

***LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)***

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

AND

INDEPENDENT AUDITOR'S REPORT

*LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)*

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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JOINT PUBLIC AGENCY  
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FINANCIAL STATEMENTS

Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	1 - 2
<b>Management’s Discussion and Analysis</b> .....	3 - 7
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Position .....	8
Statement of Activities .....	9
Fund Financial Statements:	
Balance Sheet - Governmental Fund.....	10
Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position .....	11
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	13
Notes to Financial Statements .....	14 - 21
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual (Budgetary Basis).....	22
Note to Required Supplementary Information.....	23
<b>Independent Auditor’s 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</b> .....	24 - 25

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## INDEPENDENT AUDITOR'S REPORT



Board of the Joint Public Agency  
**Lancaster County Correctional Facility Joint Public Agency**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of The Lancaster County Correctional Facility Joint Public Agency (JPA), a component unit of Lancaster County, Nebraska, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the JPA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the JPA as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters - Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2013 on our consideration of the JPA'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the JPA's internal control over financial reporting and compliance.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2013  
Wichita, KS

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Lancaster County Correctional Facility Joint Public Agency's financial report presents a narrative overview and analysis of the financial activities of the JPA for the fiscal year ended June 30, 2013. Please read it in conjunction with the JPA's financial statements which follow this section.

**FINANCIAL HIGHLIGHTS**

As of June 30, 2013, the JPA's total assets exceeded its total liabilities by \$16,739,216. Bonds payable has been decreasing each year while construction in progress has been increasing due to construction of the new correctional facility.

In the statement of activities, the JPA's total revenues exceeded its total expenses by \$2,594,038 due to the fact that debt service costs for principal repayment reduce the liability for bonds payable rather than being recorded as an expense at the government-wide level.

In the statement of revenues, expenditures and changes in fund balance, the JPA's total expenditures exceeded its total revenues by \$6,341,021 due to construction expenditures for the new correctional facility, which are not capitalized in the fund level financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the JPA's basic financial statements. The JPA's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

**Government-Wide Financial Statements**

The Statement of Net Position and Statement of Activities provide a broad overview of the JPA's overall financial status. The Statement of Net Position presents financial information on all the JPA's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in an entity's net position could be one indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the JPA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The sole purpose of the JPA is to finance the construction of the correctional facility. Once construction is completed, the Statement of Net Position should be limited to property tax receipts pending and the correctional facility depreciating cost, less bonds outstanding. The Statement of Activities should be limited to tax revenues sufficient to make annual bond payments and bond-related expenses.

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

These financial statements are prepared on the accrual basis of accounting and include capital assets, accounts receivable and payable, and long-term debt activity which should be considered to assess the financial health of the JPA.

**Fund Financial Statements**

The fund financial statements, the Balance Sheet – Governmental Fund and the Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Fund, focus on how activities were financed in the short term, as well as what remains for future spending. Such information may be useful in assessing a government's near-term financing requirements. Capital assets and long-term liabilities are not reported in the governmental fund statements as they are not current resources and uses of funds, nor are deferred property tax revenues.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental* activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Notes to the Financial Statements**

The notes to the financial statements are an integral part of the government-wide and fund financial statements, and provide essential information necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information**

This Management Discussion and Analysis and the Budgetary Comparison Schedules represent financial information which provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes.

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Changes in Net Position**

The following table represents the Statement of Net Position and how it compares to the prior year. The increase to net position is a result of the annual decrease to the bond liability, paid with tax levy revenues.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Change</u>
<b>Assets</b>			
Current and other assets	\$ 7,923,706	\$ 15,116,029	\$ (7,192,323)
Capital assets	<u>64,648,099</u>	<u>58,282,849</u>	<u>6,365,250</u>
Total assets	<u>72,571,805</u>	<u>73,398,878</u>	<u>(827,073)</u>
<b>Liabilities</b>			
Long-term liabilities	55,483,932	58,050,276	(2,566,344)
Other liabilities	<u>348,657</u>	<u>682,928</u>	<u>(334,271)</u>
Total liabilities	<u>55,832,589</u>	<u>58,733,204</u>	<u>(2,900,615)</u>
<b>Net position</b>			
Net investment in capital assets	9,164,167	232,573	8,931,594
Restricted	<u>7,575,049</u>	<u>14,433,101</u>	<u>(6,858,052)</u>
Total net position	<u>\$ 16,739,216</u>	<u>\$ 14,665,674</u>	<u>\$ 2,073,542</u>

The following table represents the Statement of Activities and how it compares to the prior year. The Statement of Activities shows a decrease of \$1,173,271 in revenues which is due a District Energy Reimbursement that was received in the fiscal year ending June 30, 2012, but not in the fiscal year ending June 30, 2013. The energy reimbursement was a one-time payment, and is not expected to recur in the future.

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Change</u>
<b>Revenues</b>			
Taxes	\$ 4,581,007	\$ 4,554,789	\$ 26,218
Charges for services	--	1,146,804	(1,146,804)
State revenues	299,195	308,621	(9,426)
Interest income	18,390	60,155	(41,765)
Other intergovernmental	1,374	2,868	(1,494)
Total revenues	<u>4,899,966</u>	<u>6,073,237</u>	<u>(1,173,271)</u>
<b>Expenses</b>			
Joint public agency services	1,458	1,987	529
Interest on long-term debt	2,304,470	2,399,804	95,334
Total expenses	<u>2,305,928</u>	<u>2,401,791</u>	<u>95,863</u>
Change in net position	2,594,038	3,671,446	(1,077,408)
Net position – beginning of year	14,665,674	10,994,228	3,671,446
Prior period adjustment	(520,496)	--	(520,496)
Net position – end of year	<u>\$ 16,739,216</u>	<u>\$ 14,665,674</u>	<u>\$ 2,073,542</u>

**GOVERNMENTAL FUND FINANCIAL ANALYSIS**

**General Fund**

The focus of the JPA's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. The net change in fund balance went from (\$13,831,963) in fiscal year 2012 to (\$6,341,021) in fiscal year 2013. The difference was due to the amount of capital outlay expenditures. Construction costs of the new facility were greater in fiscal year 2012.

**BUDGETARY HIGHLIGHTS**

In the table below, budgeted revenues and expenditures are compared with actual figures for the current fiscal year. Actual expenditures were below budgeted costs by \$3,572,853 as construction on the correctional facility was completed slower than anticipated.

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
Total Revenues	\$ 4,918,700	\$ 4,876,861	\$ (41,839)
Total Expenditures	15,144,647	11,571,794	3,572,853

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The JPA's capital assets consist entirely of construction in progress for the new correctional facility.

At the end of the fiscal year, the JPA had total bonded debt outstanding of \$55,483,932. During the current year, the JPA made principal payments on outstanding bonds totaling \$2,510,000. The JPA's future debt requirements are detailed in Note 5 following the financial statements. The bonds will be paid off no later than fiscal year 2029.

**CONTACTING THE JPA'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the JPA's finances, comply with finance-related laws and regulations, and demonstrate the JPA's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Lancaster County Budget & Fiscal Officer, 555 South 10<sup>th</sup> Street, Suite 110, Lincoln, NE 68508.

**Lancaster County Correctional Facility Joint Public Agency  
(A Component Unit of Lancaster County)**

Statement of Net Position  
June 30, 2013

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,850,545
Due from other governmental agencies	20,211
Taxes receivable	2,052,950
Capital assets:	
Construction in progress	<u>64,648,099</u>
 Total assets	 <u><u>\$ 72,571,805</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 157,123
Accrued interest payable	191,534
Non-current liabilities:	
Due within one year	2,570,000
Due in more than one year	<u>52,913,932</u>
Total liabilities	<u>55,832,589</u>
<b>Net Position</b>	
Net investment in capital assets	9,164,167
Restricted	<u>7,575,049</u>
Total net position	<u>16,739,216</u>
	 <u><u>\$ 72,571,805</u></u>

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

**Lancaster County Correctional Facility Joint Public Agency  
(A Component Unit of Lancaster County)**

Statement of Activities  
Year Ended June 30, 2013

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>Net (Expense) Revenue and Change in Net Position</b>
<b>Governmental Activities</b>			
Joint public agency services	\$ 1,458	\$ -	\$ (1,458)
Interest on long-term debt	2,304,470	-	(2,304,470)
Total	\$ 2,305,928	\$ -	(2,305,928)
 <b>General revenues</b>			
Property taxes			4,581,007
State revenues			299,195
Interest income			18,390
Other intergovernmental			1,374
Total general revenues			4,899,966
Change in net position			2,594,038
Net position - beginning of year			14,665,674
Prior period adjustment			(520,496)
Net position - end of year			\$ 16,739,216

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

**Lancaster County Correctional Facility Joint Public Agency  
(A Component Unit of Lancaster County)**

Balance Sheet - Governmental Fund  
June 30, 2013

**Assets**

Cash and cash equivalents	\$ 5,850,545
Due from other governmental agencies	20,211
Taxes receivable	<u>2,052,950</u>
	<u><u>\$ 7,923,706</u></u>

**Liabilities**

Accounts payable	<u>\$ 157,123</u>
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**Deferred inflows of resources**

Deferred property tax receivable	<u>136,333</u>
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**Fund balance**

Restricted	<u>7,630,250</u>
	<u><u>\$ 7,923,706</u></u>

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

**Lancaster County Correctional Facility Joint Public Agency**  
**(A Component Unit of Lancaster County)**  
 Reconciliation of the Balance Sheet for  
 Governmental Funds to the Statement  
 of Net Position  
 June 30, 2013

<b>Total fund balance - governmental funds</b>	<b>\$ 7,630,250</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the governmental fund	64,648,099
Property tax revenues, not collected within 60 days of the fiscal year end, are not financial resources and, therefore, not reported in the governmental fund	136,333
Liabilities that are not due and payable in the current period and, therefore, are not reported in the governmental fund:	
Bonds payable	(54,620,000)
Bond premium	(863,932)
Accrued interest payable	<u>(191,534)</u>
<b>Total net position - governmental activities</b>	<b><u><u>\$ 16,739,216</u></u></b>

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

**Lancaster County Correctional Facility Joint Public Agency**  
**(A Component Unit of Lancaster County)**  
Statement of Revenues, Expenditures and  
Changes in Fund Balance - Governmental Fund  
Year Ended June 30, 2013

<b>Revenues</b>	
Taxes	\$ 4,582,171
State revenues	299,195
Interest income	18,390
Other intergovernmental	1,374
Total revenues	4,901,130
 <b>Expenditures</b>	
Contractual expense	1,458
Capital outlays	6,365,250
Debt service	
Principal	2,510,000
Interest	2,365,443
Total expenditures	11,242,151
Net change in fund balance	(6,341,021)
<b>Fund balance - beginning of year</b>	13,971,271
<b>Fund balance - end of year</b>	\$ 7,630,250

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

**Lancaster County Correctional Facility Joint Public Agency  
(A Component Unit of Lancaster County)**

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of Governmental  
Funds to the Statement of Activities  
Year Ended June 30, 2013

**Net change in fund balance - governmental funds** **\$ (6,341,021)**

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

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense. This  
is the amount by which assets capitalized exceeded depreciation  
in the current period.

Depreciation expense	-	
Capital assets capitalized	<u>6,365,250</u>	6,365,250

Governmental funds recognize property tax revenues as revenues  
when received within 60 days of the end of the fiscal year. However,  
in the statement of activities, property tax revenues are recognized based  
on the total taxes levied. This is the amount of property tax revenues due  
to the JPA, but not collected within 60 days of the fiscal year. (1,164)

Repayment of bond principal is an expenditure in the governmental funds, but  
the repayment reduces long-term liabilities in the statement of net position. 2,510,000

Governmental funds report the effect on premiums and discounts when  
debt is first issued, whereas these amounts are deferred and amortized  
in the statement of activities. 56,344

Certain items reported in the statements of activities do not require the  
use of current financial resources and therefore are not reported  
as expenditures in the governmental fund. These activities consist of:  
Accrued interest expense 4,629

**Change in net position - governmental activities** **\$ 2,594,038**

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

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
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**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Lancaster County Correctional Facility Joint Public Agency (the JPA) is presented to assist in understanding the JPA's financial statements. The financial statements and notes are representations of the JPA'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.

Nature of Operations - The JPA was created pursuant to the Joint Public Agency Act and a Joint Public Agency Agreement dated September 9, 2008 between Lancaster County and the City of Lincoln. The JPA was created for the purpose of financing the construction, equipping, and furnishing of new correctional facilities on land owned by Lancaster County and leased to the JPA pursuant to a Site Lease dated February 5, 2009 between the JPA and Lancaster County. The JPA will own the correctional facilities until the bonds are no longer outstanding, at which time the JPA will transfer ownership to Lancaster County. Lancaster County will operate and maintain the correctional facilities pursuant to a Facilities Agreement dated February 5, 2009 between Lancaster County and the JPA.

The JPA is governed by a four-member board consisting of the Chair and Vice Chair of the Lancaster County Board of Commissioners, the Mayor of Lincoln, and the Chair of the Lincoln City Council. All actions may be taken by the affirmative vote of a majority of the Board, except that the issuance of bonds by the JPA must be approved by the Mayor, the Lincoln City Council, and the Lancaster County Board of Commissioners.

Under the JPA Agreement, Lancaster County has irrevocably allocated and assigned to the JPA, for the period beginning September 15, 2008 and ending on the date upon which all of the bonds are no longer deemed to be outstanding, its authority to cause the levy of taxes within the taxing district of Lancaster County. This authority, beginning in the year 2008 for collection in 2009, is for the purpose of paying the costs of the correctional facilities an amount equal to \$2,000,000 to be levied solely for the purpose of paying the principal and interest on the bonds.

Under the JPA Agreement, the City of Lincoln has irrevocably allocated and assigned to the JPA, for the period beginning September 15, 2008 and ending on the date upon which all of the bonds are no longer deemed to be outstanding, its authority to cause the levy of taxes within the taxing district of the City. This authority, not to exceed \$3,500,000 annually, beginning in the year 2008 for collection in 2009, is for the purpose of paying the costs of the correctional facilities in an amount, when added to the County Levy, will be sufficient to pay the principal and interest on the bonds.

Reporting Entity - Accounting principles generally accepted in the United States of America provide guidance for determining the entities and activities that should be included within the financial reporting entity. The basic criterion for including a governmental organization in a primary government's reporting entity focuses on the financial accountability of the organization's governing body. Although legally separate

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
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NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

from Lancaster County, Nebraska, the JPA is reported as a component unit of Lancaster County because its sole purpose is to finance the construction and equipping of new correctional facilities for the benefit of the County. As noted above, the County operates and maintains the facilities, and will receive title to the facilities upon repayment of 100% of bonds issued to finance construction. As a result, the JPA's financial results are included in the financial statements of Lancaster County.

Basis of Presentation - The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the JPA. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

*Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Measurement Focus / Basis of Accounting - The government-wide financial statements are reported using the *economic resources* measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as an other financing source.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, except to the extent amounts are not collected within 60 days of the end of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
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NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 JPA's investment policy allows investment in U.S. government obligations and short-term interest bearing investments consisting of certificates of deposit and other income producing securities.

Property Taxes - Based on the valuation as of January 1, property taxes are levied by the County Board of Commissioners on or before October 15 of each year for all political subdivisions in Lancaster County. Real estate and personal property taxes are each due December 31 of the year in which the property is appraised. One-half of the taxes become delinquent April 1 and August 1 of the following year.

The JPA has two property tax levies. One is levied on the assessed value of Lancaster County and the other is levied on the assessed value of the City of Lincoln. For the year ended June 30, 2013, the levy for the County portion was \$.00994 per \$100 of valuation and the levy for the City portion was \$.017672 per \$100 of valuation for a combined levy of \$.027612.

Taxes Receivable - Taxes receivable are all considered collectible by management. Based on prior experience with receipt of taxes, no allowance for uncollectible amounts has been provided related to taxes receivable. Tax amounts not received within 60 days after year-end are recorded as a deferred inflow of resources on the balance sheet.

Capital Assets and Depreciation - The JPA issued bonds to finance the construction of the new correctional facilities scheduled to be completed in the fall of 2013, at which time depreciation commences. The buildings are included as capital assets on the statement of net position because the JPA owns the buildings until the bonds are no longer outstanding.

In the government-wide financial statements (statement of net position and statement of activities), expenditures for buildings are capitalized at cost and accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost. 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.

Deferred Inflows of Resources / Deferred Outflows of Resources - Effective July 1, 2012, the JPA implemented the provisions of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows and deferred inflows of resources and GASB 65 provides additional guidance on reclassifying, as deferred outflows of

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. A deferred outflow of resources represents the consumption of net position that is applicable to future reporting period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. A deferred inflow of resources represents an acquisition of net position applicable to future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Upon implementing the GASB Statements, the JPA identified certain financial statement balances that met the definition of a deferred outflow of resources or a deferred inflow of resources. These items were reclassified as deferred outflows of resources or deferred inflows of resources, as applicable. Additionally, the term "net assets" was replaced with the term "net position".

*Prior Period Adjustment.* In addition to the reclassifications described above, GASB 65 requires bond issuance costs be expensed when incurred rather than being reported as deferred charges and amortized over the term of the related debt. This adjustment resulted in a \$520,496 decrease to net position as of July 1, 2012.

Long-term obligations - In the government-wide financial statements long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position - In the government-wide financial statements, net position represents the difference between total assets and total liabilities.

*Net investment in capital assets* - Consists of capital assets less accumulated depreciation and the net of outstanding balances of any debt used to finance those assets, such as capital leases and bonds.

*Restricted net position* - Consists of net position with constraints placed on their use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Fund Balance - As prescribed by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance classifications are based primarily on the extent to which the JPA is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances are classified as follows:

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Nonspendable* - Assets legally or contractually required to be maintained or are not in spendable form, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

*Restricted* - Assets with externally imposed constraints, such as those mandated by creditors, grantors, contributors, or laws and regulations.

*Committed* - Amounts that can be used only for the specific purposes determined by a formal action of the Board of the JPA (the JPA's highest level of decision-making authority).

*Assigned* - Comprises amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The JPA's policy authorizes the Lancaster County Budget and Fiscal Officer to assign funds for specific purposes.

*Unassigned* - The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The JPA considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Budgets and Budgetary Accounting - The JPA follows the procedures described below in establishing the budgetary data reflected in the JPA's financial statements in accordance with the statutory requirements of the Nebraska Budget Act.

On or before August 1, the JPA Board prepares and transmits a budget for the JPA to the Lancaster County Board of Commissioners showing the projected requirements, operating reserve, cash on hand at the close of the preceding fiscal year, projected revenues collected from sources other than property tax, and amount to be raised by property taxation. The budget is prepared on the cash receipts and disbursements basis of accounting. Encumbrances are also reflected as expenditures for budgetary purposes. At least one public hearing must be held by the JPA Board.

On or before September 20 each year, the budget is adopted by the JPA Board and filed with the Lancaster County Clerk and the State Auditor's Office.

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**2. CASH AND CASH EQUIVALENTS**

Deposits - At June 30, 2013, the reported amount of the JPA's cash and cash equivalents held by the County Treasurer amounted to \$5,850,545. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The JPA's deposit policy for custodial credit risk requires compliance with the provisions of state law.

As of June 30, 2013, the JPA had cash deposits with a bank balance of \$976,600. Of this, \$250,000 was covered by FDIC insurance. The remainder was not collateralized due to an administrative error by the financial institution holding the funds. The bank acknowledged the error, and in November 2013, provided an \$800,000 surety bond to cover the balance.

Cash and cash equivalents held in trust consisted of the following as of June 30, 2013:

Series 2009 - Jail Construction	\$ 3,539,278
Series 2009 - County Corrections	1,013,331
Series 2009 - City Corrections	<u>1,297,936</u>
Total cash and cash equivalents	<u>\$ 5,850,545</u>

**3. DUE FROM OTHER GOVERNMENTAL AGENCIES**

Due from other governmental agencies consisted of amounts due from the State of Nebraska of \$20,211, as of June 30, 2013.

**4. CAPITAL ASSETS**

The changes in capital assets designated for the operation of the JPA for the year ended June 30, 2013 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Construction in progress	\$ 58,282,849	\$ 6,365,250	\$ --	\$ 64,648,099

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

NOTES TO FINANCIAL STATEMENTS

**4. CAPITAL ASSETS (CONTINUED)**

**Construction Commitments**

Pursuant to the Joint Public Agency Act and the JPA Agreement, the County and the City have entered into a number of agreements relating to the design, construction, and operation of the Correctional Facility. The remaining cost of such commitments is estimated not to exceed \$3,536,802.

**5. LONG-TERM LIABILITIES**

JPA's long-term liabilities as of June 30, 2013, consisted of the following:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GO Bonds	\$ 57,130,000	\$ --	\$ 2,510,000	\$ 54,620,000	\$ 2,570,000
Premiums	920,276	--	56,344	863,932	--
Total long-term liabilities	<u>\$ 58,050,276</u>	<u>\$ --</u>	<u>\$ 2,566,344</u>	<u>\$ 55,483,932</u>	<u>\$ 2,570,000</u>

\$64,390,000 Limited Tax General Obligation Bonds, Series 2009, were issued on February 12, 2009, with interest payable in scheduled semiannual installments due annually on June 1 and December 1, and with principal amounts payable annually on December 1, ranging from \$2,390,000 to \$4,670,000, commencing June 1, 2009, with interest rates ranging from 1.00% to 5.00%, final payment due December 1, 2028.

The maturities of long-term debt for the years ending after June 30, 2013 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 2,570,000	\$ 2,298,655
2015	2,645,000	2,220,430
2016	2,725,000	2,139,880
2017	2,805,000	2,056,930
2018	2,890,000	1,971,505
2019 – 2023	16,085,000	8,100,663
2024 – 2028	20,230,000	3,795,000
2029 – 2033	4,670,000	116,750
Total	<u>\$ 54,620,000</u>	<u>\$ 22,699,813</u>

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**

**6. RISK MANAGEMENT**

The JPA is included in the insurance coverage of Lancaster County. The JPA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors or omissions, and natural disasters. These risks of loss are covered by various commercial insurance policies (with various deductibles), with the exception of general liability. The self-insured retention is \$250,000 per occurrence for general liability coverage.

The self-insurance programs are administered by the County's Risk Manager. Commercial insurance covers the excess of the self-insured amount to the maximum of \$2,000,000 for employers' liability and \$5,000,000 for general liability.

The County utilizes the services of an actuary to prepare an analysis of the self-insured general liability risks. The analysis is used to assist the County with its financial planning, budgeting, and management of the self-insurance programs. Settled claims have not exceeded commercial coverage for the last three years.

The JPA has not developed an estimated liability for pending and incurred but not reported claims at June 30, 2013, due to claims being paid by the Other Self-Insurance funds at the County level. Accounting principles generally accepted in the United States of America require that an estimated liability be developed for pending and incurred but not reported claims; however, there were no such claims pending at year-end.

**7. PENDING GOVERNMENTAL ACCOUNTING STANDARDS**

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, was issued in January 2013. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this statement are effective for financial statements for the JPA's fiscal year ending June 30, 2015 with earlier application encouraged.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued in April 2013. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of this statement are effective for financial statements for the JPA's fiscal year ending June 30, 2014 with earlier application encouraged.

REQUIRED SUPPLEMENTARY INFORMATION

**Lancaster County Correctional Facility Joint Public Agency**  
**(A Component Unit of Lancaster County)**  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget to Actual (Budgetary Basis)  
Year Ended June 30, 2013

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Taxes	\$ 4,850,000	\$ 4,850,000	\$ 4,577,913	\$ (272,087)
State revenue	15,700	15,700	279,184	263,484
Interest income	50,500	50,500	18,390	(32,110)
Other intergovernmental	2,500	2,500	1,374	(1,126)
Total revenues	4,918,700	4,918,700	4,876,861	(41,839)
<b>Expenditures</b>				
Other contracted services	3,000	3,000	1,353	1,647
Capital outlay	10,266,204	10,266,204	6,694,998	3,571,206
Debt service:				
Principal	2,510,000	2,510,000	2,510,000	-
Interest	2,365,443	2,365,443	2,365,443	-
Total expenditures	15,144,647	15,144,647	11,571,794	3,572,853
<b>Deficiency of revenues over expenditures (budgetary basis)</b>	<b>\$ (10,225,947)</b>	<b>\$ (10,225,947)</b>	(6,694,933)	<b>\$ 3,531,014</b>
<b>Adjustments required under accounting principles generally accepted in the United States of America:</b>				
To adjust receipts for accruals (net)			24,269	
To adjust expenditures for accruals (net)			329,643	
<b>Deficiency of revenues (modified accrual basis) over expenditures</b>			<b>\$ (6,341,021)</b>	

**LANCASTER COUNTY CORRECTIONAL FACILITY  
JOINT PUBLIC AGENCY  
(A COMPONENT UNIT OF LANCASTER COUNTY)**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –  
BUDGET TO ACTUAL (Budgetary Basis)**

Year Ended June 30, 2013

**NOTE A - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND  
BALANCE - BUDGET TO ACTUAL (BUDGETARY BASIS)**

**Basis of Accounting**

The accompanying Statement of Revenues, Expenditures, and Change in Fund Balance - Budget to Actual is presented on the modified cash basis of accounting, which includes cash receipts and disbursements, modified for encumbrances. Encumbrances are also reflected as expenditures for budgetary purposes.

**Budget Law**

The JPA is required by state law to hold public hearings and adopt annual budgets for all funds on the budgetary basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. Any revisions to the adopted budget of total expenditures to any fund require a public hearing.

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

Board of the Joint Public Agency  
**Lancaster County Correctional Facility Joint Public Agency**

We have audited, in accordance with the 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, the financial statements of the governmental activities and the general fund of the Lancaster County Correctional Facility Joint Public Agency (JPA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the JPA's basic financial statements, and have issued our report thereon dated December 17, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the JPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the JPA's internal control. Accordingly, we do not express an opinion on the effectiveness of the JPA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the JPA's financial statements are free from 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2013  
Wichita, KS