

LANCASTER COUNTY LEASING CORPORATION
FINANCIAL STATEMENTS
WITH
ACCOMPANYING INDEPENDENT AUDITORS' REPORTS
YEAR ENDED JUNE 30, 2007

BLAND & ASSOCIATES, P. C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Lancaster County Board of Commissioners
Lancaster County Leasing Corporation
Lincoln, Nebraska

We have audited the accompanying financial statements of Lancaster County Leasing Corporation (the Corporation) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of Lancaster County, Nebraska (the County), and the Corporation. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As described in Note A, the financial statements present only the activities of Lancaster County Leasing Corporation and do not purport to, and do not, present fairly the financial position of Lancaster County, Nebraska, as of June 30, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lancaster County Leasing Corporation as of June 30, 2007, and the respective changes in financial position and cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lancaster County Leasing Corporation has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined are necessary to supplement, although not required to be part of the basic financial statements

INDEPENDENT AUDITORS' REPORT (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2008, on our consideration of Lancaster County Leasing Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bland & Associates, P.C.

Omaha, Nebraska
January 25, 2008

LANCASTER COUNTY LEASING CORPORATION
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents (Notes A and B)	\$ 518,442
Investments (Notes A, B, and C)	4,039,929
Accrued Interest Receivable	44,749
Total Current Assets	4,603,120

CAPITAL ASSETS (Notes A, D, F and H)

Land	500,000
Buildings and Improvements	6,443,344
	6,943,344
Less Accumulated Depreciation	2,770,638
Total Capital Assets	4,172,706

OTHER ASSETS

Debt Issuance Costs,	
Less Accumulated Amortization of \$88,401 (Note A)	70,723
	\$ 8,846,549

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Rent Received in Advance	\$ 71,109
Accrued Interest Payable	61,852
Current Portion of Bonds Payable (Note E)	545,000
Total Current Liabilities	677,961

LONG-TERM LIABILITIES

Bonds Payable, Net of Current Portion (Note E)	2,775,000
Total Liabilities	3,452,961

COMMITMENTS AND CONTINGENCIES (Note G)

NET ASSETS (Note A)

Invested in Capital Assets, Net of Related Debt	852,706
Unrestricted	4,540,882
Total Net Assets	5,393,588
	\$ 8,846,549

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

LANCASTER COUNTY LEASING CORPORATION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGE IN NET ASSETS
Year Ended June 30, 2007

OPERATING REVENUES	
Rental Income (Note A)	\$ 157,948
OPERATING EXPENSES	
Amortization (Note A)	10,103
Depreciation (Notes A and D)	128,867
Capital Donation	13,735
Total Operating Expenses	<u>152,705</u>
Operating Income	5,243
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	204,780
Unrealized Loss on Investments	(41,350)
Realized Gain on Investments	2,276
Interest Expense	<u>(145,136)</u>
Total Non-operating Revenues (Expenses)	<u>20,570</u>
CHANGE IN NET ASSETS	25,813
NET ASSETS - BEGINNING OF YEAR, As Previously Stated	6,205,410
PRIOR PERIOD ADJUSTMENT (Note H)	<u>(837,635)</u>
NET ASSETS - BEGINNING OF YEAR, Restated	<u>5,367,775</u>
NET ASSETS - END OF YEAR	<u><u>\$ 5,393,588</u></u>

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

LANCASTER COUNTY LEASING CORPORATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Rental Income Received From Tenants	\$ 147,447
Capital Donation	(13,735)
Net Cash Provided by Operating Activities	133,712

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments on Bonds Payable	(530,000)
Payments of Interest on Bonds Payable	(158,220)
Net Cash Used by Capital and Related Financing Activities	(688,220)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income Received	209,134
Proceeds From Sale of Investments	1,957,705
Purchase of Investments	(1,514,980)
Net Cash Provided by Investing Activities	651,859

Increase in Cash and Cash Equivalents 97,351

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 421,091

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 518,442

RECONCILIATION OF CHANGE IN OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 5,243
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Amortization	10,103
Depreciation	128,867
Decrease in Current Liabilities:	
Rent Received in Advance	(10,501)
Net Cash Provided by Operating Activities	\$ 133,712

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

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Lancaster County Leasing Corporation (the Corporation), is presented to assist in understanding the Corporation's financial statements. The financial statements and notes are representations of the County and Corporation's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

The Corporation is a tax-exempt, nonprofit corporation formed under the laws of the State of Nebraska, specifically Sections 21-1901 to 21-1991, to acquire property and to lease that property to Lancaster County, Nebraska (the County) and to devote any income to the purchase of additional property for lease to the County.

The Corporation is leasing Lancaster Manor to the County under the terms of an operating lease through 2012. The annual lease payments are required to be equal to the debt service requirements of the bonds. However, if the Corporation has cash reserves to cover the bond payments the County is allowed to abate payments. At the completion of the operating lease if no new bonds are issued the capital assets of the Corporation become property of the County.

The Corporation is a blended component unit of the County and is included in the County's financial statements. Members of the County's Board of Commissioners serve as Directors of the Corporation and, therefore, all financial transactions are effectively controlled by common management.

Basis of Presentation/Basis of Accounting

The Corporation is reported as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are accounted for using the economic resources focus and the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated from the primary operations of the fund. Operating expenses are those that are essential to the primary operations of the fund. All other revenues and expenses are non-operating.

The Corporation complies with accounting principles generally accepted in the United States of America (US GAAP). The Corporation applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation/Basis of Accounting (Continued)

Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments with original maturities of three months or less are considered cash equivalents.

Investments

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

Capital Assets and Depreciation

All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of the donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	20 - 50

Debt Issuance Costs

Specific costs related to the Corporation's debt offering in October 1998 were capitalized upon issuance of the debt and are being amortized to interest expense using the straight-line method over the 15-year term of the debt. Amortization expense for year ended June 30, 2007 was \$10,103.

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

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

Restricted net assets – This component of net assets may be used only to finance specific types of transactions. Restricted net assets represent the balance of restricted assets less the outstanding balances of any liabilities that will be settled using restricted assets. There were no restricted net assets at June 30, 2007

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

Income Taxes

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

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates employed. Actual results may differ from those estimates.

NOTE B - CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents

The balances of the Corporation's deposits with financial institutions amounted to \$518,442 at June 30, 2007. These deposits were either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in the Corporation's name by the Corporation's custodial bank in accordance with applicable state laws. At June 30, 2007, the Corporation's operating bank account balance exceeded the federally insured limit by \$418,442.

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

NOTE B - CONCENTRATION OF CREDIT RISK (Continued)

Investments

As of June 30, 2007, the carrying amount, which approximates fair value, of the Corporation's investments was \$4,039,929. The investments consisted of Federal Home Loan Bank Notes. These securities are held by the counter party or by its trust department or agent, but not in the Corporation's name.

Interest Rate Risk: The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk: All investments are insured or registered for which the securities are held by the Corporation or its agent in the Corporation's name.

Concentration of Credit Risk: The Corporation's investments are comprised of the following: 11% in cash equivalents and 89% in U.S. Federal Home Loan Bank Notes.

NOTE C - INVESTMENTS

The following are descriptions of the three investment accounts held by the Corporation:

Bond Fund

Bond resolutions create separate funds within the Corporation which are restricted in use and in the investment of monies. The Bond Fund consists of the Principal and Interest Account. Lease payments received from the County are deposited in the Principal and Interest Account. These monies can be used only to make principal and interest payments on the bond. Investments of the Principal and Interest Account are required to mature prior to the time the funds are needed for their intended purposes.

Renewal and Replacement Fund

The Renewal and Replacement Fund is used for funds received in excess of those required to be deposited in the Bond Fund. The Renewal and Replacement Fund is used to make necessary purchases and repairs to buildings and equipment. The maturity of investments cannot exceed five years.

Reserve Fund

The Reserve Fund is used to hold an amount equal to the annual debt service requirements of the bonds. Any excess arising from interest income or other gains is to be transferred to one of the accounts of the Bond Fund. In the event the balance is less than the required amount, the Corporation may assign pledged revenues to this fund. In addition, the County has the authority to levy taxes or raise other revenues to eliminate a deficit. The maturity of investments cannot exceed five years.

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

NOTE C - INVESTMENTS (Continued)

Investments consist of the following at June 30, 2007:

	<u>Cost</u>	<u>Gross Realized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
Federal Home Loan Bank Notes	<u>\$ 4,079,003</u>	<u>\$ 2,276</u>	<u>\$ (41,350)</u>	<u>\$ 4,039,929</u>

NOTE D - CAPITAL ASSETS

Capital assets consist of the following at June 30, 2007:

	<u>Balance June 30, 2006 (Restated Note H)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Land	\$ 500,000	\$ -	\$ -	\$ 500,000
Building and improvements	<u>6,443,344</u>	<u>-</u>	<u>-</u>	<u>6,443,344</u>
	6,943,344	-	-	6,943,344
Less accumulated depreciation	<u>(2,641,771)</u>	<u>(128,867)</u>	<u>-</u>	<u>(2,770,638)</u>
	<u>\$ 4,301,573</u>	<u>\$(128,867)</u>	<u>\$ -</u>	<u>\$ 4,172,706</u>

NOTE E - BONDS PAYABLE

Transactions for the bonds payable for the year ended June 30, 2007, are summarized as follows:

	<u>Balance June 30, 2006</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance June 30, 2007</u>	<u>Amount Due Within One Year</u>
Series 1998, due in 2018	<u>\$3,850,000</u>	<u>\$ -</u>	<u>\$ 530,000</u>	<u>\$3,320,000</u>	<u>\$545,000</u>

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

NOTE E - BONDS PAYABLE (Continued)

Bond payable as of June 30, 2007, are summarized as follows:

\$7,145,000 Lancaster County Leasing Corporation Tax Supported Lease-Rental refunding Bonds, Series 1998, issued October 30, 1998, payable in semiannual installments ranging from \$265,000 to \$335,000 at each January 15 and July 15, commencing July 15, 1999, with interest ranging from 4.0% to 4.5% through July 15, 2012. \$ 3,320,000

The annual principal and interest requirements to maturity on the bond are as follows:

Year Ending June 30,	Principal	Interest	- Total
2008	\$ 545,000	\$ 136,820	\$ 681,820
2009	570,000	114,303	684,303
2010	595,000	90,295	685,295
2011	620,000	64,643	684,643
2012	655,000	37,076	692,076
2013	335,000	7,538	342,538
	<u>3,320,000</u>	<u>450,675</u>	<u>3,770,675</u>
Less current portion	<u>(545,000)</u>	<u>(136,820)</u>	<u>(681,820)</u>
	<u>\$ 2,775,000</u>	<u>\$ 313,855</u>	<u>\$ 3,088,855</u>

NOTE F - LANCASTER MANOR LEASE AGREEMENT

The Corporation contracted with the County for the lease of the property known as Lancaster Manor. The contract requires lease payments in the amount necessary to satisfy the bond and interest requirements. The lease payments received during the year ended June 30, 2007 were enough to cover the interest requirements, but not the bond principal requirements. The contract provides that the Corporation shall retain title to the building and land until the bonds are paid in full. Upon retirement of the bonds, the building and land becomes the property of the County. All contract payments are assigned to Wells Fargo as paying agent of the outstanding bonds and interest. The bonds maturing on or after January 15, 2007 are subject to redemption prior to maturing at the option of the Corporation.

The Corporation has recognized the lease with the County as an operating lease. The minimum rental payments are required by the lease agreement unless sufficient funds exist in restricted cash and investment accounts, whereby, the County may abate the minimum rental payments. Required minimum rental payments for the year ended June 30, 2007 were partially abated in accordance with the lease agreement. Due to the partial abatement of rental payments for the year ended June 30, 2007, this lease is being treated by the Corporation as an operating lease in accordance with FASB Statement No. 13, *Accounting for Leases*.

LANCASTER COUNTY LEASING CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2007

NOTE F - LANCASTER MANOR LEASE AGREEMENT (Continued)

The following are the future minimum rental receipts required under the terms of the lease:

<u>Year Ending June 30,</u>	
2008	\$ 681,820
2009	684,303
2010	685,295
2011	684,643
2012	692,076
Thereafter	<u>342,538</u>
Total Minimum Payments Required	<u>\$ 3,770,675</u>

NOTE G - RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; and natural disasters. Significant losses are covered by commercial insurance and self-insurance for all programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE H - PRIOR PERIOD ADJUSTMENT

In years prior to June 30, 2007, the Corporation failed to include \$837,635 of depreciation related to buildings and improvement. The accompanying financial statements reflect a prior period adjustment related to accumulated depreciation not report in prior years. As a result, the beginning net assets balance of \$6,205,410, as originally reported, has been decreased to \$5,367,775.

Restatement for prior period adjustment:

	Beginning balance (as previously reported)	Prior period adjustment	Beginning balance restated
Accumulated depreciation	<u>\$ 1,804,136</u>	<u>\$ 837,635</u>	<u>\$ 2,641,771</u>

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

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

Lancaster County Board of Commissioners
Lancaster County Leasing Corporation
Lincoln, Nebraska

We have audited the financial statements of the Lancaster County Leasing Corporation (the Corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over financial reporting that would be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted no deficiencies in internal control over financial reporting that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lancaster County Leasing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Lancaster County, Nebraska Lancaster County Leasing Corporation and the State of Nebraska and this report is not intended to be and should not be used by anyone other than these specified parties

Omaha, Nebraska
January 25, 2008

Bland & Associates, P.C.