,111	\$ 277,532
2008	21,903	1,205	495,091	245,016	516,994	246,221
2009	-	-	513,688	223,952	513,688	223,952
2010	-	-	543,171	201,581	543,171	201,581
2011	-	-	568,584	177,913	568,584	177,913
2012-2016	-	-	1,381,728	629,074	1,381,728	629,074
2017-2021	-	-	1,430,058	307,284	1,430,058	307,284
2022-2026	-	-	361,668	44,625	361,668	44,625
2027-2031	-	-	61,326	18,514	61,326	18,514
2032-2036	-	-	27,691	1,558	27,691	1,558
	<u>\$ 88,368</u>	<u>\$ 5,376</u>	<u>\$ 5,851,651</u>	<u>\$ 2,122,878</u>	<u>\$ 5,940,019</u>	<u>\$ 2,128,254</u>

NOTE H - RESTRICTED FUNDS

The Board of Directors, by resolution, has established a sinking fund, escrow accounts, and restricted cash accounts for various purposes. All of the accounts are fully funded at their required levels at June 30, 2006. The following is a summary of the restrictions placed on cash and investments for the year ended June 30, 2006:

Sinking fund:

Uninsured Liabilities Fund	\$ 50,000
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Restricted Cash Accounts:

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.	113,498
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The Board of Directors, by resolution, has reserved funds for the purpose of covering the costs of Papio Creek Watershed project.	521,366
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Escrow Accounts:

The Board of Directors, by resolution, has escrowed funds for paying the United States Corps of Engineers upon completion of two projects.	<u>637,235</u>
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Total reserves	1,322,099
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Less restricted cash	<u>(634,863)</u>
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Total general fund restricted investments	\$ <u>687,235</u>
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Interest on these funds is reported as District earnings, with earnings on the restricted cash accounts and escrow accounts attributed to specific projects.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE H - RESTRICTED FUNDS (Continued)

Proprietary Sinking Funds:

In compliance with loan covenants for the notes described in Note G, the Proprietary Funds have reserved \$507,808 for the issues listed below:

Issue	Amount
Washington County Rural Water #1	\$ 37,000
Thurston County Rural Water	48,431
Dakota County Rural Water	72,500
Washington County Rural Water #2	<u>340,000</u>
Total reserve requirement	497,931
Less restricted cash	<u>-</u>
Total proprietary funds restricted investments	<u>\$ 497,931</u>

NOTE I - 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 5.0% of their compensation each pay period, and the District is required to contribute 5.5% of the employee's compensation for each pay period. The District's contributions for the year ended June 30, 2006, were \$112,085, the required contribution.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE J - ACCUMULATED UNPAID ANNUAL LEAVE AND SICK PAY

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 30 days and 180 days, respectively. After one year of service, employees are entitled to all accrued vacation leave upon termination, but not accrued sick leave. The estimated current portion of the liability for vested vacation benefits, \$20,333 at June 30, 2006, is recorded as an expenditure and liability in the General Fund in both the government-wide and fund financial statements. The long-term portion, \$171,331 at June 30, 2006, is recorded as a non-current liability in the government-wide Statement of Net Assets and is not recorded in the governmental fund financial statements. The amount of unvested sick leave benefits payable amounts to \$1,100,319 at June 30, 2006, and is not reported as an expenditure or liability in any of the District's June 30, 2006, basic financial statements.

NOTE K - COMMITMENTS AND CONTINGENCIES

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

The District engages in land development projects and occasionally invokes eminent domain to acquire the required land to undertake the project. The value of the land acquired by the District when eminent domain is invoked is determined by either a board of appraisers in the affected county, or through the judiciary. The amount of any payments that may be required for land, if any, is unknown at June 30, 2006.

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, 2006, a reasonable estimate could not be determined for any potential loss contingencies.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2006

NOTE L – PRIOR PERIOD ADJUSTMENT

The beginning net asset balance of the District has been restated to correct an error. Land and improvements were transferred to the U.S. Fish and Wildlife Service in years prior to the fiscal year ended June 30, 2006. The disposal of the land was not recorded at the time of the transfer. The effect of this correction decreases land and decreases net assets by \$3,731,957.

NOTE M – TOTAL COLUMNS ON COMBINED AND COMBINING STATEMENTS

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ACTUAL AND BUDGET (BUDGETARY BASIS) - GENERAL FUND

Year ended June 30, 2006

	Actual	Budget		Variance Favorable (Unfavorable)
		Original	Final	
REVENUES				
General administration	\$ 16,858,322	\$ 19,842,472	\$ 19,842,472	\$ (2,984,150)
Flood prevention	1,117,929	2,778,170	2,778,170	(1,660,241)
Erosion control	-	-	-	-
Water quality	75,420	268,500	268,500	(193,080)
Recreation	190,838	783,500	783,500	(592,662)
Forestry and wildlife	254,488	1,618,500	1,618,500	(1,364,012)
	18,496,997	25,291,142	25,291,142	(6,794,145)
EXPENDITURES				
Current				
General administration	1,388,062	4,565,300	4,565,300	3,177,238
Information and education	165,012	167,500	167,500	2,488
Flood prevention	5,199,750	9,634,500	9,634,500	4,434,750
Erosion control	3,845,462	4,504,919	4,504,919	659,457
Water quality	667,222	915,500	915,500	248,278
Recreation	890,873	2,892,001	2,892,001	2,001,128
Forestry and wildlife	1,518,364	2,803,792	2,803,792	1,285,428
Unallocated depreciation	-	-	-	-
Indirect cost reimbursement	(158,835)	(200,000)	(200,000)	(41,165)
Cost sharing reimbursement	(618,306)	(849,800)	(849,800)	(231,494)
Capital improvements	436,893	493,263	493,263	56,370
Debt service				-
Principal	63,623	-	-	(63,623)
Interest	4,093	-	-	(4,093)
	13,402,213	24,926,975	24,926,975	11,524,762
EXCESS OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS) AND OTHER SOURCES	5,094,784	\$ 364,167	\$ 364,167	\$ 4,730,617
ADJUSTMENTS REQUIRED UNDER ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA				
To adjust revenues for accruals	2,850,673			
To adjust expenditures for accruals	(2,683,472)			
EXCESS OF EXPENDITURES OVER REVENUES (US GAAP BASIS) AND OTHER USES	5,261,985			
FUND BALANCE - BEGINNING	4,257,740			
FUND BALANCE - ENDING	\$ 9,519,725			

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSTATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
ACTUAL AND BUDGET - PROPRIETARY FUNDS

Year ended June 30, 2006

		Budget		Variance
	Actual	Original	Final	Favorable (Unfavorable)
REVENUES				
Water sales	\$ 790,644	\$ 781,000	\$ 781,000	\$ 9,644
Customer charges and hookup fees	154,304	104,375	104,375	49,929
Sales	160	150	150	10
Miscellaneous	395,462	2,628,500	2,628,500	(2,233,038)
	1,340,570	3,514,025	3,514,025	(2,173,455)
EXPENSES				
Repairs and maintenance	3,099	5,700	5,700	(2,601)
Supplies and postage	11,540	14,980	14,980	(3,440)
Professional services	169,484	265,650	265,650	(96,166)
Personnel	161,987	188,075	188,075	(26,088)
Insurance	1,567	1,950	1,950	(383)
Telephone, utilities, and rent	16,626	17,300	17,300	(674)
Miscellaneous	7,484	4,575	4,575	2,909
Water purchase	192,267	209,000	209,000	(16,733)
Contract costs	233,089	274,500	274,500	(41,411)
Project construction	67,333	2,310,700	2,310,700	(2,243,367)
Project operation and maintenance	5,671	8,800	8,800	(3,129)
Depreciation and amortization	128,124	-	-	128,124
Vehicle expense	11,540	6,650	6,650	4,890
Bond expenditures	45,761	110,000	110,000	(64,239)
Indirect cost	3,004	1,650	1,650	1,354
	1,058,576	3,419,530	3,419,530	(2,360,954)
OPERATING INCOME	281,994	94,495	94,495	187,499
OTHER INCOME (EXPENSE)				
Assessment revenue	58,341	44,000	44,000	14,341
Interest income	67,654	27,850	27,850	39,804
Interest expense	(69,025)	(153,720)	(153,720)	84,695
	56,970	(81,870)	(81,870)	138,840
NET INCOME	338,964	\$ 12,625	\$ 12,625	\$ 326,339
RETAINED EARNINGS - BEGINNING	3,521,570			
RETAINED EARNINGS - ENDING	\$ 3,860,534			

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
SUPPLEMENTAL INFORMATION

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSTATEMENT OF FUNCTIONAL REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GENERAL FUND

Year ended June 30, 2006

REVENUES

Property tax	\$ 18,319,098
State and agency grants	1,605,119
Federal grants	229,062
Sales	3,341
Rental income	192,307
Interest income	263,151
Miscellaneous	735,591

21,347,669

EXPENDITURES

Current

Personnel	2,358,380
Employee benefits	552,869
Travel	56,709
Repairs and maintenance	581,987
Conservation assistance program	1,456,833
Supplies and postage	46,573
Printing and publications	86,909
Professional services	1,614,107
Insurance	151,712
Telephone, utilities, and rent	143,103
Special projects	1,702,668
Dues and memberships	35,935
Information and education	101,438
Project construction and land	6,056,334
Project legal costs	209,019
Project operation and maintenance	119,190
Contract works	554,962
Fees	157,446
Vehicle expense	125,890
Board of directors	60,097
Bonds and amortization	963
Payroll taxes	180,963
Indirect cost reimbursement	(158,835)
Cost sharing reimbursement	(618,306)
Miscellaneous	2,480
Capital improvements	
Machinery and equipment	377,744
Vehicles	59,148
Buildings	-
Debt service	
Principal	63,623
Interest	5,743

16,085,684

EXCESS OF REVENUES OVER EXPENDITURES

5,261,985

FUND BALANCE - BEGINNING

4,257,740

FUND BALANCE - ENDING

\$ 9,519,725

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
NON-MAJOR PROPRIETARY FUNDS

Year ended June 30, 2006

	Total (Memorandum Only)			Elkhorn River			Elkhorn Breakout		
	Actual	Original	Budget	Actual	Original	Budget	Actual	Original	Budget
OPERATING REVENUES									
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-
Miscellaneous	79,003	111,300	111,300	-	-	-	-	-	-
	<u>79,003</u>	<u>111,300</u>	<u>111,300</u>	-	-	-	-	-	-
OPERATING EXPENSES									
Repairs and maintenance	-	-	-	-	-	-	-	-	-
Supplies and postage	-	-	-	-	-	-	-	-	-
Professional services	17,740	6,500	6,500	-	-	-	-	-	-
Personnel	-	5,000	5,000	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Telephone, utilities, and rent	-	-	-	-	-	-	-	-	-
Miscellaneous	19	100	100	-	-	-	-	-	-
Water purchase	-	-	-	-	-	-	-	-	-
Contract costs	169,626	220,000	220,000	-	-	-	-	-	-
Project construction and land	675	-	-	-	-	-	-	-	-
Project operation and maintenance	194	1,500	1,500	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-	-
Vehicle expense	-	-	-	-	-	-	-	-	-
Bond expenditures	-	-	-	-	-	-	-	-	-
Indirect cost	-	-	-	-	-	-	-	-	-
	<u>188,254</u>	<u>233,100</u>	<u>233,100</u>	-	-	-	-	-	-
OPERATING INCOME (LOSS)	<u>(109,251)</u>	<u>(121,800)</u>	<u>(121,800)</u>	-	-	-	-	-	-
NONOPERATING INCOME (EXPENSE)									
Assessment revenue	58,341	44,000	44,000	-	-	-	-	-	-
Interest income	12,163	-	-	3,683	-	-	247	-	-
Interest expense	-	-	-	-	-	-	-	-	-
Fund transfer (Note C)	-	-	-	-	-	-	-	-	-
	<u>70,504</u>	<u>44,000</u>	<u>44,000</u>	<u>3,683</u>	-	-	<u>247</u>	-	-
CHANGE IN NET ASSETS	<u>(38,746)</u>	<u>\$ (77,800)</u>	<u>\$ (77,800)</u>	<u>3,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>247</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL NET ASSETS - BEGINNING	<u>320,661</u>			<u>95,821</u>			<u>5,997</u>		
TOTAL NET ASSETS - ENDING	<u>\$ 281,915</u>			<u>\$ 99,504</u>			<u>\$ 6,244</u>		

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
NON-MAJOR PROPRIETARY FUNDS (Continued)

Year ended June 30, 2006

	Elk/Pigeon Creek Drainage			Western Sarpy Drainage		
	Actual	Original	Budget	Actual	Original	Budget
OPERATING REVENUES						
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Miscellaneous	79,003	111,300	111,300	-	-	-
	<u>79,003</u>	<u>111,300</u>	<u>111,300</u>			
OPERATING EXPENSES						
Repairs and maintenance	-	-	-	-	-	-
Supplies and postage	-	-	-	-	-	-
Professional services	17,740	6,500	6,500	-	-	-
Personnel	-	5,000	5,000	-	-	-
Insurance	-	-	-	-	-	-
Telephone, utilities, and rent	-	-	-	-	-	-
Miscellaneous	19	100	100	-	-	-
Water purchase	-	-	-	-	-	-
Contract costs	169,626	220,000	220,000	-	-	-
Project construction and land	-	-	-	675	-	-
Project operation and maintenance	-	1,500	1,500	194	-	-
Depreciation and amortization	-	-	-	-	-	-
Vehicle expense	-	-	-	-	-	-
Bond expenditures	-	-	-	-	-	-
Indirect cost	-	-	-	-	-	-
	<u>187,385</u>	<u>233,100</u>	<u>233,100</u>	<u>869</u>		
OPERATING INCOME (LOSS)	(108,382)	(121,800)	(121,800)	869	-	-
NONOPERATING INCOME (EXPENSE)						
Assessment revenue	39,955	44,000	44,000	18,386	-	-
Interest income	3,307	-	-	4,926	-	-
Interest expense	-	-	-	-	-	-
Fund transfer (Note C)	-	-	-	-	-	-
	<u>43,262</u>	<u>44,000</u>	<u>44,000</u>	<u>23,312</u>		
CHANGE IN NET ASSETS	(65,120)	\$ (77,800)	\$ (77,800)	22,444	\$ -	\$ -
TOTAL NET ASSETS - BEGINNING	111,608			107,235		
TOTAL NET ASSETS - ENDING	<u>\$ 46,488</u>			<u>\$ 129,679</u>		

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSCHEDULE OF INVESTMENTS - GENERAL FUND

June 30, 2006

	<u>Cost</u>	<u>Interest Rate</u>
General fund		
Certificates of deposit		
Great Western Bank	\$ 50,000	3.92%
Escrow accounts		
Wells Fargo	<u>637,235</u>	variable
	687,235	
Less unrestricted portion	<u>-</u>	
General fund - restricted investments	<u><u>\$ 687,235</u></u>	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSCHEDULE OF INVESTMENTS - PROPRIETARY FUNDS

	June 30, 2006	
	<u>Cost</u>	<u>Interest Rate</u>
Proprietary funds		
Certificates of deposit		
Dakota County		
American National Bank	\$ 105,113	3.98%
Bank of the West	100,321	3.80%
Gateway Community Bank	100,000	3.75%
Nebraska State Bank	66,000	2.72%
Siouxland National Bank	100,000	3.23%
TierOne Bank	100,022	4.50%
	<u>571,456</u>	
Washington County #1		
American National Bank	121,068	2.52%
Bank of the West	100,000	4.18%
Team Bank	75,078	3.18%
Wells Fargo	104,410	5.12%
	<u>400,556</u>	
Washington County #2		
Wells Fargo	340,000	5.40%
	<u>340,000</u>	
Thurston County		
American National Bank	6,781	3.45%
American National Bank	46,527	3.45%
Bank of the West	5,000	3.70%
	<u>58,308</u>	
	1,370,320	
Less unrestricted portion	<u>(862,513)</u>	
Proprietary funds - restricted investments	<u>\$ 507,807</u>	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSCHEDULE OF INSURANCE POLICIES AND BONDS

June 30, 2006

SCHEDULED PROPERTY FLOATER AND EQUIPMENT

Covering property, vehicle, and equipment; total limit \$9,328,000; deductible/\$5,000 except for boiler and machinery/\$25 per horsepower; Flood coverage/\$1,000,000 with deductible/\$25,000; Earthquake and earth movement limit/\$1,000,000 with deductible/\$25,000.

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.

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/\$200,000; deductible/\$500.

Forgery/\$200,000 with deductible/\$500; Computer fraud/\$50,000 with deductible/\$500; Theft, disappearance, and destruction/ \$100,000 with deductible/\$500.

COMMERCIAL UMBRELLA POLICY

Combined bodily injury and property damage/\$1,000,000 with property damage deductible/\$10,000.

COVERAGE EXTENSIONS

Arson and crime reward/\$10,000; Bridges/\$100,000; Fire department service charge/\$25,000; Personal effects of insureds, patients, and fire victims/\$50,000; Pollutant clean-up and removal/\$250,000; Recertification of equipment/\$50,000; Trees, shrubs, and landscape plantings/\$50,000.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSCHEDULE OF TAXES RECEIVABLE - GENERAL FUND

County		June 30, 2006
Douglas	\$	5,350,043
Sarpy		2,799,434
Washington		456,517
Dakota		393,411
Burt		65,669
Thurston		45,669
Dodge		<u>703</u>
	\$	<u><u>9,111,446</u></u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSCHEDULE OF CASH BALANCES HELD BY COUNTY TREASURERS

June 30, 2006

General Fund

Douglas	\$	186,796
Sarpy		43,214
Washington		7,006
Dakota		43,543
Burt		2,165
Thurston		536
Dodge		<u>749</u>

284,009

Proprietary Funds

Elkhorn Breakout		205
Elkhorn River Stabilization Project		<u>143</u>
		<u>348</u>
	\$	<u><u>284,357</u></u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTINFORMATION REQUIRED BY SECTION 2-3223, N.R.S - 1943

Year ended June 30, 2006

Gross income from all sources	<u>\$ 23,580,210</u>
Amount expended for	
Maintenance	\$ 578,265
Improvements and other such programs	<u>3,159,501</u>
	<u>\$ 3,737,766</u>
Amount of depreciation on property	<u>\$ 627,027</u>
Number of employees as of June 30, 2006	<u>59</u>
Gross salaries	\$ 2,789,845
Less amount reimbursed by projects	<u>(158,835)</u>
Net salaries paid to employees	<u>\$ 2,631,010</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

EXHIBIT S

Year ended June 30, 2006

Program	Pass-Through Grantor's Number	Federal CFDA Number	Contract Amount	Due From/(To) Funding Agency July 1, 2005	Grant Receipts	Grant Revenues	Other Revenue	Expenditures	Due From/(To) Funding Agency June 30, 2006
U.S. Department of Transportation Passthrough from Nebraska Department of Roads Highway Planning and Construction - Recreational Trails									
Big Papio Trail - Center to Blondo Street	STPB-28 (74)	20.205	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
West Papio Trail - Bellevue to Papillion	STPB-77 (46)	20.205	500,000	-	-	-	-	-	-
MoPac Trail - Springfield to Platte River	STPB-77 (43)	20.205	500,000	43,724	47,521	-	3,797	-	-
Missouri River Trail	STPB-28 (85)	20.205	500,000	-	200,488	340,162	-	340,162	139,674
U.S. Department of Federal Emergency Management Assistance Floodway Mapping	N/A	97.045	392,500	10,688	96,287	85,589	-	85,589	-
Total Expenditures of Federal Awards				\$ 54,422	\$ 344,286	\$ 425,751	\$ 3,797	\$ 425,751	\$ 139,674

The accompanying Note to Schedule of Expenditures of Federal Awards is an integral part of this statement.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTNOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2006

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 basic financial statements.

The District did not exceed the \$500,000 expenditure threshold, which requires additional audit procedures and reporting in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. No OMB Circular A-133 compliance audit procedures were therefore performed.

**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**

8712 West Dodge Road • Suite 200 • Omaha, NE 68114 • (402) 397-8822 • Fax (402) 397-8649

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

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

We have audited the financial statements of Papio-Missouri River Natural Resources District (the District) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the District's management in a separate letter dated September 29, 2006.

Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards* (Continued)
Page 2

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

Omaha, Nebraska
September 29, 2006

Bland & Associates, P.C.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT
SCHEDULES OF FINDINGS

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2006

A. SUMMARY OF AUDIT FINDINGS

1. The Independent Auditors' Report dated September 29, 2006, expressed an unqualified opinion on the basic financial statements of Papio-Missouri River Natural Resources District.
2. Two reportable conditions were found during the audit of the basic financial statements, as detailed below.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. The District's federal expenditures did not exceed the \$500,000 threshold set by OMB Circular A-133. No testing of compliance requirements applicable to major programs or of internal control over compliance was therefore performed.
5. Papio-Missouri River Natural Resources District was considered to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

The following reportable conditions were found during the financial statement audit:

1. The District tracks only the capital assets that it purchases or disposes of, but does not internally track the total capital assets for reporting purposes.
2. Effective segregation of duties is not in place, since the person reconciling bank balances to account balances also has responsibilities relating to cash receipts, cash disbursements, and preparing or approving vouchers for payment.

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

OMB Circular A-133 requires that compliance with requirements applicable to major programs and internal control over compliance be audited when federal expenditures exceed the \$500,000 threshold. A major federal award program audit was not performed because the District expended less than \$500,000 of federal grant monies.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICTSCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2006

FINANCIAL STATEMENT AUDIT

Three reportable conditions were found during the prior year financial statement audit. These conditions and their status are summarized below.

Condition 1: The District tracks only the capital assets that it purchases or disposes of, but does not internally track the total capital assets for reporting purposes.

Status: The District began inventorying its machinery and equipment during fiscal year 2006, but it does not yet maintain a complete list of owned capital assets and their valuations.

Condition 2: The District does not separate the federal award monies from other monies received.

Status: The District now records federal award monies for specific projects in separate accounts within the general ledger.

Condition 3: Effective segregation of duties is not in place, since the person reconciling bank balances to account balances also has responsibilities relating to cash receipts, cash disbursements, and preparing or approving vouchers for payment.

Status: The District Accountant performs virtually all functions mentioned above for the District. However, due to the small size of the organization, the General Manager and the Board of Directors maintain direct oversight of the District Accountant.

MAJOR FEDERAL AWARD PROGRAM AUDIT

One reportable condition was noted during the prior year major federal award program audit of the Federal Emergency Management Agency (FEMA) Floodway Mapping project, whose granting agency is the U.S. Department of Homeland Security.

Condition: The contract with FEMA required the District to provide quarterly performance reports due within 30 days of the end of each quarter. The District did not file the April 1, 2005 to June 30, 2005 report on time.

Status: The District has filed all subsequent quarterly reports on time.