

**Finance, Expenditure & Legal
Subcommittee Meeting
November 8, 2005
7:00 p.m.
Agenda**

Finance, Expenditure & Legal Subcommittee Members:

Dick Connealy, Chairperson
Tim Fowler, Vice-Chairperson
John Conley
Dorothy Lanphier
Jim Thompson

Alternate Members: John Schwope
Rich Tesar

Staff Liaison: Jim Becic
Jerry Herbster
Jack Lawless
Trent Heiser *

1. Meeting Called to Order – Chairperson Connealy
2. Quorum Call
3. Adoption of Agenda
4. Proof of Publication of Meeting Notice
5. Review and Recommendation on P-MRNRD 2005 Audit – Jerry Bland, Bland Associates, and Jack Lawless
6. Review and Recommendation on Account(s) Over 110% - Acct #01 01 00 4636 – Dakota County Service Center – Ralph Puls
7. Review and Recommendation on Lower Decatur Bend Purchase Agreements [*Executive Session, if needed*] – Don Doty, NRCS – Wetland Reserve Enhancement Project; and, Jim Becic
 - a. Tobin
 - b. Williams
 - c. Olson
8. Adjourn

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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, 2005, 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.

Payment of Invoices

An invoice was approved for payment prior to the completion of work on the project. A check was then prepared and held for the completion of the work. We recommend the District not approve invoices for payment prior to completion of the work.

Review of Collateral Position

One of the District's bank account balances 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.

Tracking of Capital Assets

With the District's implementation of Government Accounting Standards Board (GASB) Statement No. 34, new requirements for tracking and reporting capital assets take effect. To date, 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. We recommend the District take a full inventory of fixed assets to update its listing and remove outdated items and subsequently track all capital assets internally.

Accounting for Grant Funding

The District does not separate the federal award monies from other monies received (the money received is recorded in the same general ledger accounts). With the substantial amounts received in federal funding, the importance of accurately matching federal funds to expenses is enhanced. We recommend, at a minimum, the District establish separate general ledger revenue and expense accounts to monitor federal funds.

Board of Directors
Papio-Missouri River Natural Resources District
Omaha, Nebraska
Page 2 of 2

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 should be diligent in providing additional separation where possible.

Performance Reports

The FEMA Floodway Mapping program did not file one of the four performance reports in a timely manner. We recommend that the project managers monitor all due dates for performance reports and ensure such reports are timely filed.

* * *

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 27, 2005

Blend & 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, 2005

**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, 2005

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, 2005. It should be read in conjunction with the District's financial statements, which follow. The discussion primarily focuses on the District's general fund, although the proprietary funds are also analyzed.

FINANCIAL HIGHLIGHTS

- With an exception of Land and Infrastructure increase, the District's net assets remained virtually unchanged as a result of the year's operations. Net assets increased by \$5,276,710, which is a 15.1% change.
- Total net assets are comprised of the following:
 - 1) Capital assets, net of related debt, of \$27,079,013. Property and equipment, net of accumulated depreciation, is reduced for the outstanding debt related to the purchase or construction of capital assets.
 - 2) Restricted and Sinking Fund net assets of \$901,807. Constraints have been imposed by debt covenants and federal laws and regulations.
 - 3) Unrestricted net assets of \$12,242,741. These assets are available to maintain the District's continuing obligations.
- During the year, the District generated \$14,976,092 of property taxes and other revenues. This is an increase from last year when revenues of \$10,701,229 were generated.
- Total liabilities of the District decreased by \$941,807 to \$1,568,056 during the fiscal year.

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. 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, 2005

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

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

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 areas for fishing and camping. The District's business-type activities include four rural water districts and four other trail and waterway construction and preservation projects.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. Major funds are separately reported while all others are combined into a single, 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 which provide a distinctive view of the District's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources throughout the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

The government-wide focus includes the long-term view and the near term, as a result, 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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2005

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, 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 latter 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.

Supplementary Information

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

Year ended June 30, 2005

SUMMARY OF NET ASSETS

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current and other assets	\$ 14,560,613	\$ 1,922,898	\$ 16,483,511
Capital assets	<u>27,231,004</u>	<u>5,587,898</u>	<u>32,818,902</u>
	41,791,617	7,510,796	49,302,413
LIABILITIES			
Long-term liabilities	281,845	1,301,894	1,583,739
Other liabilities	<u>1,286,211</u>	<u>2,687,332</u>	<u>3,973,543</u>
	1,568,056	3,989,226	5,557,282
NET ASSETS			
Invested in capital assets, net of related debt	27,079,013	-	27,079,013
Restricted	229,094	166,151	395,245
Unrestricted	12,242,741	3,355,419	15,598,160
Sinking Fund	<u>672,713</u>	-	<u>672,713</u>
TOTAL NET ASSETS	<u>\$ 40,223,561</u>	<u>\$ 3,521,570</u>	<u>\$ 43,745,131</u>

The District reported positive balances in net assets for both governmental and business-type activities. Since net assets increased \$5,276,710 for governmental activities and \$34,827 for business-type activities, the District's overall financial position improved during fiscal year 2005.

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, 2005

SUMMARY OF CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>% of</u>	<u>2005</u>	<u>% of</u>	<u>2005</u>	<u>% of</u>
		<u>Total</u>		<u>Total</u>		<u>Total</u>
REVENUES:						
Program revenues:						
Charges for services	\$ 164,166	0.9%	\$1,040,820	90.4%	\$1,204,986	6.4%
Operating grants & contributions	2,438,541	13.9	-	-	2,438,541	13.0
Capital grants	-	-	-	-	-	-
General revenues:						
Property taxes	14,976,092	85.2	-	-	14,976,092	80.0
Assessment income	-	-	67,220	5.8	67,220	0.4
Interest income	-	-	43,433	3.8	43,433	0.2
	<u>17,578,799</u>	100.0%	<u>1,151,473</u>	100.0%	<u>18,730,272</u>	100.0%
EXPENSES:						
General administration	3,770,059	30.6%	-	-%	3,770,059	28.1%
Information & education	152,103	1.2	-	-	152,103	1.1
Flood prevention	3,243,764	26.4	-	-	3,243,764	24.2
Erosion control	1,177,020	9.6	-	-	1,177,020	8.8
Water quality	890,340	7.2	-	-	890,340	6.6
Recreation	2,095,072	17.0	-	-	2,095,072	15.6
Forestry & wildlife	851,201	6.9	-	-	851,201	6.3
Capital Improvements	246,039	2.0	-	-	246,039	1.8
Cost sharing reimbursement	(393,544)	(3.2)	-	-	(393,544)	(2.9)
Unallocated depreciation	265,989	2.2	-	-	265,989	2.0
Interest on long-term debt	4,046	0.1	-	-	4,046	0.0
Rural Water Districts	-	-	1,107,059	99.1	1,107,059	8.3
Other proprietary funds	-	-	9,587	0.9	9,587	0.1
	<u>12,302,089</u>	100.0%	<u>1,116,646</u>	100.0%	<u>13,418,735</u>	100.0%
CHANGE IN NET ASSETS	5,276,710		34,827		5,311,537	
BEGINNING NET ASSETS	<u>34,946,851</u>		<u>3,486,743</u>		<u>38,433,594</u>	
ENDING NET ASSETS	<u>\$40,233,561</u>		<u>\$ 3,521,570</u>		<u>\$43,745,131</u>	

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2005

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Fund

The General Fund is the District's primary operating fund. It is used to account for all financial resources except those required to be reported in a separate fund. The fund balance of the General Fund decreased by \$4,261,144 to \$4,257,740.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The major proprietary funds for the District are the Dakota, Thurston, Washington Rural Water #1 and Washington Rural Water #2 Districts. The fund balances for Dakota, Thurston, and Washington Rural Water #1 all decreased while the fund balance for Washington Rural Water #2 increased with the total of all four decreasing by \$29,295. The fund balance for the non-major proprietary funds increased by \$64,122. The total fund balance of all proprietary funds increased by \$34,827 to \$3,521,570.

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, 2005, was \$27,231,004 and \$5,587,898, respectively. The total increase in this net investment was 23.5% for governmental and 121.8% for business-type activities. The table on the next page summarizes the District's capital assets net of accumulated depreciation.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2005

Capital Assets Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total		Total % Chg
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	
Non-Depreciable Assets:							
Land and Infrastructure	\$18,150,039	\$22,611,892	\$19,125	\$19,125	\$18,169,164	\$22,631,017	24.6%
Construction in Progress	-	-	-	3,180,409	-	3,180,409	N/A
Depreciable Assets:							
Capital Improvements	2,055,772	2,055,772	2,968,052	2,968,052	5,023,824	5,023,824	0.0
Buildings and Improvements	2,884,200	3,872,057	1,755,601	1,755,601	4,639,801	5,627,658	21.3
Vehicles and Equipment	4,055,739	4,160,960	34,207	34,207	4,089,946	4,195,167	2.6
Depreciation	<u>(5,091,618)</u>	<u>(5,469,677)</u>	<u>(2,257,886)</u>	<u>(2,369,496)</u>	<u>(7,349,504)</u>	<u>(7,839,173)</u>	<u>6.7</u>
Total	<u>\$22,054,132</u>	<u>\$27,231,004</u>	<u>\$2,519,099</u>	<u>\$5,587,898</u>	<u>\$24,573,231</u>	<u>\$32,818,902</u>	<u>33.6%</u>

Long-Term Debt

At the end of the fiscal year, the District had \$1,568,942 in bonds, notes, and leases outstanding. The table below summarizes the District's outstanding debt at June 30, 2005.

Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Notes payable	\$631,899	\$151,991	\$1,530,778	\$1,416,951	\$2,162,677	\$1,568,942
Line of credit	-	-	-	2,065,000	-	2,065,000
Leases payable	-	-	-	-	-	-
Total	<u>\$631,899</u>	<u>\$151,991</u>	<u>\$1,530,778</u>	<u>\$3,481,951</u>	<u>\$2,162,677</u>	<u>\$3,633,942</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Year ended June 30, 2005

A line of credit was provided to the District for construction of the Washington County Rural Water System #2. The project is nearing completion with the final contract expected to be awarded in December 2005. The draw down of the line of credit is payable March 1, 2006. The District is anticipating to sell and issue revenue bonds in February 2006 to pay off the lender for all interim financing.

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, 2005

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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, 2005, 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, 2005, 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 is 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 2, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and

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

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 30 to 40 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 41 and 42 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 2, 2005

Blond & Associates, P.C.

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents (Notes A and B)	\$ 3,809,020	\$ 820,739	\$ 4,629,759
Cash on deposit with County Treasurers (Note B)	761,289	348	761,637
Unrestricted investments (Notes A and B)	-	854,996	854,996
Taxes receivable (Note A)	8,949,287	-	8,949,287
Service receivables	20,114	80,853	100,967
Assessments receivable	-	11,955	11,955
Interest receivable	1,415	4,036	5,451
Due from funding agency (Note D)	54,422	-	54,422
Internal balances (Note C)	45,766	(45,766)	-
Inventories (Note A)	-	29,433	29,433
Prepaid expenses (Note E)	17,493	153	17,646
	<u>13,658,806</u>	<u>1,756,747</u>	<u>15,415,553</u>
NONCURRENT ASSETS			
Restricted assets (Note I)			
Cash and cash equivalents (Note I)	229,094	-	229,094
Investments (Note I)	672,713	166,151	838,864
Capital assets (Notes A, F and G)			
Land and infrastructure	22,611,892	19,125	22,631,017
Construction in progress	-	3,180,409	3,180,409
Capital improvements	2,055,772	2,968,052	5,023,824
Buildings and improvements	3,872,057	1,755,601	5,627,658
Vehicles and equipment	4,160,960	34,207	4,195,167
Accumulated depreciation	(5,469,677)	(2,369,496)	(7,839,173)
Total capital assets	<u>27,231,004</u>	<u>5,587,898</u>	<u>32,818,902</u>
	<u>28,132,811</u>	<u>5,754,049</u>	<u>33,886,860</u>
	<u>\$ 41,791,617</u>	<u>\$ 7,510,796</u>	<u>\$ 49,302,413</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 1,094,857	\$ 465,673	\$ 1,560,530
Accrued salaries and payroll withholdings	21,519	-	21,519
Accrued expenses	92,579	38,746	131,325
Deferred revenue (Note A)	180	2,856	3,036
Construction note payable (Note H)	-	2,065,000	2,065,000
Current portion of long-term debt (Note H)	63,623	115,057	178,680
Current portion of accrued compensated absences (Note K)	13,453	-	13,453
	<u>1,286,211</u>	<u>2,687,332</u>	<u>3,973,543</u>
NONCURRENT LIABILITIES			
Long-term debt, net of current portion (Note H)	88,368	1,301,894	1,390,262
Accrued compensated absences, net of current portion (Note K)	193,477	-	193,477
	<u>281,845</u>	<u>1,301,894</u>	<u>1,583,739</u>
	1,568,056	3,989,226	5,557,282
NET ASSETS			
Invested in capital assets, net of related debt	27,079,013	-	27,079,013
Restricted	229,094	166,151	395,245
Unrestricted	12,242,741	3,355,419	15,598,160
Sinking fund	672,713	-	672,713
	<u>40,223,561</u>	<u>3,521,570</u>	<u>43,745,131</u>
	<u>\$ 41,791,617</u>	<u>\$ 7,510,796</u>	<u>\$ 49,302,413</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, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue & Change in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
GOVERNMENTAL ACTIVITIES					
General administration	\$ 3,770,059	\$ 163,242	\$ 790,401	\$ (2,816,416)	\$ (2,816,416)
Information and education	152,103	-	-	(152,103)	(152,103)
Flood prevention	3,243,764	29,477	1,128,318	(2,085,969)	(2,085,969)
Erosion control	1,177,020	82,567	-	(1,094,453)	(1,094,453)
Water quality	890,340	281,500	67,401	(541,439)	(541,439)
Recreation	2,095,072	924	418,195	(1,675,953)	(1,675,953)
Forestry and wildlife	851,201	-	34,226	(816,975)	(816,975)
Capital improvements	246,039	-	-	(246,039)	(246,039)
Unallocated depreciation	265,989	-	-	(265,989)	(265,989)
Interest on long-term debt	4,046	-	-	(4,046)	(4,046)
	<u>12,695,633</u>	<u>557,710</u>	<u>2,438,541</u>	<u>(9,699,382)</u>	<u>(9,699,382)</u>
BUSINESS-TYPE ACTIVITIES					
Dakota County Rural Water	382,852	355,027	-	(27,825)	(27,825)
Thurston County Rural Water	124,995	103,107	-	(21,888)	(21,888)
Washington County Rural Water #1	400,407	309,220	-	(91,187)	(91,187)
Washington County Rural Water #2	198,805	272,867	-	74,062	74,062
Non-major Proprietary Funds	9,587	599	-	(8,988)	(8,988)
	<u>1,116,646</u>	<u>1,040,820</u>	<u>-</u>	<u>(75,826)</u>	<u>(75,826)</u>
	<u>\$ 13,812,280</u>	<u>\$ 1,598,530</u>	<u>\$ 2,438,541</u>	<u>\$ (9,699,382)</u>	<u>\$ (9,775,208)</u>
GENERAL REVENUES					
Property taxes					
Assessment income				14,976,092	14,976,092
Interest income				67,220	67,220
				<u>43,433</u>	<u>43,433</u>
				<u>14,976,092</u>	<u>15,086,745</u>
CHANGE IN NET ASSETS					
NET ASSETS - Beginning				5,276,710	5,311,537
NET ASSETS - Ending				<u>34,946,851</u>	<u>38,433,594</u>
				<u>\$ 40,223,561</u>	<u>\$ 43,745,131</u>

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, 2005

	General Fund (Note A)
ASSETS AND OTHER DEBITS	
Cash and cash equivalents (Notes A and B)	\$ 3,809,020
Cash on deposit with County Treasurers (Note B)	761,289
Receivables	
Taxes (Note A)	8,949,287
Services	20,114
Interest	1,415
Due from	
Funding agency (Note D)	54,422
Other funds (Note C)	45,766
Prepaid expenses (Note E)	17,493
Restricted assets (Note I)	
Cash and cash equivalents (Note I)	229,094
Investments (Note I)	672,713
	<u>\$ 14,560,613</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS	
LIABILITIES	
Accounts payable	\$ 1,094,857
Accrued salaries and payroll withholdings	21,519
Accrued expenses (Note K)	106,032
Deferred revenue (Note A)	9,080,465
	<u>10,302,873</u>
FUND EQUITY AND OTHER CREDITS	
Fund balance	
Reserved	229,094
Sinking fund	672,713
Unreserved	3,355,933
	<u>4,257,740</u>
	<u>\$ 14,560,613</u>

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

RECONCILIATION OF THE GENERAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balances - Governmental Funds \$ 4,257,740

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	\$ 22,611,892	
Capital improvements	2,055,772	
Buildings and improvements	3,872,057	
Vehicles and equipment	4,160,960	
Accumulated depreciation	<u>(5,469,677)</u>	
		27,231,004

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

Long-term debt	(151,991)
Compensated absences	(193,477)

Revenues deferred in the prior period now recognized as revenue 9,080,285

Net Assets of Governmental Activities \$ 40,223,561

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

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

Year ended June 30, 2005

REVENUES	
General administration	\$ 12,048,679
Flood prevention	1,128,318
Water quality	67,401
Recreation	419,120
Forestry and wildlife	34,226
	<hr/>
	13,697,744
EXPENDITURES	
Current	
General administration	3,827,105
Information and education	152,103
Flood prevention	7,705,618
Erosion control	1,177,020
Water quality	890,340
Recreation	2,011,393
Forestry and wildlife	851,201
Indirect cost reimbursement	(173,082)
Cost sharing reimbursement	(393,544)
Capital improvements	1,341,328
Debt service	
Principal retirement	565,360
Interest	4,046
	<hr/>
	17,958,888
	<hr/>
EXCESS OF EXPENDITURES OVER REVENUES	(4,261,144)
FUND BALANCE - BEGINNING	<hr/> 8,518,884
FUND BALANCE - ENDING	<hr/> \$ 4,257,740

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, 2005

Net Change in Fund Balances - Total Government Funds	\$ (4,261,144)
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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	5,552,430
Depreciation expense	(460,992)

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	565,360
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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>3,881,056</u>
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Change in Net Assets of Governmental Activities	<u>\$ 5,276,710</u>
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The accompanying notes to basic financial statements
are an integral part of these statements

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2005

	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)	\$ 820,739	\$ 74,791	\$ 74,581	\$ 344,867	\$ 15,286	\$ 311,214
Cash on deposit with County Treasurers (Note B)	348	-	-	-	-	348
Unrestricted investments (Note A)	854,996	497,016	-	357,980	-	-
Receivables						
Services	80,853	32,071	8,073	40,709	-	-
Assessments	11,955	-	-	-	-	11,955
Interest	4,036	1,312	67	2,657	-	-
Due from other funds (Note C)	25,104	-	-	16,204	8,900	-
Inventories (Note A)	29,433	19,661	3,886	5,886	-	-
Prepaid expenses (Note E)	153	-	-	153	-	-
	<u>1,827,617</u>	<u>624,851</u>	<u>86,607</u>	<u>768,456</u>	<u>24,186</u>	<u>323,517</u>
NONCURRENT ASSETS						
Restricted investments (Note I)	166,151	72,500	56,651	37,000	-	-
Capital assets (Notes A, F and G)						
Land and infrastructure	19,125	18,125	1,000	-	-	-
Construction in progress	3,180,409	-	-	-	3,180,409	-
Capital Improvements	2,968,052	-	1,365,030	1,603,022	-	-
Buildings and improvements	1,755,801	1,755,801	-	-	-	-
Vehicles and equipment	34,207	34,207	-	-	-	-
Accumulated depreciation	(2,369,496)	(875,545)	(534,753)	(959,198)	-	-
Total capital assets	<u>5,587,898</u>	<u>932,388</u>	<u>831,277</u>	<u>643,824</u>	<u>3,180,409</u>	<u>-</u>
	<u>5,754,049</u>	<u>1,004,888</u>	<u>887,928</u>	<u>680,824</u>	<u>3,180,409</u>	<u>-</u>
	<u>\$ 7,581,666</u>	<u>\$ 1,629,739</u>	<u>\$ 974,535</u>	<u>\$ 1,449,280</u>	<u>\$ 3,204,595</u>	<u>\$ 323,517</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	\$ 465,673	\$ 19,949	\$ 6,154	\$ 27,035	\$ 412,535	\$ -
Accrued expenses	38,746	4,164	25,629	2,135	6,818	-
Due to other funds (Note C)	70,870	25,944	3,772	24,950	16,204	-
Deferred revenue	2,856	-	-	-	-	2,856
Construction note payable	2,065,000	-	-	-	2,065,000	-
Current portion of long-term debt (Note H)	115,057	65,000	15,057	35,000	-	-
	<u>2,758,202</u>	<u>115,057</u>	<u>50,612</u>	<u>89,120</u>	<u>2,500,557</u>	<u>2,856</u>
NONCURRENT LIABILITIES						
Long-term debt, net of current portion (Note H)	1,301,894	530,000	501,894	270,000	-	-
	<u>4,060,096</u>	<u>645,057</u>	<u>552,506</u>	<u>359,120</u>	<u>2,500,557</u>	<u>2,856</u>
NET ASSETS						
Restricted	166,151	72,500	56,651	37,000	-	-
Unrestricted	3,355,419	912,182	365,378	1,053,160	704,038	320,661
	<u>3,521,570</u>	<u>984,682</u>	<u>422,029</u>	<u>1,090,160</u>	<u>704,038</u>	<u>320,661</u>
	<u>\$ 7,581,666</u>	<u>\$ 1,629,739</u>	<u>\$ 974,535</u>	<u>\$ 1,449,280</u>	<u>\$ 3,204,595</u>	<u>\$ 323,517</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, 2005

	Total (Memorandum Only)		Dakota Rural Water		Thurston Rural Water		Washington Rural Water #1	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
OPERATING REVENUES								
Water sales	\$ 695,829	\$ 731,000	\$ 323,655	\$ 335,000	\$ 98,458	\$ 136,000	\$ 273,716	\$ 260,000
Customer charges and hookup fees	150,196	155,875	28,643	36,000	1,711	3,775	36,242	63,600
Sales	95	150	95	150	-	-	-	-
Miscellaneous	194,700	2,743,600	2,634	500	2,938	1,300	(738)	900
	<u>1,040,820</u>	<u>3,630,625</u>	<u>355,027</u>	<u>371,650</u>	<u>103,107</u>	<u>141,075</u>	<u>309,220</u>	<u>324,500</u>
OPERATING EXPENSES								
Repairs and maintenance	2,465	4,900	2,016	4,500	-	200	449	200
Supplies and postage	16,980	13,850	6,989	6,500	4,974	3,500	4,167	2,350
Professional services	226,080	315,250	13,250	20,700	5,324	9,950	9,007	5,200
Personnel	169,458	142,150	92,942	75,000	22,730	16,000	53,786	41,000
Insurance	1,493	1,850	836	800	164	250	483	800
Telephone, utilities, and rent	15,681	17,075	5,940	7,400	4,334	5,100	5,407	4,575
Miscellaneous	3,726	11,175	242	2,100	198	425	640	2,000
Water purchase	178,112	206,000	77,112	77,000	22,337	52,000	78,663	77,000
Contract costs	27,877	113,500	2,912	14,000	6,800	9,500	12,720	20,000
Project construction and land	264,197	2,432,300	92,261	127,000	-	25	171,353	205,075
Project operation and maintenance	6,734	14,500	3,808	3,500	-	-	2,558	7,000
Depreciation and amortization	111,951	-	40,876	-	29,719	-	41,356	-
Vehicle expense	32,621	26,300	22,931	23,500	-	-	9,890	1,600
Bond expenditures	-	110,000	-	65,000	-	-	-	35,000
Indirect cost	2,142	2,100	1,464	500	647	1,400	31	200
	<u>1,059,717</u>	<u>3,410,950</u>	<u>363,579</u>	<u>427,500</u>	<u>87,227</u>	<u>108,350</u>	<u>390,520</u>	<u>402,000</u>
OPERATING INCOME (LOSS)	(18,897)	219,675	(8,552)	(55,850)	5,880	32,725	(81,300)	(77,500)
NONOPERATING INCOME (EXPENSE)								
Assessment revenue	67,220	44,000	-	-	-	-	-	-
Interest income	43,433	33,700	11,490	15,000	3,089	1,200	18,544	16,000
Interest expense	(56,929)	(155,881)	(19,273)	(19,728)	(27,768)	(26,000)	(9,888)	(10,133)
	<u>53,724</u>	<u>(78,161)</u>	<u>(7,783)</u>	<u>(4,728)</u>	<u>(24,679)</u>	<u>(24,800)</u>	<u>8,656</u>	<u>5,867</u>
CHANGE IN NET ASSETS	<u>34,827</u>	<u>141,516</u>	<u>(16,335)</u>	<u>(60,578)</u>	<u>(18,799)</u>	<u>7,925</u>	<u>(72,644)</u>	<u>(71,633)</u>
TOTAL NET ASSETS - BEGINNING	<u>3,486,743</u>		<u>1,001,017</u>		<u>440,828</u>		<u>1,162,804</u>	
TOTAL NET ASSETS - ENDING	<u>\$ 3,521,570</u>		<u>\$ 984,682</u>		<u>\$ 422,029</u>		<u>\$ 1,090,160</u>	

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

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

Year ended June 30, 2005

	<u>Washington Rural Water #2</u>	<u>Non-Major Proprietary Funds (Exhibit L)</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
OPERATING REVENUES			
Water sales	83,600	52,500	-
Customer charges and hookup fees	-	-	-
Sales	-	-	-
Miscellaneous	189,268	2,700,000	598
	<u>272,868</u>	<u>2,752,500</u>	<u>40,900</u>
			<u>40,900</u>
OPERATING EXPENSES			
Repairs and maintenance	-	-	-
Supplies and postage	850	1,500	-
Professional services	194,357	276,900	4,142
Personnel	-	150	-
Insurance	-	-	-
Telephone, utilities, and rent	-	-	-
Miscellaneous	2,646	6,650	-
Water purchase	-	-	-
Contract costs	-	-	5,445
Project construction and land	583	2,100,200	-
Project operation and maintenance	368	2,500	-
Depreciation and amortization	-	-	1,500
Vehicle expense	-	1,200	-
Bond expenditures	-	-	-
Indirect cost	-	-	-
	<u>198,804</u>	<u>2,389,100</u>	<u>9,587</u>
			<u>84,000</u>
OPERATING INCOME (LOSS)	74,064	363,400	(8,989)
			(43,100)
NONOPERATING INCOME (EXPENSE)			
Assessment revenue	-	-	67,220
Interest income	4,419	1,500	5,891
Interest expense	-	(100,000)	-
	<u>4,419</u>	<u>(98,500)</u>	<u>73,111</u>
			<u>44,000</u>
CHANGE IN NET ASSETS	78,483	264,900	64,122
			<u>900</u>
TOTAL NET ASSETS - BEGINNING	625,555		256,539
TOTAL NET ASSETS - ENDING	<u>\$ 704,038</u>		<u>\$ 320,661</u>

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, 2005

	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	\$ 820,146	\$ 342,768	\$ 102,747	\$ 291,031	\$ 83,600	\$ -
Other operating receipts (disbursements)	194,700	2,634	2,938	(738)	189,268	598
Cash paid to suppliers and employees	<u>(541,683)</u>	<u>(314,470)</u>	<u>(72,022)</u>	<u>(366,153)</u>	<u>220,549</u>	<u>(9,587)</u>
Net cash provided (used) by operating activities	473,163	30,932	33,663	(75,860)	493,417	(8,989)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investments purchased	(108,143)	(3,392)	(1,047)	(103,704)	-	-
Interest received	<u>43,433</u>	<u>11,490</u>	<u>3,089</u>	<u>18,544</u>	<u>4,419</u>	<u>5,891</u>
Net cash provided (used) by investing activities	(64,710)	8,098	2,042	(85,160)	4,419	5,891
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of debt	2,065,000	-	-	-	2,065,000	-
Payments on long-term debt	(113,827)	(65,000)	(13,827)	(35,000)	-	-
Interest paid	(56,929)	(19,273)	(27,768)	(9,888)	-	-
Construction in progress costs	(3,180,409)	-	-	-	(3,180,409)	-
Assessments received	<u>67,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,220</u>
Net cash provided (used) by capital and related financing activities	(1,218,945)	(84,273)	(41,595)	(44,888)	(1,115,409)	67,220
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Change in due to (from) other funds	<u>4,833</u>	<u>4,292</u>	<u>(1,529)</u>	<u>(630,789)</u>	<u>632,859</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>4,833</u>	<u>4,292</u>	<u>(1,529)</u>	<u>(630,789)</u>	<u>632,859</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(805,659)	(40,951)	(7,419)	(836,697)	15,286	64,122
CASH AND CASH EQUIVALENTS (RESTRICTED AND UNRESTRICTED) - BEGINNING OF YEAR	<u>1,626,398</u>	<u>115,742</u>	<u>82,000</u>	<u>1,181,564</u>	<u>-</u>	<u>247,092</u>
CASH AND CASH EQUIVALENTS (RESTRICTED AND UNRESTRICTED) - END OF YEAR	<u>\$ 820,739</u>	<u>\$ 74,791</u>	<u>\$ 74,581</u>	<u>\$ 344,867</u>	<u>\$ 15,286</u>	<u>\$ 311,214</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS

CASH FLOWS FROM OPERATING ACTIVITIES						
Operating income (loss)	\$ (18,897)	\$ (8,552)	\$ 5,880	\$ (81,300)	\$ 74,064	\$ (8,989)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation and amortization	111,953	40,878	29,719	41,356	-	-
Changes in assets and liabilities						
(Increase) decrease in receivables	(25,452)	(6,701)	1,574	(20,325)	-	-
(Increase) decrease in inventories	(521)	(2,924)	1,004	1,399	-	-
Increase (decrease) in accounts payable	403,262	10,118	(3,478)	(15,913)	412,535	-
Increase (decrease) in accrued expenses	<u>2,818</u>	<u>(1,887)</u>	<u>(1,036)</u>	<u>(1,077)</u>	<u>6,818</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 473,163</u>	<u>\$ 30,932</u>	<u>\$ 33,663</u>	<u>\$ (75,860)</u>	<u>\$ 493,417</u>	<u>\$ (8,989)</u>

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

Year ended June 30, 2005

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, 2005

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, 2005

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, 2005, was \$173,082. These reimbursements are included 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, 2005

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 2005, the taxes levied totaled \$14,976,092 at a tax levy rate of 4.062%.

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 it was 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, 2005

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 bases 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, 2005

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 is capitalized and recorded as part of the asset to which it relates and is amortized over the asset's useful life. The interest cost capitalized at June 30, 2005 was \$22,753. 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 roads, fences, and drainage systems), and similar assets. In the government-wide financial statements, structural improvements, land acquisitions, and equipment purchases are included as capital assets in the financial statements.

Cash and Cash Equivalents

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

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments consisted of the following at June 30, 2005:

	<u>Total</u>	<u>General Fund</u>	<u>Proprietary Funds</u>
Unrestricted cash and cash equivalents:			
Cash and cash equivalents	\$ 4,609,810	\$ 3,809,020	\$ 800,790
Cash on hand at County Treasurers	<u>761,637</u>	<u>761,289</u>	<u>348</u>
Total unrestricted cash and cash equivalents	5,371,447	4,570,309	801,138
Unrestricted investments:			
Certificates of deposit	<u>854,996</u>	-	<u>854,996</u>
Total unrestricted cash, cash equivalents and investments	6,226,443	4,570,309	1,656,134
Restricted cash and cash equivalents:			
Cash and cash equivalents	229,094	229,094	-
Restricted investments:			
Certificates of deposit	216,151	50,000	166,151
U.S. Government Money Market	<u>622,713</u>	<u>622,713</u>	-
Total restricted investments	<u>838,864</u>	<u>672,713</u>	<u>166,151</u>
Total restricted cash, cash equivalents and investments	<u>1,067,958</u>	<u>901,807</u>	<u>166,151</u>
Total cash and investments	<u>\$ 7,294,401</u>	<u>\$ 5,472,116</u>	<u>\$ 1,822,285</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.

Unrestricted cash for the General Fund includes \$250,000 for which a check has been prepared but not yet released. Construction costs were incurred during fiscal year 2005 on one of the District's projects, but the funds were not to be released until the project was completed. This check, therefore, was not yet released as of the date of this report.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

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

At June 30, 2005, the District's deposits at all financial institutions, except one, are fully insured by the Federal Deposit Insurance Corporation or collateralized by investments held by these financial institutions. The amount not fully collateralized is \$2,298, 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, 2005. 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>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Amount</u>
Pooled deposits					
Pooled cash and certificates of deposit	\$ 4,992,987	\$ 100,000	\$ 4,892,987	\$ -	\$ 4,885,879
Non-pooled deposits					
General fund	50,000	50,000	-	-	50,000
Proprietary funds	<u>994,508</u>	<u>815,223</u>	<u>176,987</u>	<u>2,298</u>	<u>994,026</u>
 Total deposits	\$ <u>6,037,495</u>	\$ <u>965,223</u>	\$ <u>5,069,974</u>	\$ <u>2,298</u>	\$ <u>5,929,905</u>

Investments are stated at cost. For fiscal year 2005, 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, 2005

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, 2005. 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 obligations					
Money market					
General fund	-	622,713	-	622,713	622,713
Proprietary funds	-	-	-	-	-
Total non-pooled investments	\$ -	\$ <u>622,713</u>	\$ -	\$ <u>622,713</u>	\$ <u>622,713</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

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, 2005, 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	\$ 3,772
General Fund	Washington Co. Rural Water #1	16,051
General Fund	Dakota County Rural Water	25,944
Washington Co. Rural Water #1	Washington Co. Rural Water #2	<u>7,304</u>
		\$ <u>53,071</u>

Washington County Rural Water (WCRW #1) began collecting hook-up fees and incurring expenses related to creating another rural water service area, Washington County Rural Water #2 (WCRW #2), during fiscal year 2003 and continuing throughout fiscal year 2004. The revenues and expenditures were recorded within the existing WCRW #1 accounts, with the intention of creating a separate set of accounts once WCRW #2 was established. At June 30, 2004, the accounts were established. There have been payments made between the two districts and expenses paid on behalf of the other, leaving the balances as a due to WCRW #1 and a due from WCRW #2.

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, 2005, \$54,422 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 has prepaid loan fees of \$153 net of accumulated amortization as of June 30, 2005. These fees are being amortized over 20 years. Amortization expense for the year ended June 30, 2005, was \$343.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

NOTE F – GENERAL FUND – 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, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Not Depreciated				
Land	\$ 17,674,976	\$ 4,461,853	\$ -	\$ 22,136,829
Water control structures	<u>475,063</u>	<u>-</u>	<u>-</u>	<u>475,063</u>
	18,150,039	4,461,853	-	22,611,892
Depreciated				
Buildings	2,884,201	987,856	-	3,872,057
Machinery and equipment	2,435,037	144,459	53,900	2,525,596
Office equipment	1,078,675	-	-	1,078,675
Vehicles	542,027	43,694	29,032	556,689
Other capital improvements	<u>2,055,772</u>	<u>-</u>	<u>-</u>	<u>2,055,772</u>
	8,995,712	1,176,009	82,932	10,088,789
Less accumulated depreciation	<u>(5,091,617)</u>	<u>(460,992)</u>	<u>(82,932)</u>	<u>(5,469,677)</u>
	<u>3,904,095</u>	<u>715,017</u>	<u>-</u>	<u>4,619,112</u>
	\$ <u>22,054,134</u>	\$ <u>5,176,870</u>	\$ <u>-</u>	\$ <u>27,231,004</u>

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

General administration	\$ 111,325
Recreation	83,678
Unallocated depreciation	<u>265,989</u>
Total depreciation expense	\$ <u>460,992</u>