

**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

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, 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
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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 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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
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 Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>% of Total</u>	<u>2005</u>	<u>% of Total</u>	<u>2005</u>	<u>% of 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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total % Chg</u>
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	
Non-Depreciable Assets:							
Land and Infrastructure Construction in Progress	\$18,150,039	\$22,611,892	\$19,125	\$19,125	\$18,169,164	\$22,631,017	24.6%
	-	-	-	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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<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

	Governmental Activities	Business-Type Activities	Total
ASSETS			
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
	13,658,806	1,756,747	15,415,553
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	27,231,004	5,587,898	32,818,902
	28,132,811	5,754,049	33,886,860
	\$ 41,791,617	\$ 7,510,796	\$ 49,302,413
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
	1,286,211	2,687,332	3,973,543
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
	281,845	1,301,894	1,583,739
	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
	40,223,561	3,521,570	43,745,131
	\$ 41,791,617	\$ 7,510,796	\$ 49,302,413

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	Total
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>-</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>-</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>(75,826)</u>	<u>(9,775,208)</u>
GENERAL REVENUES						
Property taxes				14,976,092	-	14,976,092
Assessment income				-	67,220	67,220
Interest income				-	43,433	43,433
				<u>14,976,092</u>	<u>110,653</u>	<u>15,086,745</u>
CHANGE IN NET ASSETS				5,276,710	34,827	5,311,537
NET ASSETS - Beginning				34,946,851	3,486,743	38,433,594
NET ASSETS - Ending				<u>\$ 40,223,561</u>	<u>\$ 3,521,570</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)
<u>ASSETS AND OTHER DEBITS</u>	
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)	<u>672,713</u>
	<u>\$ 14,560,613</u>
<u>LIABILITIES, FUND EQUITY, AND OTHER CREDITS</u>	
LIABILITIES	
Accounts payable	\$ 1,094,857
Accrued salaries and payroll withholdings	21,519
Accrued expenses (Note K)	106,032
Deferred revenue (Note A)	<u>9,080,465</u>
	10,302,873
FUND EQUITY AND OTHER CREDITS	
Fund balance	
Reserved	229,094
Sinking fund	672,713
Unreserved	<u>3,355,933</u>
	<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 DISTRICTRECONCILIATION OF THE GENERAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total Fund Balances - Governmental Funds	\$ 4,257,740
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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	<u>9,080,285</u>
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Net Assets of Governmental Activities	<u>\$ 40,223,561</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 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	1,755,601	1,755,601	-	-	-	-
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)	<u>115,057</u>	<u>65,000</u>	<u>15,057</u>	<u>35,000</u>	<u>-</u>	<u>-</u>
	<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)	<u>1,301,894</u>	<u>530,000</u>	<u>501,894</u>	<u>270,000</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<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	<u>3,355,419</u>	<u>912,182</u>	<u>365,378</u>	<u>1,053,160</u>	<u>704,038</u>	<u>320,661</u>
	<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	493	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	32,821	26,300	22,931	23,500	-	-	9,890	1,600
Bond expenditures	-	110,000	-	65,000	-	-	-	35,000
Indirect cost	2,142	2,100	-	500	-	1,400	-	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	(55,929)	(155,881)	(19,273)	(19,728)	(27,788)	(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	34,827	141,516	(16,335)	(60,578)	(18,799)	7,925	(72,644)	(71,633)
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

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

Year ended June 30, 2005

	Washington Rural Water #2		Non-Major Proprietary Funds (Exhibit L)	
	Actual	Budget	Actual	Budget
OPERATING REVENUES				
Water sales	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	83,600	52,500	-	-
Sales	-	-	-	-
Miscellaneous	189,268	2,700,000	598	40,900
	272,868	2,752,500	598	40,900
OPERATING EXPENSES				
Repairs and maintenance	-	-	-	-
Supplies and postage	850	1,500	-	-
Professional services	194,357	276,900	4,142	2,500
Personnel	-	150	-	10,000
Insurance	-	-	-	-
Telephone, utilities, and rent	-	-	-	-
Miscellaneous	2,646	6,650	-	-
Water purchase	-	-	-	-
Contract costs	-	-	5,445	70,000
Project construction and land	583	2,100,200	-	-
Project operation and maintenance	368	2,500	-	1,500
Depreciation and amortization	-	-	-	-
Vehicle expense	-	1,200	-	-
Bond expenditures	-	-	-	-
Indirect cost	-	-	-	-
	198,804	2,389,100	9,587	84,000
	74,064	363,400	(8,989)	(43,100)
OPERATING INCOME (LOSS)				
NONOPERATING INCOME (EXPENSE)				
Assessment revenue	-	-	67,220	44,000
Interest income	4,419	1,500	5,881	-
Interest expense	-	(100,000)	-	-
	4,419	(98,500)	73,111	44,000
CHANGE IN NET ASSETS				
	78,483	264,900	64,122	900
TOTAL NET ASSETS - BEGINNING				
	625,555		256,539	
TOTAL NET ASSETS - ENDING				
	\$ 704,038		\$ 320,661	

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2005

	MAJOR FUNDS					
	TOTAL (Memo only)	Dakota Rural Water	Thurston Rural Water	Washington Rural Water #1	Washington Rural Water #2	NONMAJOR FUNDS
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>-</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>	<u>-</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:

	Bank Balance	Category			Carrying Amount
		1	2	3	
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	\$ -	\$ 622,713	\$ -	\$ 622,713	\$ 622,713

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>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

NOTE G - PROPRIETARY FUNDS – CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
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>-</u>	<u>-</u>	<u>4,656,556</u>
	4,776,985	3,180,409	-	7,957,394
Less accumulated depreciation	<u>(2,257,886)</u>	<u>(111,610)</u>	<u>-</u>	<u>(2,369,496)</u>
	\$ <u>2,519,099</u>	\$ <u>3,068,799</u>	\$ <u>-</u>	\$ <u>5,587,898</u>

The construction in progress represents the water tower and water distribution system being built by WCRW #2. Construction was started during fiscal year 2005 but will not be completed until fiscal year 2006. The actual construction costs and the interest on the construction note payable were capitalized as of June 30, 2005. The related line of credit is shown as construction note payable on the Statement of Net Assets (Exhibits A and E). The Proprietary Funds recorded depreciation expense of \$111,610 for the year ended June 30, 2005.

NOTE H - LONG-TERM DEBT

The following is a summary of the long-term debt of the General Fund for the year ended June 30, 2005. 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	\$19,000 to \$22,000	5.5%	\$ 62,345
Road Builders Machinery Co.	Mar, 2007	Annual	\$43,000 to \$46,000	4.0%	<u>89,646</u>
					\$ <u>151,991</u>

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

NOTE H - LONG-TERM DEBT (Continued)

Principal additions of debt and principal retirement expenditures for the General Fund for the year ended June 30, 2005, are shown on the following schedule. The Ameritas note was retired according to schedule.

	Principal additions	Principal payments
Ameritas	\$ -	\$ 500,000
Case Credit	85,453	23,108
Road Builders Machinery Co.	<u>-</u>	<u>42,252</u>
	\$ <u>85,453</u>	\$ <u>565,360</u>

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%	\$ 305,000
Dakota Rural Water	2003	April, 2013	Annual	\$65,000 to \$85,000	3.36%	595,000
Thurston Rural Water	1982	Jul, 2021	Annual	\$11,000 to \$24,000	5.00%	294,883
Thurston Rural Water	1993	Jul, 2032	Annual	\$3,000 to \$15,000	5.63%	<u>222,068</u>
						<u>\$ 1,416,951</u>

The District established a line of credit in the amount of \$3,300,000 for the construction of Washington County Rural Water #2. The draw down of the line of credit, totaling \$2,065,000, is payable March 1, 2006. Interest accrues at variable rates of 3.49% to 4.25% at June 30, 2005. The District intends to sell and issue revenue bonds in February 2006 to be used to pay off the line of credit. The line of credit has been included in the following schedule as principal due for 2006 for proprietary funds.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

NOTE H – LONG-TERM DEBT (Continued)

The annual principal and interest requirements to maturity for long-term debt as of June 30, 2005 are as follows:

Year(s) ending June 30,	General Fund		Proprietary Funds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 63,623	\$ 7,014	\$ 2,180,057	\$ 144,858	\$ 2,243,680	\$ 151,872
2007	66,467	4,170	120,832	54,771	187,299	58,941
2008	21,881	1,227	121,647	52,056	143,528	53,283
2009	-	-	122,503	48,732	122,503	48,732
2010	-	-	134,698	43,651	134,698	43,651
2011-2015	-	-	477,651	145,074	477,651	145,074
2016-2020	-	-	138,390	73,075	138,390	73,075
2021-2025	-	-	89,723	38,254	89,723	38,254
2026-2030	-	-	58,980	20,855	58,980	20,855
2031-2035	-	-	37,470	3,940	37,470	3,940
	<u>\$ 151,971</u>	<u>\$ 12,411</u>	<u>\$ 3,481,951</u>	<u>\$ 625,266</u>	<u>\$ 3,633,922</u>	<u>\$ 637,677</u>

NOTE I - 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, 2005. The following is a summary of the restrictions placed on cash and investments for the year ended June 30, 2005:

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.	110,219
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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.	118,875
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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>622,713</u>
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Total reserves	901,807
Less restricted cash	<u>(229,094)</u>

Total general fund restricted investments	\$ <u>672,713</u>
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Interest on these funds are 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, 2005

NOTE I - RESTRICTED FUNDS (Continued)

Proprietary Sinking Funds:

In compliance with loan covenants for the notes described in Note H, the Proprietary Funds have reserved \$166,151 for the issues listed below:

Issue	Amount
Washington County Rural Water #1	\$ 37,000
Thurston County Rural Water	48,431
Dakota County Rural Water	<u>72,500</u>
Total reserve requirement	157,931
Less restricted cash	<u>-</u>
Total proprietary funds restricted investments	<u>\$ 157,931</u>

NOTE J - 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 4.6% of their compensation each pay period, and the District is required to contribute 5.1% of the employee's compensation for each pay period. The District's contributions for the year ended June 30, 2005, were \$108,511, the required contribution.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

Year ended June 30, 2005

NOTE K - 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 (\$13,453 at June 30, 2005) is recorded as an expenditure and liability in the General Fund in both the government-wide and fund financial statements. The long-term portion (\$193,477 at June 30, 2005) 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 \$1,077,800 at June 30, 2005, and is not reported as an expenditure or liability in any of the District's June 30, 2005, basic financial statements.

NOTE L - COMMITMENTS AND CONTINGENCIES

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

The District engages in land development projects and occasionally invokes eminent domain to acquire the required land to undertake the project. The value of the land acquired by the District when eminent domain is invoked is determined by either a board of appraisers in the affected county, or through the judiciary. The amount of any payments that may be required for land, if any, is unknown at June 30, 2005.

The District participates in various federally 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, 2005, 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, 2005

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
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, 2005

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
REVENUES			
General administration	\$ 12,112,563	\$ 21,336,638	\$ (9,224,075)
Flood prevention	1,117,620	2,873,800	(1,756,180)
Erosion control	-	-	-
Water quality	67,401	242,000	(174,599)
Recreation	375,396	388,304	(12,908)
Forestry and wildlife	34,226	621,000	(586,774)
	<u>13,707,206</u>	<u>25,461,742</u>	<u>(11,754,536)</u>
EXPENDITURES			
Current			
General administration	2,625,111	4,296,050	1,670,939
Information and education	152,103	155,500	3,397
Flood prevention	7,705,618	11,036,000	3,330,382
Erosion control	1,177,020	1,877,504	700,484
Water quality	890,340	1,229,850	339,510
Recreation	2,011,393	3,104,812	1,093,419
Forestry and wildlife	851,201	2,372,750	1,521,549
Unallocated depreciation	-	-	-
Indirect cost reimbursement	(173,082)	(155,000)	18,082
Cost sharing reimbursement	(393,544)	(712,500)	(318,956)
Capital improvements	1,341,328	425,405	(915,923)
Debt service			
Principal	565,360	1,458,000	892,640
Interest	1,125	4,875	3,750
	<u>16,753,973</u>	<u>25,093,246</u>	<u>8,339,273</u>
EXCESS OF EXPENDITURES OVER			
REVENUES (BUDGETARY BASIS) AND OTHER USES	(3,046,767)	\$ 368,496	\$ 3,415,263
ADJUSTMENTS REQUIRED UNDER ACCOUNTING PRINCIPLES			
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA			
To adjust revenues for accruals	(9,462)		
To adjust expenditures for accruals	<u>(1,204,915)</u>		
EXCESS OF EXPENDITURES OVER			
REVENUES (US GAAP BASIS) AND OTHER USES	(4,261,144)		
FUND BALANCE - BEGINNING	<u>8,518,884</u>		
FUND BALANCE - ENDING	\$ <u>4,257,740</u>		

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

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

Year ended June 30, 2005

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Water sales	\$ 695,828	\$ 731,000	\$ (35,172)
Customer charges and hookup fees	150,196	155,875	(5,679)
Sales	95	150	(55)
Miscellaneous	194,701	2,743,600	(2,548,899)
	1,040,820	3,630,625	(2,589,805)
EXPENSES			
Repairs and maintenance	2,465	4,900	2,435
Supplies and postage	16,980	13,850	(3,130)
Professional services	226,080	315,250	89,170
Personnel	169,458	142,150	(27,308)
Insurance	1,493	1,850	357
Telephone, utilities, and rent	15,681	17,075	1,394
Miscellaneous	3,726	11,175	7,449
Water purchase	178,112	206,000	27,888
Contract costs	27,877	113,500	85,623
Project construction	264,197	2,432,300	2,168,103
Project operation and maintenance	6,734	14,500	7,766
Depreciation and amortization	111,951	-	(111,951)
Vehicle expense	32,821	26,300	(6,521)
Bond expenditures	-	110,000	110,000
Indirect cost	2,142	2,100	(42)
	1,059,717	3,410,950	2,351,233
OPERATING LOSS	(18,897)	219,675	(238,572)
OTHER INCOME (EXPENSE)			
Assessment revenue	67,220	44,000	23,220
Interest income	43,433	33,700	9,733
Interest expense	(56,929)	(155,861)	98,932
	53,724	(78,161)	131,885
NET INCOME	34,827	\$ 141,514	\$ (106,687)
RETAINED EARNINGS - BEGINNING	3,486,743		
RETAINED EARNINGS - ENDING	\$ 3,521,570		

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

Year ended June 30, 2005

REVENUES

Property tax	\$ 11,101,240
State and agency grants	1,140,114
Federal grants	601,478
Sales	7,556
Rental income	156,611
Interest income	124,622
Miscellaneous	<u>566,123</u>

13,697,744

EXPENDITURES

Current

Personnel	2,190,149
Employee benefits	507,553
Travel	47,631
Repairs and maintenance	249,230
Conservation assistance program	946,763
Supplies and postage	51,432
Printing and publications	84,326
Professional services	1,382,771
Insurance	163,838
Telephone, utilities, and rent	124,669
Special projects	1,536,871
Dues and memberships	39,889
Information and education	83,123
Project construction and land	8,154,453
Project legal costs	103,714
Project operation and maintenance	187,663
Contract works	291,655
Fees	154,815
Vehicle expense	87,327
Board of directors	62,308
Bonds and amortization	1,000
Payroll taxes	160,999
Indirect cost reimbursement	(173,082)
Cost sharing reimbursement	(393,544)
Miscellaneous	2,601

Capital improvements

Machinery and equipment	309,777
Vehicles	43,694
Buildings	987,857
Debt service	
Principal	565,360
Interest	<u>4,046</u>

17,958,888

EXCESS OF EXPENDITURES OVER REVENUES

(4,261,144)

FUND BALANCE - BEGINNING

8,518,884

FUND BALANCE - ENDING

\$ 4,257,740

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		Elk/Pigeon Creek Drainage		Western Sary Drainage	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
OPERATING REVENUES										
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer charges and hookup fees	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Miscellaneous	598	40,900	-	-	-	-	598	40,900	-	-
	598	40,900	-	-	-	-	598	40,900	-	-
OPERATING EXPENSES										
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-
Supplies and postage	-	-	-	-	-	-	-	-	-	-
Professional services	4,142	2,500	-	-	-	-	4,142	2,500	-	-
Personnel	-	10,000	-	-	-	-	-	10,000	-	-
Insurance	-	-	-	-	-	-	-	-	-	-
Telephone, utilities, and rent	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Water purchase	-	-	-	-	-	-	-	-	-	-
Contract costs	5,445	70,000	-	-	-	-	5,445	70,000	-	-
Project construction and land	-	-	-	-	-	-	-	-	-	-
Project operation and maintenance	-	1,500	-	-	-	-	-	1,500	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-
Vehicle expense	-	-	-	-	-	-	-	-	-	-
Bond expenditures	-	-	-	-	-	-	-	-	-	-
Indirect cost	-	-	-	-	-	-	-	-	-	-
	9,587	84,000	-	-	-	-	9,587	84,000	-	-
OPERATING INCOME (LOSS)	(8,989)	(43,100)	-	-	-	-	(8,989)	(43,100)	-	-
NONOPERATING INCOME (EXPENSE)										
Assessment revenue	67,220	44,000	692	-	58	-	47,451	44,000	19,019	-
Interest income	5,891	-	1,673	-	124	-	1,976	-	2,116	-
Interest expense	-	-	-	-	-	-	-	-	-	-
Fund transfer (Note C)	-	-	-	-	-	-	-	-	-	-
	73,111	44,000	2,365	-	182	-	49,427	44,000	21,137	-
CHANGE IN NET ASSETS	64,122	900	2,365	\$ -	182	\$ -	40,438	\$ 900	21,137	\$ -
TOTAL NET ASSETS - BEGINNING	256,539		93,456		5,815		71,170		86,098	
TOTAL NET ASSETS - ENDING	\$ 320,661		\$ 95,821		\$ 5,997		\$ 111,608		\$ 107,235	

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

June 30, 2005

	<u>Cost</u>	<u>Interest Rate</u>
General fund		
Certificates of deposit		
Great Western Bank	\$ 50,000	2.59%
Escrow accounts		
Wells Fargo	<u>622,713</u>	variable
	672,713	
Less unrestricted portion	<u>-</u>	
General fund - restricted investments	<u>\$ 672,713</u>	

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

June 30, 2005

	<u>Cost</u>	<u>Interest Rate</u>
Proprietary funds		
Certificates of deposit		
Dakota County		
American National Bank	\$ 102,218	1.98%
Commercial Federal	100,000	2.19%
Gateway Community Bank	102,298	3.75%
Nebraska State Bank	66,000	1.74%
Siouxland National Bank	25,000	1.74%
Siouxland National Bank	14,000	1.74%
Siouxland National Bank	60,000	1.74%
TierOne Bank	<u>100,000</u>	2.00%
	569,516	
Washington County		
American National Bank	118,118	2.47%
Centennial Bank	100,000	2.19%
Team Bank	75,000	1.99%
Wells Fargo	<u>101,862</u>	2.47%
	394,980	
Thurston County		
American National Bank	6,573	2.18%
American National Bank	45,078	2.37%
Centennial Bank	<u>5,000</u>	2.65%
	<u>56,651</u>	
	1,021,147	
Less unrestricted portion	<u>(854,996)</u>	
Proprietary funds - restricted investments	<u>\$ 166,151</u>	

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

June 30, 2005

SCHEDULED PROPERTY FLOATER AND EQUIPMENT

Covering property, vehicle, and equipment; total limit \$9,116,222; deductible/\$5,000 except for boiler and machinery/\$25 per horsepower; Breakdown from chlorine leaks/\$25,000; 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

June 30, 2005

County

Douglas	\$ 5,187,639
Sarpy	2,772,581
Washington	480,210
Dakota	398,146
Burt	65,001
Thurston	45,069
Dodge	<u>641</u>
	<u>\$ 8,949,287</u>

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

Year ended June 30, 2005

Gross income from all sources	\$ <u>15,413,482</u>
Amount expended for	
Maintenance	\$ 370,725
Improvements and other such programs	<u>3,426,202</u>
	\$ <u>3,796,927</u>
 Amount of depreciation on property	 \$ <u>572,602</u>
 Number of employees as of June 30, 2005	 <u>59</u>
 Gross salaries	 \$ 2,534,491
 Less amount reimbursed by projects	 <u>174,884</u>
 Net salaries paid to employees	 \$ <u>2,359,607</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

Year ended June 30, 2005

Program	Pass-Through Grantor's Number	Federal CFDA Number	Contract Amount	Due From/(To) Funding Agency July 1, 2004	Grant Receipts	Grant Revenues	Other Revenue	Expenditures	Due From/(To) Funding Agency June 30, 2005
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	\$ 22,130	\$ 47,295	\$ -	25,165	\$ -	\$ -
West Papio Trail - Bellevue to Papillion	STPB-77 (46)	20.205	500,000	124,903	179,252	54,349	-	54,349	-
MoPac Trail - Springfield to Platte River	STPB-77 (43)	20.205	500,000	174,931	346,281	215,054	-	215,054	43,724
U.S. Department of Federal Emergency Management Assistance Floodway Mapping	N/A	97.045	392,500	-	296,213	288,660	18,251	288,660	10,698
Total Expenditures of Federal Awards				\$ 321,964	\$ 869,021	\$ 558,063	\$ 43,416	\$ 558,063	\$ 54,422

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, 2005

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 exceeded the \$500,000 expenditure threshold, which requires additional audit procedures and reporting in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Compliance testing was performed on one project under the Federal Emergency Management Agency program (CFDA No. 97.045), and one finding was noted (Exhibit U).

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND 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 COMPLIANCE AND 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, 2005, and have issued our report thereon dated September 2, 2005. 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 27, 2005.

Independent Auditors' Report on Compliance and 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 2, 2005

Blend & Associates, P.C.

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

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

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

We have audited the financial statements of Papio-Missouri River Natural Resources District (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. The 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.

Compliance

We have audited the compliance of the District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanied schedule of findings and questioned costs.

Independent Auditors' Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133 (Continued)
Page 2

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operations that we consider to be material weaknesses.

This report is intended 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 2, 2005

Bland & Associates

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, 2005

A. SUMMARY OF AUDIT FINDINGS

1. The Independent Auditors' Report dated September 2, 2005, expressed an unqualified opinion on the basic financial statements of Papio-Missouri River Natural Resources District.
2. No reportable conditions were found during the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. The Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 for the District expressed an unqualified opinion.
5. One audit finding related to the major Federal awards program of the Papio-Missouri River Natural Resources District was found.
6. The only program tested for compliance was the FEMA Floodway Mapping project (CFDA No. 97.045).
7. The threshold for distinguishing between Type A and B programs was \$300,000.
8. The 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 assets that it purchases or disposes of, but does not internally track the total capital assets for reporting purposes.
2. The District does not separate the federal award monies from other monies received.
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.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year ended June 30, 2005

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

There are no major programs for the District. To achieve the fifty percent testing coverage of federal funds, the FEMA Floodway Mapping project, whose granting agency is the U.S. Department of Homeland Security, was tested. One reportable condition was noted during the audit. The contract with FEMA requires the District to provide quarterly performance reports which are due within 30 days after the end of each quarter. The District did not file the April 1, 2005 to June 30, 2005 report on time. No costs were questioned.

PAPIO-MISSOURI RIVER NATURAL RESOURCES DISTRICT

PRIOR AUDIT FINDINGS

Year ended June 30, 2005

FINANCIAL STATEMENT AUDIT

No findings were noted in the prior financial statement audit.

MAJOR FEDERAL AWARD PROGRAM AUDIT

No findings were noted in the prior major federal award program audit.

MEMORANDUM

TO: Finance, Expenditure and Legal Subcommittee

FROM: Ralph Puls, Land and Water Programs Coordinator

SUBJECT: Dakota County Service Center Account Over 110%
Account #01 01 00 4636

DATE: October 31, 2005

It was anticipated that the construction of the Dakota County Service Center would be completed and all invoices would be paid prior to the end of Fiscal Year 2005. However, even though the work was nearly completed and the building occupants moved in on the first of June, the Final Payment was withheld because some minor work remained to be done after the building was deemed to be substantially completed on May 31, 2005. This work consisted of the installation of some interior and exterior signage and the installation of vertical blinds in the USDA conference room. The work was delayed because the signage was not immediately available and had to be back ordered. The cost of this work amounted to \$3,273.00. Retainage (5%), in the amount of \$48,657.40 was the major item in the October payment. This was money that was earned by the contractor for work completed, or for materials delivered, but was withheld from payment until the architect was satisfied that all work was completed per the contract specifications. In retrospect, a line item for construction of the Dakota County Service Center should have been continued in the FY 2005 Budget with an amount of funding included to cover situations such as the one that occurred.

Attached is a summary sheet for your information that lists some of the pertinent information about the construction of the Dakota County Service Center, including the final cost of construction, \$976,421.00. This compares favorably with the amount budgeted in FY 2005 of \$958,000.00.

It is recommended that the Subcommittee recommend to the Board that Account #01 01 00 4636 be allowed to exceed 110% of the budgeted amount.

Papio-Missouri River Natural Resources District

Dakota County Service Center

1505 Broadway Street
Dakota City, Nebraska

Description

The Dakota County Service Center is a single story wood-framed building with brick exterior and an asphalt-shingled hip roof. Designed for business occupancy, the facility currently holds the PMR-NRD Rural Water, the USDA Farm Services Administration, and the USDA Natural Resources Conservation Service. These organizations share common restrooms, a breakroom, and a large meeting room.

Architecture/Engineering.....Prochaska & Associates

11317 Chicago Circle
Omaha, NE 68154
402.334.0755

Architecture
Civil
Structural
Mechanical
Electrical

Bill Huey and Dan Johnson Jr
Barb Kohles
Bill Kalhorn
Paul Ryan, Mike Van Horn, and Fred Cady
Karl Niehaus and Tom Rye

Total Square Footage..... 9417 S.F.

First Floor 8887 S.F.
Mechanical Mezzanine 530 S.F.
Footprint Dimensions 130'-4" x 70'-0"

Construction Cost.....\$976,421.00

Cost Per Square Foot \$103.69/S.F.

Construction Dates..... September 24, 2005-June 8, 2005

General Contractor..... Halman Construction Inc.

714 Main Street
Sioux City, Iowa 51103
712.255.7753

Subcontractors

Earthwork

Siouxland Sand and Gravel

712.233.1111 Contact: Mark Carey

Plumbing

Foulk Brothers Plumbing & Heating

712.258.3388 Contact: Steve Nelson

Electrical

Thompson Electric

712.252.4221 Contact: Mike Fitzpatrick

HVAC

Hooper Heating

402.654.2405 Contact: Dave Villwok

Termite Control

Bear Termite

800.241.7179

Masonry

B & S Masonry

712.276.4847 Contact: Gary Brown

Roofing

Steve's Roofing

712.233.1112 Contact: Steve Kiraly

Soffit/Fascia	Watterson Siding 712.233.2159 Contact: Dave Watterson
Glass/Glazing	Burnight Glass & Porcelain Company 605.232.4393 Contact: Dennis Burnight
Flooring and Acoustic Ceilings	LBA Interiors 605.624.5176 Contact: Lyle Weyhrich
Painting	Bauer Painting 712.258.5180 Contact: Chris Bauer
Trusses	Structural Component Systems 402.721.5622 Contact: Bennett Taylor
HM Frames/Wd Doors/Finish Hardware	Metal Doors & Wardware Company 402.592.260 Contact: Kevin Gednalske
Millwork	Advanced Woodwork 712.947.4800 Contact: Marvin Lammers
Transaction Drawer/Envelope Deposit	Diebold, Inc. 800.806.6827 Contact: Mike Freeland
Cored Slabs	Gage Brothers Concrete Products, Inc. 605.336.1180 Contact: Eric Kurtz
Windows	Trinity Building Specialties, Inc. 712.252.7975 Contact: Jeff Macfarlane
ThermaCal	Leslie Structural 402.451.2004 Contact: Jerry Leslie
Steel	Haakinson & Beaty 712.258.4595 Contact: Ken Fluent